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**Learning from local economic  
development experiences: Observations  
on Integrated Development Programmes  
of the Free State, Republic of South  
Africa**

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March 2006

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# Learning from local economic development experiences in South Africa

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Observations on  
Integrated Development  
Programmes of the Free  
State, Republic of South  
Africa  
March 2006

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Junior Davis

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## **Abstract**

The aim of this paper is to assess the degree to which the components of the Rural Economic and Enterprise Development (REED) framework have been incorporated into integrated development planning (IDP) or into strategic local economic development (LED) plans. The paper also provides an evaluation of two local municipal level IDPs in the Free State, Republic of South Africa. The evaluation is considered on an ex-ante basis in terms of contemporary LED and REED approaches. We also consider IDP efficacy and potential impact in terms of achieving enterprise development, poverty reduction and growth.

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## **Glossary**

ANC	African National Congress
BDS	Business Development Services
BEE	Black Economic Empowerment
BNPP	World Bank-Netherlands Partnership Program
FSGDS	Free State Growth and Development Strategy
GEAR	Growth, Employment and Redistribution
GGP	Gross Geographic Product
IDP	Integrated Development Plan
IDZ	Industrial development zone
LBSC	Local Business Support Centre
LED	Local Economic Development
MIG	Municipal Infrastructure Grant
M&E	Monitoring and Evaluation
NRI	Natural Resources Institute
REED	Rural Economic and Enterprise Development
RNFE	Rural Non Farm Economy
R&D	Research and development
SA	Republic of South Africa
SALGA	South African Local Government Association
SEDA	Small Enterprise Development Agency
SMME	Small, micro and medium sized enterprises
WB	World Bank

# 1 Introduction

Local Economic Development is “*about local people working together to achieve sustainable economic growth and development for the benefit of all the people in the local area... it aims to promote and develop all sectors and dimensions of the economy. The retention and expansion of the existing economic activities in a local area receives as much attention as new enterprise growth and the diversification of the economy*” (p.11, The draft South Africa Local Economic Development Policy and Strategy, 2003).

The concept of local economic development (LED) was new to the 1994 ANC-led South African government. However, following international trends, the National Government realized the importance of the devolution of economic functions to local government. Thus the Constitution of South Africa (Act 108 of 1996) stipulates that the promotion of social and economic development are specific objectives of local government (article 152.1 c). These ‘developmental duties’ of Municipalities ‘structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community’. Municipalities now have a mandate to practice local economic development. Recent research by Nel and Rogerson (2005) has indicated that most of the larger municipalities regard their LED strategies as pro-growth and not as pro-poor. The existing research also suggests that government and NGOs appear to neglect rural LED; noting that very few rural LED initiatives in South Africa have survived beyond the initial funding phase (Nel, 2004; Marais *et al.*, 2002).

Agriculture has played an important role in the South African economy, as well as in the Free State, where, in 2003, it contributed to 8% of GDP. However, the Rural Non-Farm Economy (RNFE) has been less vibrant. Yet, some exceptions do exist in this regard in South Africa (see Binns and Nel, 2002 on Stilbaai and Marais, 2004 on Clarens). In 2002, an evaluation of LED projects<sup>1</sup> in the Free State indicated that only a small percentage of projects have managed to become economically viable, or will be economically viable after the initial grant (Marais *et al.*, 2002). Furthermore, in a study by Nel *et al.* (2003), it was found that LED is not well entrenched in Local Municipalities in the Free State. Commonly, LED is equated with projects funded by the LED Fund. The report by Nel *et al.* (2003) argues that there has been a fair amount of confusion regarding definition and application. This state of affairs concerning LED in the Free State, as a mainly rural province, raises a number of questions:

- On what do LED plans focus?
- Are LED plans sufficiently holistic?
- What can be learned from the REED framework in respect of LED in the Free State?

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<sup>1</sup> The LED Fund funded municipalities to develop a variety of job creation projects. In the interim, this fund has been replaced by the Municipal Infrastructure Grant, which only provides infrastructure grants.

Considering the above questions, the aim of this paper is to assess the degree to which the components of the Rural Economic and Enterprise Development (REED)<sup>2</sup> framework have been incorporated into integrated development planning (IDP) or into strategic LED plans. The paper also provides an evaluation of two local municipal level IDPs in the Free State. The evaluation is considered on an ex-ante level, since longitudinal data are absent and in terms of contemporary LED and REED approaches. We also consider IDP efficacy and potential impact in terms of achieving enterprise development, poverty reduction and pro-poor growth. The REED framework cornerstones (Davis, 2004) and the World Bank-Netherlands Partnership Programmes (2005) *Investigation of Pro Poor Local Economic Development in South Africa* are taken into account and considered as benchmarks for the evaluation of the strategies and objectives of the two IDPs. The third aim is to develop some proposals for local and district municipalities with regard to REED, poverty reduction and growth. Against the above background, the paper is structured as follows:

- First we provide an overview of the REED framework.
- The emphasis then shifts to an overview of the Free State economy. Firstly, a broad overview of the Free State economy is provided. In addition, an overview of migration trends in the Free State is discussed, after which provincial economic policy approaches are considered.
- This is followed by a discussion of the way in which the municipal IDPs are currently considering elements of the REED framework. A broad comparison of the available IDPs or LED plans is made followed by a more in-depth study of two district municipalities Dhlabeng and Xhariep. We analyse the different sectoral contributions to the Gross Geographic Product<sup>3</sup> of each district. We evaluate the IDPs of Dhlabeng and Xhariep, their structure and targets.
- In addition, interviews were conducted with the Nala, Fezile Dabi and Xhariep district municipalities about LED and IDP design, management, resourcing and implementation in the context of the REED framework. In our discussion of the interviews, the names of these municipalities are omitted so as not to compromise any of the municipalities concerned.
- Finally, a framework relevant to the South African situation is proposed in order to assist local municipalities with a benchmark against which to assess their own REED and LED initiatives. This summarises the lessons derived from our analysis of the IDPs and LED in Dhlabeng and Xhariep, and a SWOT analysis for each of the IDPs.

The Government of South Africa has made a tremendous effort in building a legal and regulatory framework to support LED. Table 1 shows the role and function of key institutions in LED. It has established a decentralized system of government and institutional arrangements to encourage local level growth and development through Integrated Development Programmes (IDP). An IDP is a strategic development plan, designed to cover five years of development planning within the local government of any Municipality in South

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<sup>2</sup> Guide to Rural Economic and Enterprise Development, working paper edition 1.0, November 2003. Available [http://www.gdprd.org/index.php?option=com\\_docman&task=doc\\_view&gid=50](http://www.gdprd.org/index.php?option=com_docman&task=doc_view&gid=50)

<sup>3</sup> Gross Geographic Product (GGP) of a particular area amounts to the total income or payment received by the factors of production – (land, labour, capital, and entrepreneurship) – for their participation in the output/production within that area. Gross Domestic Product (GDP) is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources

Africa. The IDP should provide the vision of the municipality and state the objectives and strategies to achieve them in a prioritised manner. The process to achieve this plan should be participatory and involve all stakeholders in the municipality in planning for its development, it should also consult all parties, in particular the poor who have been historically excluded from any decision-making processes.

From Table 1 it is clear that whilst the National Government provides a broad framework and plays a supportive role, the developmental effort is the responsibility of the local government not only in terms of implementation of the programmes but also in terms of the formulation of plans. The participation of civil society, private enterprise, and donor organizations is also considered to be crucial in the IDP planning phase. This paper intends to review two IDPs and LED plans of municipalities in the Free State in terms of the REED framework. In order to conduct such an assessment, it is essential to conceptualise the REED framework.

**Table 1. The role and function of the key institutions in local economic development**

<i>National Government</i>	<ul style="list-style-type: none"> <li>• Provide an overall policy and strategic framework for economic development at national, provincial and local government levels</li> <li>• Provide a legislative framework for local economic development</li> <li>• Provide a framework for Provincial and Municipal capacity building and support systems</li> <li>• Support of key economic institutions</li> <li>• Support for local economic development finance</li> <li>• Monitor and evaluate local economic development at national level</li> </ul>
<i>Provincial Government</i>	<ul style="list-style-type: none"> <li>• Provide a strategic vision and strategy for integrated economic, social and community development the Provincial Growth and Development Strategy</li> <li>• Is responsible for the formulation of the Provincial Economic Development Plan that is aligned to PGDS</li> <li>• Vertical and horizontal integration of the Municipal IDPs and the district economic development strategies</li> <li>• Train and build capacity for local economic development</li> <li>• Facilitate LED financial support to municipalities</li> <li>• Monitor and evaluate role at provincial level</li> </ul>
<i>Metro and district Municipalities</i>	<ul style="list-style-type: none"> <li>• Strategic planning by means of IDPs</li> <li>• Vertical and horizontal co-ordination the preparation of district economic plans and sectorally based cluster plans</li> <li>• Implementation of the public sector component of economic intervention actions</li> <li>• Initiation of economic development opportunities when appropriate special purpose vehicles created for the initiatives</li> <li>• Management and control of local economic initiatives in accordance with the expressed role and function of the municipality</li> <li>• Monitoring and review of economic development initiatives at local government</li> <li>• District municipalities create the guiding framework for local economic development initiatives at local government level</li> <li>• Metro and local municipalities, as the owners of land and assets, are responsible for local economic development projects implementation</li> </ul>
<i>Local Municipalities</i>	<ul style="list-style-type: none"> <li>• Strategic planning by means of the IDPs</li> <li>• Participation in the formulation of the district economic development plans</li> <li>• Participation in the implementation of economic projects special purpose vehicles that are established including local government established development agencies</li> <li>• Responsible for the formulation of local municipal economic development initiatives and the alignment and integration thereof with the district development initiatives</li> </ul>
<i>Private Sector/Enterprises</i>	<ul style="list-style-type: none"> <li>• The establishment, management and operation of business enterprises to the benefit of enterprise and community at large</li> <li>• Sustainable employment creation, income generation and investment as part of the execution of the business practices</li> <li>• Capacity building of the personnel</li> <li>• Contribution to sustainable development business practices in support of the Triple-Bottom line principles</li> </ul>
<i>Labour, NGOs and CBOs</i>	<ul style="list-style-type: none"> <li>• Provide support to economic growth and development policies, strategies, and the implementation of opportunities in accordance with the expressed constitution of the organization and within the context of sustainable development</li> </ul>
<i>National &amp; International Donor organisations</i>	<ul style="list-style-type: none"> <li>• Provides funding and economic development support and services within the legislative and institutional context of economic development at national, provincial and local levels. The funding and services are to be integrated with the local, provincial and national growth and development plans. Specific attention should be given by donor organizations to capacity building knowledge transfer, exposure to international experiences and innovative local economic development practices</li> </ul>
<i>National &amp; Provincial development Agencies</i>	<ul style="list-style-type: none"> <li>• Provide responsible support to economic growth and development policies, strategies and the implementation of opportunities in accordance with the expressed constitution of the organization and within the context of sustainable development</li> </ul>

Source: The South Africa Local Economic Development Policy and Strategy, draft (2003).

## 2 REED framework

### 2.1 An overview of REED

Creating an effective support system for emergent entrepreneurs is a multi-faceted endeavour requiring a range of regulatory changes and programmatic supports at a variety of institutional levels. For this reason, it is useful to use the REED framework.

The REED approach suggests ten cornerstones towards promoting effective interventions:

- an enabling environment which provides for an attractive investment climate and dynamic entrepreneurship;
- adequate mechanisms, processes, and structures that address local needs;
- active private sector institutions and linkages;
- functioning and effective infrastructure;
- access to integrated and open markets;
- access to effective and efficient support services and resources;
- adaptive management capacity and entrepreneurial competence within business and enterprises;
- local organisations, groups, and associations representing the poor;
- active participation and ownership of development processes by well-linked stakeholders, and
- ongoing learning from success and failure by all stakeholders.

The remainder of the section will assess the individual cornerstones in more detail. However, in some cases, cornerstones are combined.

### 2.2 Cornerstone 1: Create an enabling environment

This cornerstone addresses the basic regulatory and governance framework within which business operates. These are clearly long-term issues, which will require substantially more research and investigation. Briefly, securing an enabling environment will require seven key interventions:

- *Securing good governance*: This includes the devolution of resources and decision-making to local government level; the encouragement of local stakeholders to organise themselves into networks for information exchange and dialogue; and, support for the adoption of national laws and regulations at local levels (i.e. get national policies and plans to filter down to where the people are).
- *Improved, reformed regulation*: This includes promoting competition (where there are monopolies or oligopolies) and creating regulations appropriate to local realities (e.g. avoid over-complexity and red tape).
- *Taxation*: This means developing a realistic taxation regime which suits local realities and which monitors the impact of new fees and levies.
- *Licensing*: This includes increasing the capacity of local government to maintain an effective business registration and licensing system.
- *Tariff and non-tariff barriers*: This means addressing tariff constraints which prevent access to foreign markets; reducing internal systemic obstacles and corruption;

removing or reducing unnecessary fees and regulations which obstruct business activities.

- *Create a supportive legal framework:* This means reviewing and evaluating the country's legal framework to promote a favourable business environment, and creating a secure property rights system.
- *Create incentives for private investment:* This means providing tax cuts, appropriate subsidies, public investment in infrastructure, and credit schemes.

### **2.3 Cornerstones 2 and 8: Create adequate mechanisms, processes, and structures which articulate local needs / local organisations, groups, and associations representing the poor**

This cornerstone refers to the ability of the state and other decision makers to “hear” local entrepreneurs. Emerging entrepreneurs in disadvantaged areas (such as rural areas, informal shack areas, and townships) are often unable to articulate their needs. A supportive environment needs to

- *Encourage the self-organisation of entrepreneurs.*
- *Ensure sensitivity* to local realities on the part of government departments and other institutions so that they can provide support in a demand-responsive way.
- *Understand existing organisational patterns* and their strengths, weaknesses, and dynamics.
- Articulate and incorporate *local knowledge* into local policies and programmes.
- *Mobilise resources* for co-operatives and organisations (including financial, human, technical, advisory, training, materials, and equipment).
- Create *local discussion forums* and representative organisations.
- *Ensure that organisations and networks graduate and evolve* to higher levels of representation and formalisation.
- Assist *local municipalities* to become effective local policy makers in partnership with national and provincial departments.

### **2.4 Cornerstone 3: Promote active private sector institutions and linkages**

This cornerstone promotes links between emergent entrepreneurs and private firms, because the latter are usually the main supply channel for inputs, goods, and services. It emphasises the importance of business associations, professional associations, co-operatives, trade associations, and chambers of commerce, who can engage decision makers in a co-ordinated way. Such organisations can also provide support services (such as financial services or marketing). They network, build alliances, and facilitate access to inputs, markets, information, auditing, consultancy and advertising.

The REED approach makes various suggestions for strengthening co-operative associations:

- *Build the capacity of private sector institutions:* Analyse the capacity of such institutions; avoid crowding-out; encourage franchising; and conduct surveys of customer satisfaction.
- *Refocus or create new service provider institutions for emerging entrepreneurs:* Promote group-building processes amongst clusters of entrepreneurs; foster competition among

service providers to emerging entrepreneurs; provide information to entrepreneurs about available services.

- *Enhance professional competence of private sector institutions:* Develop professional standards and norms; promote technical knowledge within such institutions; facilitate continuous learning; promote access to business information systems and web pages.
- *Create local business networks:* Organise round-table meetings of local entrepreneurs; create modes of co-operation amongst small-scale suppliers offering useful services to emergent entrepreneurs.
- *Improve the financial viability of emerging enterprises:* Create awareness of the market cost of services and inputs; arrange financial support for new businesses.
- *Create links and networks:* Facilitate the creation of apex bodies or forums, possibly at the regional level.
- *Promote lobbying:* Facilitate professional lobbying efforts and negotiation strategies.

## **2.5 Cornerstone 4: Create effective and functioning infrastructure (both hard and soft)**

Infrastructure allows rural enterprises access to inputs and markets for their outputs and this access should enable enterprises to minimise the costs of doing business. “Hard” infrastructure includes: electricity, housing, marketplaces, offices and business premises, roads and haulage providers, rails, air systems, sanitation, waste management, schools, shops, storage facilities, telecommunications, and water supply. “Soft” infrastructure includes: financial services, health care, welfare systems, markets, post offices, and training providers.

According to the REED approach, possible interventions are:

- *Identifying infrastructure gaps,* e.g. By conducting surveys of existing infrastructure and business needs;
- *Providing required infrastructure,* by encouraging public and private investment; privatising state utilities; promoting local, self-funded facilities (e.g. By co-operatives);
- *Promoting infrastructure maintenance,* by promoting schemes to share costs, promoting innovative management structures, and raising public awareness of the need to recover costs; and
- *Fostering links with larger systems and networks,* particularly through the integrated planning of infrastructure systems.

## **2.6 Cornerstone 5: Promote access to integrated and open markets**

Emerging entrepreneurs need opportunities to compete in a wider range of markets. The REED approach suggests the following interventions:

- *Promote access to markets:* Encourage diversification of goods; promote collective action to gain economies of scale; provide information to consumers; promote participation in public tendering,
- *Promote transparency in markets:* Provide easy access to market information; enable enterprises to carry out their own market research; conduct participative analysis of markets.
- *Create stable markets:* Develop alternative marketing strategies, promote investment in storage and processing.

- *Promote free and open markets:* Remove barriers and distortions in markets (e.g. by lobbying governments and the private sector); improve competitiveness of enterprises.
- *Promote market chain integration:* Identify marketing links and new opportunities.
- *Develop markets:* Promote new product ranges; improve product quality.

## **2.7 Cornerstones 6, 9 and 10: Promote access to effective and efficient support services**

Micro-entrepreneurs need access to high-quality business development services (BDS) to overcome human, capital, and information constraints and develop profitable activities. This needs to be provided in a timely and accessible manner.

Possible interventions include:

- *Assessing the need for services,* including the willingness of users to pay for such services;
- *Providing access to a greater range of information,* particularly via radio and newspapers;
- *Combining mentoring and financial services* into consolidated support institutions;
- *Providing subsidies* for support services;
- *Encouraging private sector suppliers* to collaborate with small-scale enterprises;
- *Building stakeholder convergence,* especially amongst NGOs, donors, and government departments; and
- *Creating networks for learning* amongst support institutions, ranging from local bdss to national-level organisations and agreeing on joint monitoring and evaluation (M&E) frameworks.

## **2.8 Cornerstone 7: Promote management capacity of emergent entrepreneurs**

Successful entrepreneurs need to have the technical and managerial competence to find appropriate inputs, produce goods, market products, manage the enterprise finances, and network with other organisations. Possible interventions include:

- *Promoting managerial competence* with regard to record keeping, accounting, and budgeting by means of training and mentoring.
- *Developing entrepreneurs' ability to identify appropriate technologies and product innovations* by disseminating information about successful cases.
- *Generating budgeting and cash flow* by providing training in financial management.
- *Promoting marketing skills* by creating marketing information systems and identifying new marketing channels; and
- *Promoting networking* by encouraging the joint use of facilities, the creation of associations, and the establishment of partnerships.

It is this framework which will be used to assess the existing IDPs in the Free State in Sections 3 and 4 of the paper. However, first we provide a broad overview of the Free State economy, population trends, and policy environment.

### **3 An overview of the Free State**

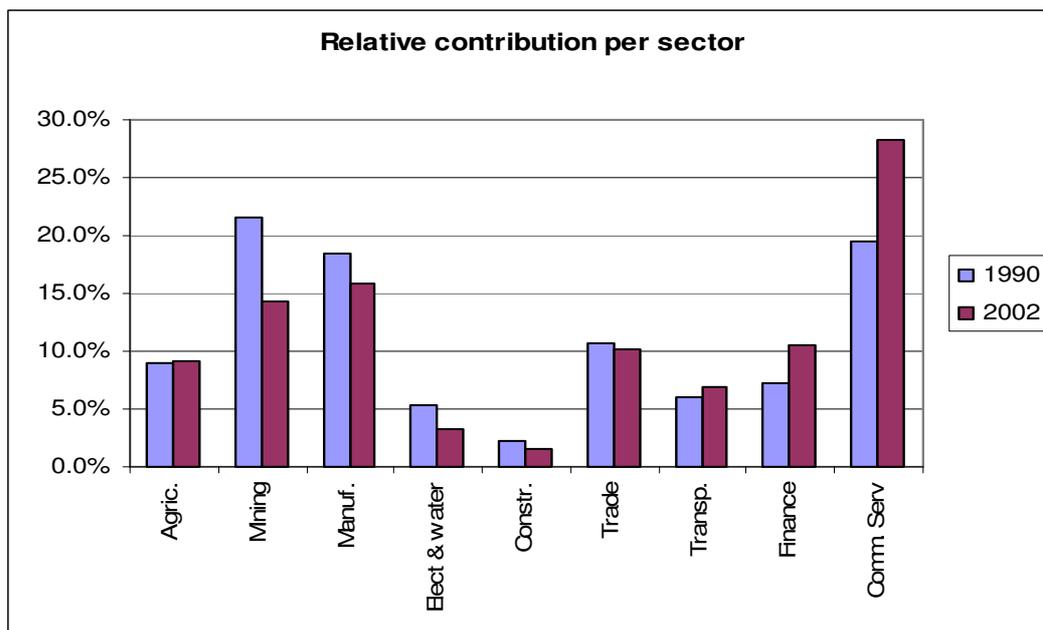
Before it is possible to provide an adequate overview and assessment of the LED plans in the Free State, a number of key aspects should be addressed in respect of the Free State economy and population trends.

#### **3.1 Key trends in the Free State economy**

The Free State economy has under-performed compared with the rest of South Africa, as the economic growth rate in the province has been considerably lower than the average for South Africa over the past ten years. The relatively weak position of this province's economy is further reflected in a relatively low (2002) per capita income level (R11 854 compared with R17 164 for South Africa and R32 356 for Gauteng), a high unemployment rate of 38.9% (SA: 40.8%), and the fact that almost 49% of the province's population are living in poverty. In 2004, the Human Development Index figure for the Free State come to 0.67, which is just below the national average of 0.69; and, in 2003, the functional literacy rate was 69.2%. This is considerably lower than the average for South Africa.

The Free State has 5.5% of the country's population and contributes 4.9% of the Gross Geographical Product (GGP) (Urban-Econ, 2004). As already mentioned in the introduction, the Free State economy has traditionally been closely related to the mining and agricultural sectors. Figure 1 provides a comparison of the relative contributions of the main economic sectors for 1990 and 2002.

**Figure 1: The relative contribution of the Free State economy per sector, 1990 and 2002**



It is noteworthy that the contribution of all sectors, except community services, finance, transport, and agriculture (even if small growth was displayed in the latter two cases) declined after 1990. Compared with the other sectors, the community services sector shows relatively high growth. A brief overview of the three main economic sectors will be provided.

In 1990, mining contributed approximately 22% to the Free State economy. This figure declined to about 14% in 2002. Similarly, the level of employment in the mining industry declined from 19% of total employment in the Free State in 1990, to a mere 9.5% in 2002. This was the result of more than 50,000 mineworkers losing their jobs in the Free State Goldfields (Nel *et. al.* 2004). Spatially, most mining takes place in the Free State Goldfields (Welkom, Virginia, Allanridge, Hennenman, and Theunissen). These towns fall within the Lejweleputswa District. These are mainly gold mines, although a few diamond and coal mines also exist. This suggests that the downscaling in the mining industry has had a far larger negative impact on employment than on this sector's financial contribution to the economy. Although the above-mentioned declines are not unique to the Free State, but represent a national trend, their impact on the Free State has probably been greater because, historically, the mining sector was the dominant sector in the Free State. The consequences of mine closure and the inability of most of the areas affected to address these issues in a significant manner has been noted by Nel and Binns (2002).

Commonly, small-scale mining is suggested as a possible solution to the problem of job losses in the formal mining environment. However, in a recent study by McGill, Phelane and Moseme (2004), the limitations of small-scale mining have been spelled out in more detail. In essence, it is unrealistic to expect that small-scale mining will in any way be able to provide the same levels of employment and economic contribution as formal mining.

The contribution of agriculture remained more or less the same between 1990 and 2002. However, considering that this sector's contribution to the Free State economy amounted to 18% in 1980, there has also been a trend of decline over the past 25 years (CDE, 2005). In addition to the declining economic contribution, the Centre for Development Enterprise (CDE) (2005) argues that more than 55,000 jobs were lost in the agricultural sector in the Free State between 1981 and 1996. These job losses can be directly ascribed to deregulation in the agricultural sector (which is comprised mainly of white-owned agricultural enterprises) since 1990 (Mather, 2002), although other factors, such as labour legislation, should also be noted (Hartwig, 2004). Other problematic aspects include the fact that cheaper agricultural products have started to flow into the South African economy, whilst South African farmers have lost subsidies from government. The result has been that farmers have started to mechanise more rapidly, thereby reducing their labour costs.

The manufacturing industry in the Free State (except for the petro-chemical industry in Sasolburg) was closely linked to state subsidies for economic decentralisation in former homelands under apartheid rule (Nel, Rogerson and Marais, 2004). The declining contribution of manufacturing between 1990 and 2002, as outlined in Figure 1, was the result of the phasing out of these subsidies after 1990. Employment in this sector has also not increased, but has remained stable since 1990. Nel, Rogerson and Marais (2004) also found that a number of other reasons have contributed to the declining manufacturing industry. These include the proximity to Gauteng (and the Gauteng market), low levels of skill, the declining mining industry, the decline in the importance of the agricultural sector, the proximity of the Free State to Lesotho where massive manufacturing growth has been experienced lately, and the high cost of labour. In an era of globalisation, the perceived centrality of the Free State is not necessarily a valid consideration. Fast-moving goods are commonly distributed from centres in Gauteng (the South African economic heartland) to the peripheral provinces such as the Free State. Physical centrality is not necessarily an advantage if the province in question is peripheral to the economic core of the area.

### **3.2 Key trends in the Free State rural to urban migration**

Marais (2005) notes a couple of trends in the Free State's population change since 1991, namely out-migration from former homeland areas, the increasing out-migration of the white population from the Free State province, and an increasing migration from farms to small urban areas. If this trend is fully understood, it will become clear that it is of crucial importance that the rural non-farm economy (RNFE) should provide opportunities to new migrants in these small and medium-sized rural areas. In addition to the trends of residents from former homeland areas "voting with their feet", large-scale migration from commercial farms is taking place. Hartwig (2004) argues that a number of aspects have contributed to farm workers, leaving farms. Firstly, he relates the declining population on farms to the Extension of Security of Tenure Act, No. 62 of 1997 (ESTA), which was introduced in 1997. This Act formalises security of tenure arrangements for all occupants of property or accommodation, including farm workers. The intention of the ESTA is to clarify the rights of both the employer and the employee in legal terms, to regulate the conditions and circumstances under which the right of persons to reside on land may be terminated, and, primarily, to provide measures for state assistance to facilitate long-term security of land tenure (GoSA 2004). Security of tenure, according to the ESTA, is established for any

occupier who has lived on the land for 20 years or more and/or is 55 years of age [or older] and/or is a former employee of the owner and is unable to work as a result of disability (GoSA 1997). The introduction of this Act has had two consequences that have led to a declining farm worker population: Firstly, farmers are unwilling to provide accommodation to farm workers on the farms. Instead, they try to access urban land in the nearest town for their farm workers. In addition, farmers have not invested in on-farm housing – making the on-farm housing situation even more unattractive.

Hartwig (2004) also argues that global competitiveness in agriculture, which has increased since the early 1990s (and which includes an increase in mechanisation), coupled with an internal drive by the government to put minimum wages in place, has played a major role in commercial farmers not employing as many farm workers as they had previously.

## **4 The policy framework in the Free State: The Growth and Development Strategy**

This section attempts to reflect briefly on three aspects, namely the Free State Growth and Development Strategy, the experience with regard to LED, and small, micro and medium sized enterprises (SMME) development in the Free State. This overview is important in that we shall later argue that LED units are typically under-resourced to provide extensive enterprise development functions.

### **4.1 The Free State Growth and Development Strategy**

The Free State Development Plan was released in 2000 and the Free State Growth and Development Strategy (FSGDS) was released in May 2005. Both these plans are based on five building blocks, namely the stimulation of economic development, the development and enhancement of infrastructure for economic growth and social development, the reduction of poverty through human and social development, ensuring a safe and secure environment for all people of the province, and the promotion of effective and efficient governance and administration. The three main indicators of the FSGDS for the following five years are:

- the achievement of an annual economic growth rate which is at least equal to the national average economic growth rate;
- the reduction of unemployment from 38.9% to 20%; and
- the reduction of the number of households living in poverty by 5% per annum.

It should be noted that these indicators, set in 2005, are more realistic than those set in the initial Free State Development Plan. For example, in the Free State Development Plan, an economic growth rate of 4.5% was envisaged. However, achieving the above objectives will still require an extraordinary effort. Other key aspects of the economic development plans include the emphasis on the tourism, manufacturing, and agriculture sectors, while SMME development and supports to black economic empowerment (BEE) are central components of the strategy. Chapter Four of the FSGDS outlines certain strategies for promoting economic growth in the Free State. In the first place, it provides a spatial perspective, which aims at setting out the principles of the National Spatial Development Perspective for the Free State. Chapter Five, which suggests the implementation of development zones and corridors, further elaborates on the spatial elements of the implementation plan. The importance of

manufacturing considering the decline in the mining industry is further outlined and various manufacturing possibilities are suggested. Other sectors which are proposed to play a role are agriculture and tourism, while the revamping of the mining sector is also proposed and the importance of roads is also alluded to. The second and third pillars of the FSGDS refer to economic infrastructure support, as well as to SMME support. SMME support is held to be an important part of the strategy. Large-scale SMME promotion, which is largely regarded as the responsibility of local authorities, is also suggested. Extensive coverage is given to the issue of how SMMEs should be supported. Specific emphasis is placed on funding, government training and support, technology transfer, marketing and trade assistance, infrastructure provision, as well as public-sector procurement. The other pillars are human resource development, tourism development, and agricultural development.

#### **4.2 The experience of LED in the Free State**

Nel (2000) emphasises that, in an era of globalisation, localisation has also become an important consideration. In the post-1994 environment, the importance of LED was emphasised by the fact that local authorities were given the responsibility in this regard by the South African Constitution. Although some success stories do exist in the Free State, the success rate of LED has been fairly limited. Marais *et al.*, (2002) found that, despite the fact that the projects financed by means of the LED fund had made a contribution to human development, only a limited number of these projects would actually survive the initial phase, during which funding occurred. In an evaluation by Nel *et al.*, (2004), it was found that the most successful projects were those driven by the private and community sectors; that there was little evidence from the Free State that municipalities were making any significant contribution to LED; that managing LED through municipalities created various managerial and financial problems; that partnership formation was limited; and that the most successful projects were tourism-related (see Marais, 2004, for information on the Clarens example) and linked to international markets. Thus, despite high expectations in respect of LED and the importance of LED projects in national policy, the latest research shows that the long-term viability of such projects has been limited.

#### **4.3 SMME support in the Free State**

At the start of the democratic era in South Africa, very high expectations were placed on the ability of the country's small- medium- and micro-enterprise economy, especially in relation to manufacturing (Rogerson, 2001; Kesper, 2002). In general, SMMEs were seen as "agents of employment promotion, redistribution, and improvement in global competitiveness" (Rogerson, 2004:766). In order to implement the relevant strategies, a number of support institutions were founded. The main types of institutions in this regard are Local Business Support Centres (LBSCs), Retail Financial Intermediaries (RFIs), and Manufacturing Advice Centres (MACs). The task of the LBSCs is to provide business information, business management advice, aftercare, and networking. These institutions were also supported by a range of initiatives from the Department of Trade and Industry, including local industrial parks, small business incubation, and linked sectoral cluster programmes (Rogerson, 2004). In an evaluation of the government's post-1994 SMME programme, Rogerson (2004) found that the SMME economy has only made a paltry contribution towards the creation of employment and that existing government SMME programmes have largely been biased in

favour of small and medium-sized enterprises, and have consequently bypassed micro-enterprises and the informal economy.

With regard to the creation of infrastructure for small business development initiatives in South Africa, the Free State has not performed well. This poor performance occurs despite the intention of the Free State Development Plan (1999-2004) to create a network of business advisors in the Free State. On the basis of the SMME evaluation conducted by Rogerson (2004), it can be seen that five (5.4%) of the 92 LBSCs established in South Africa were established in the Free State. Furthermore, only one (2.5%) of the 40 retail micro-finance institutions was established in the Free State, while no manufacturing advice centres has been established in the province. However, there does seem to be a provincial commitment to establish a manufacturing advice centre (Rogerson, 2004). The overall picture is one in which the Free State has probably not received its fair share of support institutions – especially with regard to micro-finance and manufacturing support.

## **5 Overview of LED and IDPs in Dihlabeng and Xhariep**

The South African territory is divided into provinces. Each province is divided into metro and district municipalities which are further broken down into local municipalities. Xhariep District is part of the district municipality of Lejweleputswa District in the South West of the Free State. Dihlabeng is part of Thabo Mofutsanyana District, in the east of the Free State.

The Municipal System Act (2000) states that an Integrated Development Plan (IDP) must reflect the vision of the municipality for long term development, through an assessment of the existing level of development and the socio-economic advancement of disadvantaged sections of the community. Particular emphasis is placed on those communities without access to basic services. The Municipal Act (2000) also requires a detailed description of the objectives and strategies of the IDP and states the spatial development framework of the district.

IDPs are mechanisms for coordinating LED strategies with other municipalities' strategies. IDP and LED are then linked in the sense that they have the common aim of allocating government resources optimally in order to foster growth and reduce poverty by fostering competitive economic activities and the satisfaction of basic needs, through the creation of employment opportunities and infrastructural support.

However, it is also important to consider the extent to which an IDP may be effectively implemented. Since a relatively large proportion of the poor live in small towns and rural areas, it is clear that most schemes oriented towards pro-poor interventions are concentrated in rural regions.

### **5.1 LED and IDPs in Dihlabeng**

The Gross Geographical Product (GGP) of Dihlabeng is dominated by the agriculture sector (see Figure 2). There are 140,919 residents, 62.2% of whom reside in urban areas. 84% of the population is black African. 47% of the population is male and 53% is female. Most of the population is within the 5-19 years old age range. 17.5% of the population have no formal education and only 33.5% have primary level education. HIV/AIDS rates at 26.7% is among the lowest in the Free State.

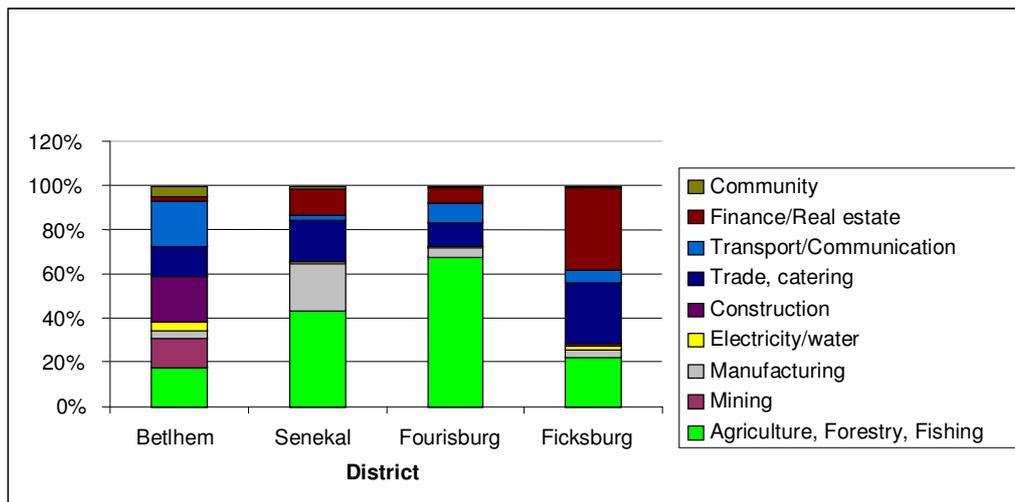
The IDP of the Dihlabeng municipality is organised in three sections.

- (i.) First it describes the process plan, a detailed programme, and review cycle.
- (ii.) It focuses on specific programmes, and for each of these plans there is an analytical section. The national approach to a specific problem is introduced and then the objectives and strategies of the municipalities are outlined.
- (iii.) A strategic plan is elaborated highlighting the priorities and the competencies of the local government.

The Dihlabeng IDP sets out the principles for public participation in its elaboration. However, as we will see later, it does not stress the means of this participation, especially

for the poor. A monitoring and evaluation (M&E) framework is also described in detail with key indicators of performance. For each objective there is a precise strategy and a key indicator with the corresponding measurement of its effectiveness. Unfortunately, an in depth analysis of the district is not present and there is no evidence of the way the priorities have been decided. It is not clear how the community needs have been assessed and how the decision-making process for prioritising investments and projects has been carried out.

**Figure 2 Contribution to Gross Geographic Product by area in 2001**

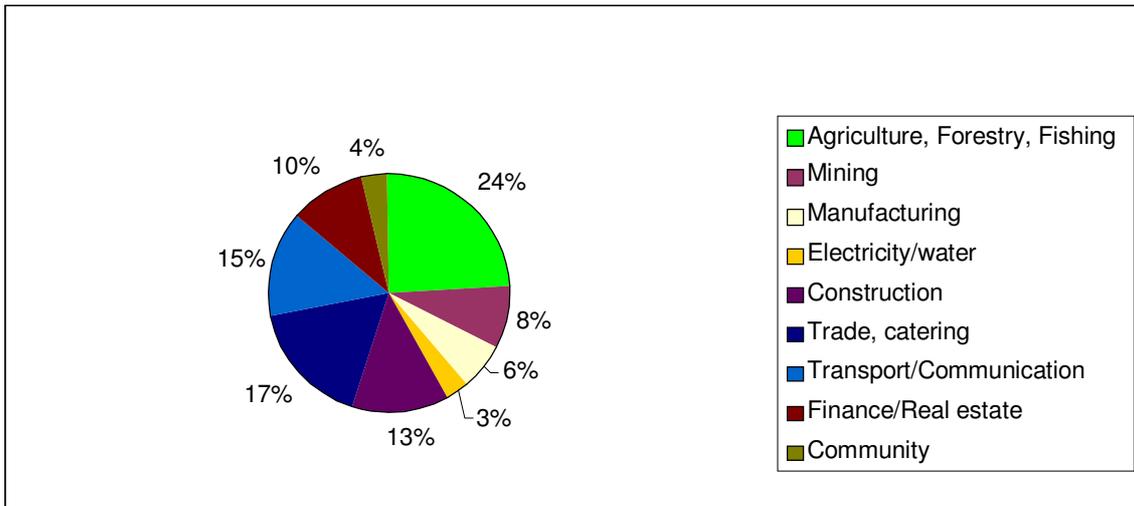


Source: Authors' calculation based on data from Dihlabeng IDP 2004-09.

Figure 2 shows that the municipality is varied in terms of GGP. Agriculture is the most important contributor in Senekal and Fourisburg, while for both Belthem and Ficksburg it is the third most important sector, after construction and transport-communication in Belthem and finance and trade in Ficksburg respectively. Unfortunately, as is often the case (Nolan and Wong, 2004) longitudinal data is not available in the IDP, so it is impossible to assess the dynamic dimension of the contribution of local product. Furthermore, we cannot assess whether agriculture is a declining or a growing sector and therefore cannot assess whether a particular objective of the IDP may be ex-ante valued as appropriate.

Figure 3 shows that Dihlabeng has a relatively diversified economic base. Davis (2004) notes that often the more diversified a rural economy is, the more income generation opportunities exist for the poor to supplement their income and reduce risks associated with mono-crop agriculture.

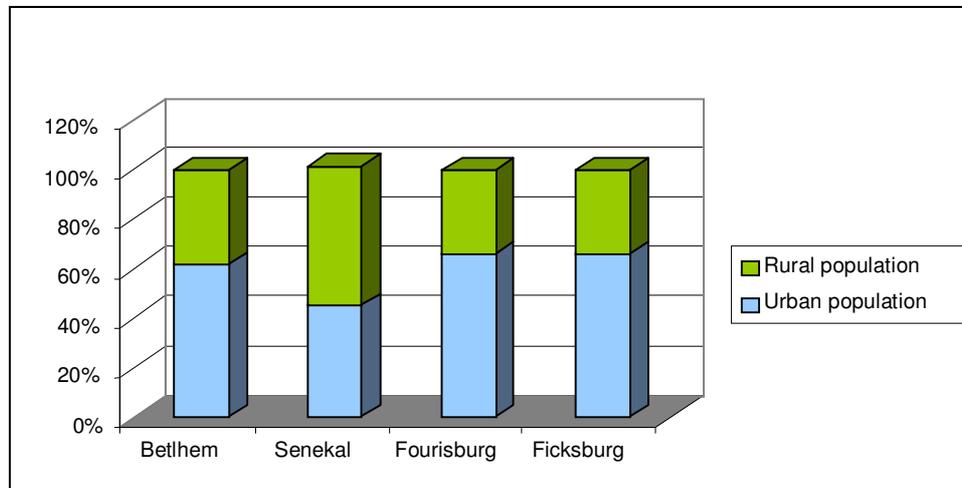
**Figure 3 Total Composition of GGP in Dihlabeng by sector**



Source: Authors' calculation based on data from Dihlabeng IDP 2004-09.

A map and a detailed geo-economic description of the district is included in the IDP. Of particular relevance is the population distribution in each municipality of the district. Figure 4 shows that more than one third of the population live in rural areas in each district, with the exception of Senekal, where the proportion is 54%.

**Figure 4 Distribution of population by urban / rural**



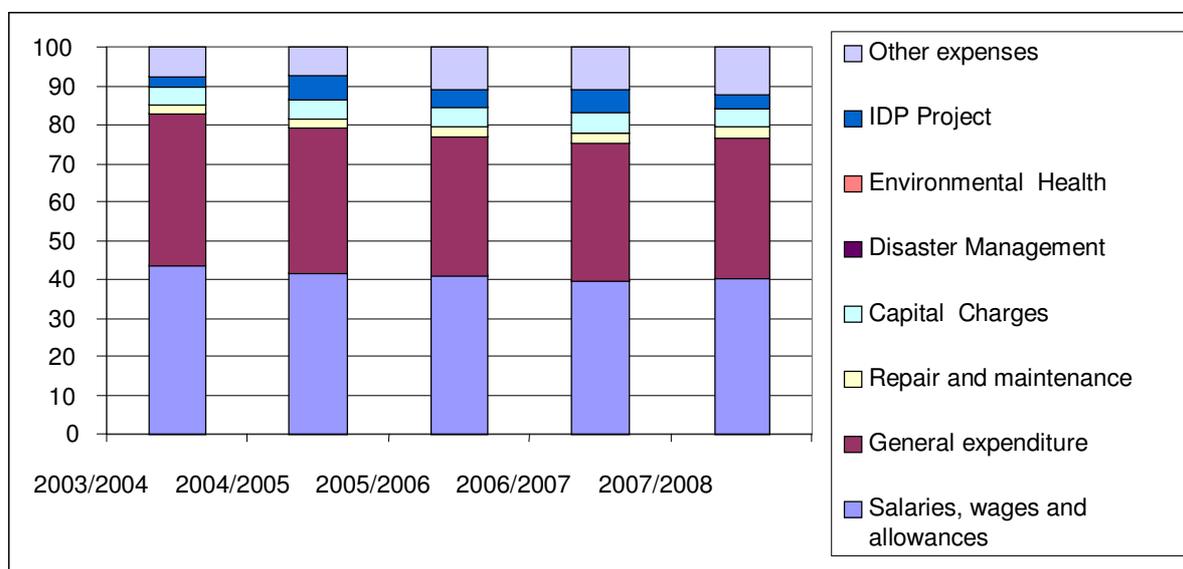
Source: Authors' calculation based on data from Dihlabeng IDP 2004-09

The *South African Local Economic Development – Policy and Strategy* (2003) document notes that within the LED framework, institutions have a responsibility to enhance the operational and administrative capacity of local government to deliver services, to promote cooperation with all spheres of government, and to play an important role in involving all of society. Civil society is crucial in terms of ensuring social and political accountability in a decentralized institutional structure (World Bank, 2003, UNDP, 2002).

Despite the Dhlalabeng district IDPs recognition of the importance of full participation, information, planning effectiveness and feedback on the IDP draft, it does not seem to have put in place effective mechanisms (REED Cornerstone 2) for encouraging important segments of civil society to participate in the planning phase of the IDP. This would be absolutely crucial for “*working towards having empowered and aware customers, served by competing private providers, efficiently overseen by local business associations and government*” (REED, p18-19). The section of the IDP on the Distribution of Roles and Responsibilities clearly states that the legitimacy of the IDP process is validated by the involvement of *existing* non-governmental organizations (NGOs), community based organizations (CBOs) and faith based organizations (FBOs). Unfortunately the promotion of *new* organizations, especially for the most marginalized groups, is still absent. Without playing an active role in promoting such participation, the risk is that the needs of the poor, marginalized victims of the apartheid regime will remain unheard.

Although the strategy of the IDP seems to incorporate poverty alleviation, the likelihood that this will be met depends on the coherence and effective prioritisation of their objectives. In this respect, redistribution and equity may play a very important role. Only by ensuring that the poor have access to assets will they be enabled to escape the trap of deprivation. Thus, training, education and land redistribution, but also access to micro-finance, information and business support should be important components of the IDP. Figure 5 shows the IDP budget allocation for 2003 to 2008. Each column represents a breakdown of planned annual expenditure for each category as a percentage of total expenditure.

**Figure 5 Annual Budget Allocation of Dhlalabeng 2003-2008 by objectives in %**



Source: Authors’ calculation based on data from Dhlalabeng IDP 2004-09

In the IDP of Dhlalabeng a summary of municipal expenses is not included. Figure 5 presents the five-year budget which shows that between 70 and 80% is accounted for by salaries, allowances and general expenses. The IDP project is allocated a residual 5%, whilst disaster management and environmental protection are overlooked. This budget appears to lack a specific set of programmes for poverty alleviation.

## 5.2 LED and IDPs in Xhariep

The GGP of Xhariep is also dominated by the agriculture sector (see Figure 6). There are 128,509 residents, 70.5% of whom reside in urban areas. 84% of the population is black African and 47.9% of the population is male, 52.1% is female. 17.5% of the population have no formal education and only 33.5% have primary education. The unemployment rate in Xhariep is 28.9% which is amongst the highest in the Free State. HIV/AIDS rates at 28.7% are amongst the lowest in the Free State. Other human development indicators that would have been useful in the IDP documents such as per capita income, life expectancy or the number of people living below the poverty line are not presented.

The IDP of the Xhariep municipality is comprised of four sections:

An introduction that briefly explains the framework, the process plan and the methodology

- (i.) The district profile: institutions, development profile, infrastructures and priorities
- (ii.) An action programme with a strategic plan for each priority. A list of responsibilities, financial resources required and a paragraph on “meeting the targets set.”
- (iii.) A volume comprised of: a financial plan, institutional plan, spatial development, LED and poverty alleviation, HIV/AIDS, gender and equity, integrated waste management and a disaster management plan.

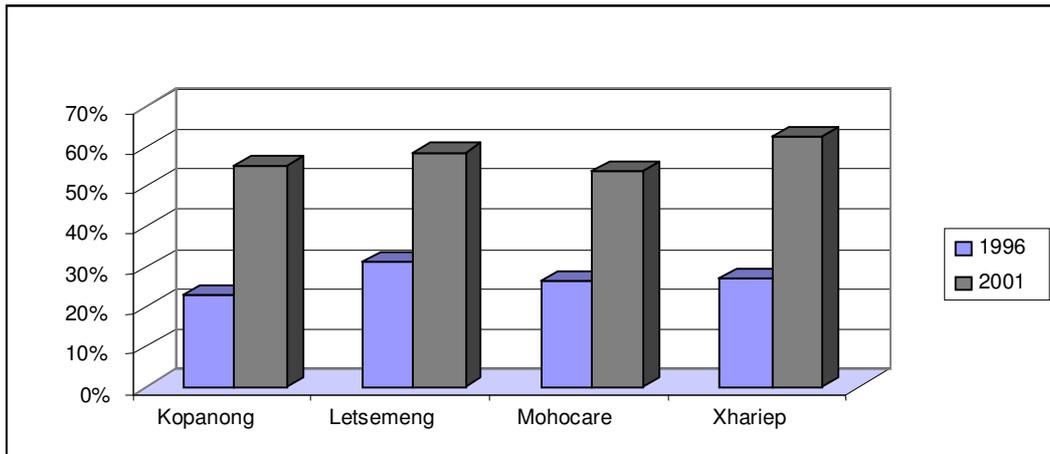
The objectives of the IDP is clearly defined, with LED and poverty alleviation included in the same programme:

- Equitable development of infrastructure and services
- Promote social equity
- Promote economic development
- Optimal use of resources

The promotion of social equity and development is a clear reference to the poor. The underlying socio-economic analysis in the Xhariep district IDP includes spatial, environmental, human, economic and institutional dimensions to align the IDP with the Free State Development Plan. For each of these elements the IDP presents a policy, key principles, focus area, and localized guidelines. This framework appears to coherently shape national objectives whilst adapting them to the local environment.

The description of the district is detailed in a series of profiles: demographic, social, ethnic, infrastructure, communication, and housing. This suggests an analytical capacity at the district level which is a key condition for any effective policy intervention. For the purposes of this paper we report the data on unemployment in the district.

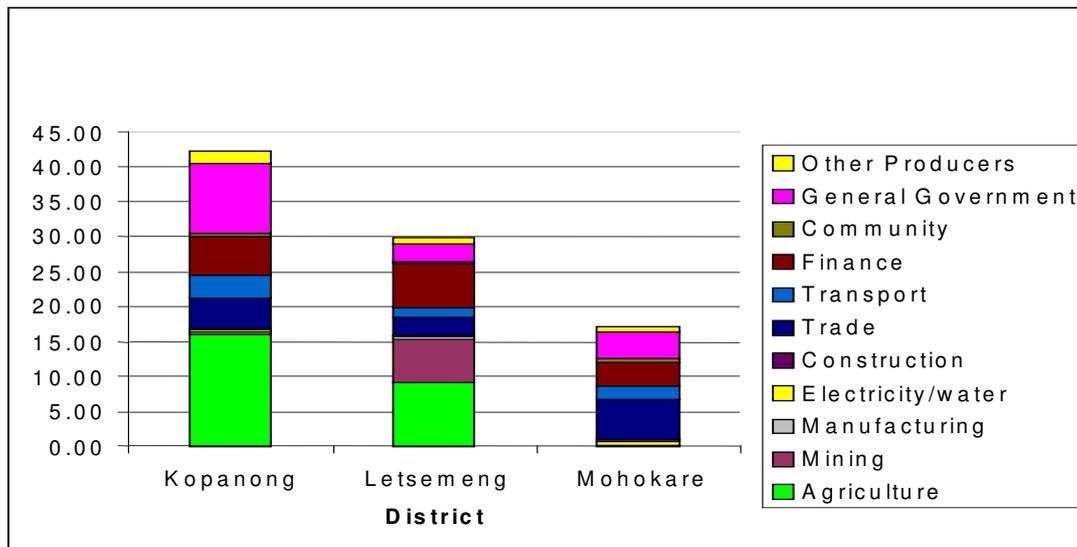
**Figure 6 Unemployment rates in Xhariep by district**



Source: Authors' calculation based on data from Xhariep IDP 2004-09.

Figure 6 shows unemployment rates in four municipalities in Xhariep in 1996 and 2001. It is clear that unemployment is high and has risen by 35% over the period 1996 to 2001; with the highest increase in Kopanong. From these data it is also clear that policies to support micro-enterprise development and other job creation programmes are critical for Xhariep. However, ex-ante it would be useful to have a dynamic idea about the composition of the Gross Geographic Product of the area in order to examine which sectors are in decline and which are growing. In other words, given the high rates of unemployment, a sectoral analysis of the local economy and labour market to identify potential motors of growth is important for Xhariep.

**Figure 7 Contribution to the total Gross Geographic Product by district in %**

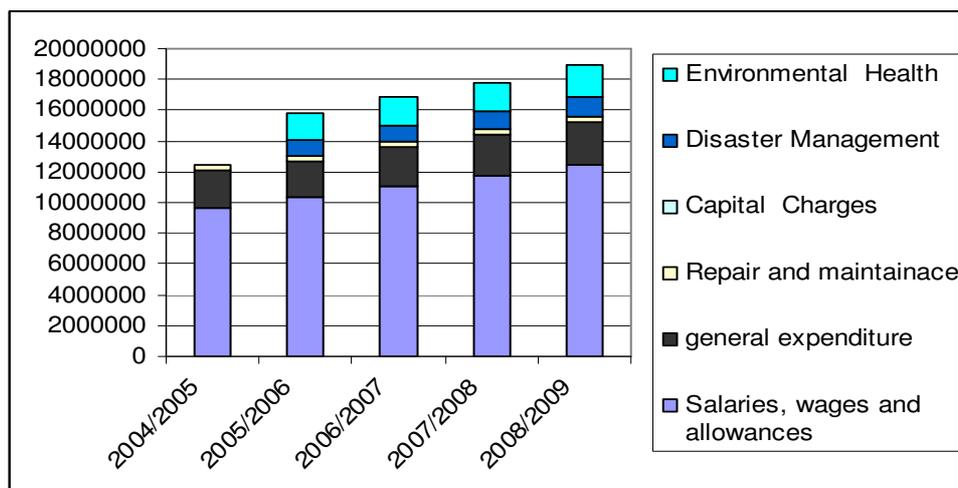


Source: Authors' calculation based on data from Xhariep IDP 2004-09.

Figure 7 shows the composition of the GGP of Xhariep by individual districts. Kopanong is the richest area with a contribution of almost half of the Gross Geographic Product, of which a third comes from agriculture. Agriculture is also important in Letsemeng, whilst trade is the most important sector in Mohokare. Government, Finance and Trade also account for significant shares of GGP. There may be scope for crowding-in effects of public spending, as the districts could support/ create employment opportunities through a poverty alleviation plan, as one of the major sectors of the local economy.

In our review of the IDP, we have sought to estimate the IDP budgetary contribution to poverty alleviation and LED. Given the way in which the budgetary data has been presented, this has proved difficult but we estimate that approximately 40% of available resources may have a poverty reduction element. The IDP is broad and benefits in terms of LED and poverty reduction are present across a range of programmes, such as housing, HIV/AIDS and SMME development.

**Figure 8 Annual Budget Allocation of Xhariep 2003-2008 by objectives in RDA**



Source: Authors' calculation based on data from Xhariep IDP 2004-09

Figure 8 shows the Xhariep IDP budget allocation for 2004 to 2009. Each column represents a breakdown of planned annual expenditure for each category as a percentage of total expenditure. Figure 8 presents the five-year budget which shows that between 70 and 80% is accounted for by salaries, allowances and general expenses. The IDP project is allocated a residual 5%, whilst a small proportion of the budget is allocated to disaster management and environmental protection. This budget reflects concerns about risk management (disaster), but is not detailed enough for us to evaluate whether adequate financial resources in the form of programmes or projects are devoted to disaster management. The next section will evaluate the IDP of the district in terms of poverty alleviation.

## 6 Evaluating LED and IDPs

### 6.1 Applicability of new approaches to LED evaluation

Recent thinking on evaluation of LED is of relevance to the two IDPs under consideration (see for example OECD, 2004). Government commitment to the process of evaluation and the choice of appropriate economic development indicators, highlights the centrality of evaluation to strategic policy formulation (Smith, 2004).

A largely ineffective system of M&E operates in Xhariep, whilst in Dihlabeng there are some performance measures for each municipal department. The system in Dihlabeng shares some similarities with Smith's (2004) performance standard framework, where M&E methods vary with different programmes. In complex programmes and projects the use of econometric evaluation techniques is often very difficult and expensive. In the case of Xhariep, potential alternatives include participant self-evaluation for impact analysis and administrative performance standards. The former is based on simple survey questions about the quality of the service provided. Although participants would have no idea about how to correctly estimate the unobserved counterfactual of what would have happened to them had they not participated, a good questionnaire can still provide insights about the quality of the programme, especially in combination with administrative performance

standards. These are quantitative measures of programme outputs (i.e. how many of the trainees found a job within a certain period of time after the training programme).

However, such an evaluation should be complemented with an Impact Assessment: “for policy makers wishing to promote programme sustainability, improving impact through Impact Assessment and market research offers one of the most potentially effective policy approaches” (Woller, OECD, 2004 p.425). Woller (2004) maintains that the impact of a development programme occurs at four levels: individual, enterprise, household, community. The chart below outlines the mechanisms through which a micro-finance programme may affect the level of utility of the whole community, due to the creation of positive linkages or multiplier effects.

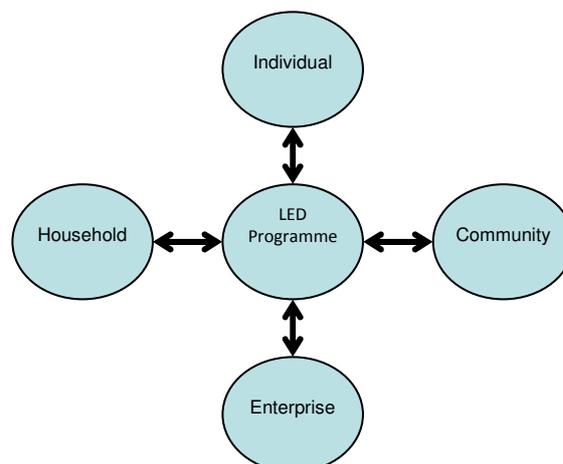


Woller’s (2004) observations may be useful for the IDPs considered here in at least two ways:

Micro-enterprise development is important because (a) self-employment is a key component in creating economic opportunities for low income people with limited employment and earning options; and (b) constraints to productive self-employment among low income persons although low, are enhanced with access to finance and training which could be addressed through the IDP. Woller (2004) places emphasis on understanding the complexity and composition of LED policy impacts, linkages and interactions between different interventions (projects, programmes) and actors (institutions, groups and individuals). A broad perspective recognizes that development policies need to be evaluated with regard to these interactions and the cumulative effects (Nolan and Wong, 2004).

An example of this complexity is shown in Figure 9. The increased enterprise returns lead to job creation and increased household income, which in turn, generate higher levels of household consumption, asset accumulation, human capital investment, and physical investment. These should increase the quality of life for a given community and expand their livelihood options, making the poor less vulnerable to risk.

**Figure 9 The complexities of LED policy effects**



Woller (2004) describes a number of M&E approaches to suit different types of programmes and projects. Assessments may be made in terms of monitoring client progress, evaluating relative outcomes in different market segments, calculating unit costs for each specific programme outcome. None of these approaches are considered in the available IDPs.

The use of both longitudinal and cross-sectional assessments are important for both the *improving paradigm* and the *proving paradigm*<sup>4</sup>. Longitudinal assessments track outcomes over different points in time and may be particularly useful in understanding trends. Unfortunately, there are very few examples of longitudinal data in the IDPs of Dihlabeng and Xhariep. Nolan and Wong (p 26, 2004) note that a potential consequence of a lack of longitudinal data is that *“policy makers are frequently unsure about which policy choices are best suited to which circumstances, and which policies should not be considered at all”*.

The IDPs appear to suggest that a lack of basic infrastructure affects the prioritisation of interventions; and that investments in terms of LED are neglected because critical constraints need to be addressed. Nolan and Wong, (2004) note that this is very often the case in planning for LED.

## **6.2 Dihlabeng and Xhariep: IDP poverty reduction objectives & strategies**

The Xhariep IDP notes that *“The purpose of local economic development is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation”* (p.9, Xhariep IDP). The approach is integrated with poverty alleviation and LED in the same programme. Poverty is viewed as being multidimensional so other programmes e.g. housing, gender, social equality etc., also take this aspect into consideration.

The IDP of Dihlabeng is in some ways similar to a legal document, and we can only implicitly see how poverty and LED are considered within the objectives and strategy framework. LED and poverty alleviation are considered separately under two different programmes. Poverty alleviation is included in the job creation programme. Whilst unemployment is the main cause of poverty in South Africa, this separation suggests a lack of integration between the different parts of the IDP.

### ***6.2.1 Poverty alleviation, growth and IDP objectives***

The Dihlabeng IDP clearly highlights poverty alleviation and economic development as key objectives. Economic growth (with the exception of tourism) is not explicitly recognized as an objective, but it is implied in many of the IDP strategies. This makes their vision more

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<sup>4</sup> The improving paradigm is of particular use internally, for policy makers in the case of the IDP and it is aimed to improve the impact of financial services on programme participants through improving products and policies. While the proving paradigm has an external audience, donors and academics and policymakers, the purpose is to attribute causality of observed outcomes to programme participation.

socially oriented than economically driven. For Xhariep the objective is clear, namely to improve the quality of life for all; economic development and poverty alleviation are the main objectives.

That growth is critical for poverty reduction is an argument widely accepted in the development economics literature and is strongly supported by extensive empirical evidence by Ravallion and Chen (2000), Dollar and Kraay (2000) and recalled in Easterly (2002): *“on average, growth has been much more of a lifesaver to the poor than redistribution”* (Easterly, 2002; p14). However, we should not neglect the importance of inequality, especially in a country where the regime of apartheid has maintained a very unequal distribution of income and assets for decades. Indeed, inequality may even be damaging for growth in the longer run<sup>5</sup> (Alesina and Perotti, 1993). Thus, the importance of linking pro-poor and development strategies with economic growth through equality is an important condition to ensure sustainable social and political development. The evidence<sup>6</sup> suggests that growth plays a central role in raising living standards. However, achieving rapid growth at the cost of relegating a significant proportion of the population to poverty, or substantially degrading the environment - even if such trade-offs existed - would not represent sound policy. This argument is widely recognized in both the IDPs where specific programmes to address inequality (i.e. gender) are presented. Moreover, Xhariep has set as an objective for equitable infrastructural development.

In Dihlabeng agriculture is the most important contributor (24.2%) to GGP of the district. More than half of the population of each district live in urban areas (with the exception of Senekal). The main reason is that people move to the cities in search of opportunities. Focussing development on the poor must include the retention and expansion of local economic activities. For the rural poor the REED approach may help to foster economic growth. Local agriculture is considered a sector of comparative advantage (see the composition of the GGP) in Xhariep where the LED department will take responsibility for identifying more value addition opportunities.

Agriculture also plays a major role in the Xhariep economy, where the IDP underlines the necessity of stimulating agriculture to exploit its full economic potential. There is large-scale production of a few crops (fruit and vegetables) and of high-value products (e.g. wine). This is a clear and effective identification of an important economic driver.

The primary objective of both the Dihlabeng and Xhariep IDP is to reduce the level of poverty in their communities. In Dihlabeng this is linked with strategies to create employment opportunities: more labour intensive municipally funded projects, greater cooperation (joint ventures) with NGOs and the private sector to create jobs in projects; urban agriculture, skills and training programmes.

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<sup>5</sup> Examples are Alesina and Perotti (1993) with an index of socio-political instability rising with inequality, Alesina and Rodrik (1994) on the median voter, Person and Tabellini (1994) with a strong middle class good for growth, Aghion, Caroli and Garcia-Penalosa (1999) on capital market imperfections.

<sup>6</sup> Ravallion & Chen (2000); and Dollar & Kraay (2000).

In Xhariep, there are two key strategies to reduce poverty: (i) increase food security and (ii) empower the poor. In terms of improved food security, the poor depend primarily on agriculture and related activities for their livelihood. The urban poor also spend the largest proportion of their income on purchasing staple food products. Indeed poverty and food production are inversely related. If agricultural growth only benefits commercial farmers, while good for national income, it may do little to improve the conditions of the poor or to reduce food insecurity. So it's important that the poor increase their productivity and output with the aim of achieving sustainable growth.

Empowerment of the poor is considered vital in terms of reversing the historical legacy of apartheid in terms of black African marginalisation. Access to health and education, the possibility of organizing themselves to have a voice in the decision-making process are all important. Human capital and the capacity to work is the poor's most important asset. The municipality has to ensure their participation, particularly women. They need material support in terms of assets, technology, markets and institutions. In terms of assets, land and water are the most critical. Greater resources and new technologies must be mobilized. This can improve the productivity of these assets.

A secondary objective of both the Dihlabeng and Xhariep IDPs is to improve the self reliance of the poor by implementing self-sustaining (sustainable) projects. In Xhariep the situation is particularly dramatic in terms of the racial skewedness of unemployment: Coloured (48.1%), black African (40.9%) and White (8.9%). The majority of the unemployed are women. As previously noted, this has been worsened by the closure of the mines since 1976 and insufficient investment in new factories.

The Dihlabeng IDP recognizes that the major cause of poverty is unemployment, especially in rural areas where harvest cycles determine job seasonality contributing to income volatility and insecurity. Poverty alleviation, job creation and economic development are not integrated in this IDP, whilst in reality they are inextricably linked.

The LED objective in the Dihlabeng IDP to establish supportive cooperatives where the unemployed can purchase materials, market their produce and acquire professional business services, is more a strategy than an objective. The corresponding strategy seems to reflect an integrated approach with the involvement of business chambers and programmes of assistance to support emerging entrepreneurs.

The Dihlabeng IDP elaborates a strategy for poverty alleviation but not a specific set of pro-poor programmes. The multidimensionality of poverty is in fact, neglected. It is laudable that the IDP dedicates an objective to gender equality, since women are mostly likely to be poor and with fewer employment opportunities, but this objective is not explicitly linked to the poverty reduction<sup>7</sup>.

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<sup>7</sup> Women are poor because of traditional gender divisions of labour within the household, the lower wages accorded to women's work, and in the past discriminatory laws denied them access to land, loans and property. They have lower levels of education and are less in charge of their sexual life; thus more vulnerable to the contraction of HIV/AIDS.

The IDP also ignores a number of measures such as subsidies and safety nets. It lists objectives for housing, health, social services, sport and recreation but there is no evidence presented of potential pro-poor outcomes. The participation of the poor is a precondition to the success of poverty alleviation programmes, primarily to identify their needs and provide opportunities to strengthen their representation through their associations and organizations. This task is challenging, especially in rural areas, but is absolutely vital. The REED framework (Cornerstone 8) provides suggestions as to how to encourage the participation of the poor in LED. Xhariep district is very concerned with participation issues and through the detailed analysis of the district profile of the condition of the poor and service provision has placed more emphasis on participation and designed a specific set of programmes to support this (a specific set of programmes was not included in the Dihlabeng IDP).

An HIV/AIDS response plan and gender equity programme has been elaborated in both IDPs. However, disaster management, to which the poor are most vulnerable has no allocated funding from the Dihlabeng budget.

LED in the IDP of Dihlabeng is not fully incorporated. It is likely that financial constraints limit the capacity of the municipality to pursue effective LED strategies. However, the importance of the city of Bethlehem is probably overestimated. That the IDP considers the city as one of the main sources of growth does not seem to reflect an analysis of the composition of local GGP. Rural areas seem to be of crucial importance not only because agriculture is the greatest contributor to GGP (24% of GGP) but also because the same IDP considers rural tourism an important future driver of growth. The importance of the agricultural sector for alleviating poverty and generating growth has been played down. The effective participation of private sector institutions is also neglected and local government is neither actively promoting or supporting linkages between local organizations, the private sector and local communities.

On the other hand, in Xhariep partnerships between the municipality and private sector play an important role in organizing and training emergent small-scale farmers. The IDP of Xhariep focuses on the equitable development of infrastructure and services, promotes social equality and economic development through the optimal use of resources in alignment with the Free State: economic growth/social and human development/urban renewal and rural development plans. However, Xhariep highlights difficulties in terms of timeframe to coordinate the IDP with provincial department strategic plans.

Overall the IDP in Xhariep is coherent and integrated, but it does not have an effective M&E system. On the other hand, Dihlabeng has an M&E system that simply reflects the legal requirements outlined in the Municipal Act (2000) in which *“monitoring and review of economic development initiatives”* is listed among the key functions of the metro and district municipalities. Concerns might be raised about the institutional capacity to evaluate the operational aspects of the IDP and LED. Local governments have the important task of coordinating, facilitating, and promoting economic activities that may have stagnated for long periods of time. This requires resources and institutional commitment to a process of learning at all levels of government. In the REED framework this is associated with cornerstone 10 and it is increasingly recognized in the literature about economic

development. At the local level, planning through an IDP mechanism is important, but may become meaningless without adequate financial and staff resources and what the REED framework terms “critical self-awareness” (Davis, 2004).

### *6.2.2 Summary of review of Dihlabeng and Xhariep IDP*

Poverty reduction strategy requires explicit and specific interventions. The main cause of poverty is underemployment, specific programmes should focus on this dimension. This is recognized in both IDPs. However, only the Dihlabeng IDP presents specific to address the effects of poverty, such as nutrition programmes. Given scarce resources the effects of poverty need to be urgently alleviated, however it is important to plan for programmes that also address the causes of poverty.

The IDPs highlight the importance of creating employment opportunities and helping the poor take advantage of these opportunities. However, more detail about the plans and M&E of resources to be deployed to meet the objectives needs to be included in the IDP.

Infrastructural constraints and plans for the future, feature in both the IDPs. Rural roads and electrification is mentioned in both the IDPs. This is particularly important for manufacturing activities (including agro-processing) of some scale. Reliable and abundant supplies of (preferably clean) water can allow some rural non-farm activities to take place. Surprisingly little explicit mention appears on the value of technical know-how and market information in the IDPs. Whether these are really not key variables, whether they are less visible when lack of capital and poor physical infrastructure are more obvious, or whether education is picking up the value of knowledge, is not clear; the IDPs will need to place greater emphasis on these issues.

Extensive SMME and Business Development Services (BDS) programmes to enhance regional competitiveness are absent in both the district IDPs. Xhariep plans to focus on “scattered” high-value agricultural (HVA) products and improving smallholder access to niche markets (for example wine). However the IDP should provide a more detailed evaluation of the financial viability of supporting HVA, which needs better data, and improved BDS for smallholders.

Both IDPs need to improve “key performance indicators” for M&E (e.g. change management, learning and adaptation). Donors and NGOs could provide technical assistance for municipalities reforming M&E systems.

Both IDPs need to identify “key economic drivers”. The Dihlabeng IDP highlights tourism as a key economic driver but somewhat neglects the importance of agriculture; focusing instead on the manufacturing and services sectors. Xhariep has highlighted rural tourism and agriculture as potential drivers of growth. However, the district IDPs may need to exert some caution regarding their tourism plans. As previously noted, some longstanding occupations such as mining are stagnating and where levels of unemployment and poverty in the former homelands are unacceptably high, there has been a vigorous search for new sources of activity and jobs in rural areas. Tourism is one option. International arrivals have more than doubled since 1994. There have been a series of local initiatives to combine local

government leadership with central government funds to stimulate private investment into tourist facilities. In the case of Still Bay, Western Cape, the results have been dramatic. In a former fishing village of just 4,000 persons, some 700 new jobs have been created in tourism. But this may be exceptional, both in terms of the natural attractions of the coastline and the dynamism of the local community leadership. In other cases, experiences are less promising or incipient. On the Wild Coast of Eastern Cape, attempts to combine conservation, community development, decentralized local government and private investment have seen the last take precedence, as outside companies have entered to develop the potential of the area. Local leaders have sometimes joined in: local communities have largely been marginalized. In part this may be the case of powerful interests seizing assets and disregarding local interests. But in part it reflects the great difficulties that locals, lacking capital and education, have in participating in such developments.

The Dihlabeng and Xhariep IDPs lack quantitative information and data that would be useful in both designing and evaluating the LED policies and programmes they advocate. For example the only longitudinal data presented is on unemployment in Xhariep. It is therefore difficult to discern and verify assumptions underlying key socio-economic trends or to evaluate the financial or economic rate of return to proposed investment projects. For example, given the available data it is impossible to quantitatively measure which sectors of the local economy are in decline, and which are growing. The only GGP data presented is related to a specific point in time. The only possible conclusion is that agriculture is the most important sector in both the districts in terms of its share of GGP. Similarly, financial data for specific IDP projects is not presented. As a consequence it is difficult to evaluate whether the municipality is consistent in terms of policy implementation and impact assessment.

Participation of the poor in projects is effectively considered in Xhariep, and largely overlooked in the Dihlabeng IDP. There may be strong pro-poor investment linkages between service provision, infrastructure and the poor: this is an explicit objective in Xhariep, but again is overlooked in Dihlabeng. The institutional dimension of LED and local government is considered in both the district IDPs, with clear responsibilities set-out for each institution and key stakeholders.

The multidimensionality of poverty is explicitly recognised in the Xhariep and Dihlabeng IDPs. The sustainability of Dihlabeng's IDP projects and programmes is considered difficult given financial constraints. Xhariep's IDP has a more positive attitude regarding sustainability and outlines ways in which this will be achieved. Realism and operational feasibility are desirable characteristics of any poverty reduction programme (Deverajan, 2000). However, we have raised some concerns about the feasibility of some IDP systems and plans. It is too early to evaluate this given the lack of data, however achieving the IDP objectives will to some extent depend on the political will and management capacity of the district. Below we summarise the findings of a strengths, weaknesses, opportunities and threats (SWOT) analysis of the Xhariep and Dihlabeng IDPs.

### *6.2.3 Xhariesep SWOT*

#### *Strengths*

- Clear objective definition.
- Identification of producing sectors.
- LED and Poverty Reduction are considered in the same programmes.
- Detailed analysis of the area.

#### *Opportunities*

- Identification of possible productive niches (i.e. wine, HVA).
- Identification of employment opportunities created by the municipality.

#### *Weaknesses*

- Lack of Monitoring and Evaluation system.
- Missing evaluation of benefits for IDP
- Lack of analysis of cost of implementation of IDP.

#### *Threats*

- Inability to attract sufficient funding.
- Inability to accurately evaluate the performance of each project/centre of responsibility.

### *6.2.4 Dihlabeng SWOT*

#### *Strengths*

- Clear objective definition.
- Clear definition of objectives/ responsibilities/ performance measurement for local government.
- Identification of the city of Bethlehem as a possible source of growth.

#### *Opportunities*

- A clear set of pro-poor programmes.
- Promoting demand driven training programmes.
- Promoting creation organization for participation of the poor.
- Promoting diversification of sectors for investment.
- Intervention to slow process of urbanization.
- Promotion and creation of special development zones.

#### *Weaknesses*

- Lack of financial, socio-economic analysis.
- LED and poverty reduction are not linked.
- Excessive reliance on the importance of marketing in promoting tourism.
- Inability to encourage institutions to support pro poor participation.
- Lack of analysis of costs of implementing IDP.

#### *Threats*

- Inability to find sufficient funding.
- Inability to identify comparative advantage opportunities.
- Inability to correctly identify market failures (i.e. lack of information).

## **7 Municipal IDPs and the REED framework**

The above sections provided a thorough analysis of the Free State economy, migration trends and LED. This was followed by an in-depth case study of two district level IDPs in Free State of Dihlabeng and Xhariep. As previously noted, current IDPs and LED plans were developed according to the Constitution, and the responsibility for economic development has been placed with local communities. Our focus now shifts to how local municipalities address this reality and to what degree the principles of the REED framework are incorporated into these plans. The cornerstones are assessed in the same sequence and against the framework provided in Section 2.1 of the paper. Each cornerstone is divided into two sections. It begins with an assessment of all the municipal IDPs / LED strategic plans in the Free State in terms of the REED framework. This is followed by a more in-depth discussion of the IDPs of three municipalities, primarily Fezile Dabi, and Xhariep District Municipalities, as well as Dihlabeng and Nala Local Municipality. This in-depth analysis is the result of interviews conducted with the respective LED managers. Throughout, we compare the assessments of the municipalities with the districts of Dihlabeng and Xhariep.

This section is based on the evaluation of the relevant IDPs and LED plans of a number of municipalities in the Free State in terms of the REED framework. The same framework as outlined in Section 2.1 will be used for this assessment.

### **7.1 Creating an enabling environment:**

Overall, IDPs and LED strategies lack detail when considering the importance of creating an enabling environment for SMME development. Furthermore, the operationalisation of the concept of an enabling environment is limited. Five key aspects related to creating enabling environments are identified in the IDPs. These five issues are discussed in more detail in this section.

First, creating an enabling environment is closely related to equality, equity and readdressing gender inequality, and the importance of national legislation in this respect. Considering South African history, the emphasis on these aspects is understandable. However, creating an enabling environment for all businesses requires the same fundamental actions. These preferential groups should, however, receive special attention. Secondly, incentives are provided for possible investors in some municipalities. However, it tends to occur more frequently within the larger municipalities (Matjhabeng, Mangaung and Metsimaholo), which do not necessarily represent the RNFE. It also seems from one of the municipalities with which the in-depth interviews were conducted that this function is not always the responsibility of the LED official. The municipal function with regard to specific discounts on for example land prices, usually lies with the treasury of assets divisions. Thirdly, some IDPs mention the importance of Public Private Partnerships (PPPs). However, the concept in terms of LED is not well conceptualised. A recent report by the CDE (2005) argues that the lack of appropriate synergy between the private and the public sector is one of the main shortcomings in the Free State (see also Nel *et al.*, 2004). In some cases, it refers to the way in which municipalities will outsource services. A large number of municipal IDPs only mention the importance of the concept. Some progress with regard to

the establishment of such initiatives has been made in Lejweleputswa and Matjhabeng. In the case of Lejweleputswa, a Local Development Agency is currently being established. In Matjhabeng, the Matjhabeng Investment Company (MIC) has been established. All shares in the MIC belong to the Matjhabeng Council. Although these initiatives are important to the Free State as a whole, their relevance to LED is somewhat limited. The MIC is a good example of what is termed a “Growth Coalition” or Private-Public-Partnerships for economic growth. Fourthly, as previously noted, some mention is made of the importance of infrastructure as a mechanism for economic development. There is no lack in most IDPs of mentioning the importance of infrastructure in meeting basic needs – especially in the residential environment. Although there is some link between basic infrastructure and business development (see Bond, 1999), the link between business infrastructure and LED is not always explicitly stated in most IDPs or LED strategies. For example, only one IDP mentions the importance of basic service delivery to business. Fifthly, in terms of regulations, it should be noted that one IDP recognises the relationship between land tax on farms and the potential of this tax to inhibit job creation on farms. The lack of employment on farms will again place more pressure on the RNFE.

During the in-depth interviews with the aforementioned municipalities a number of governance issues came to the fore. Firstly, of the three municipalities mentioned that some form of LED portfolio committee exists. In two of the cases a managerial LED committee also exists. However, the role of these committees is not always well defined. In some cases the function relates to taking responsibility for LED projects. In other cases the LED councillor and forum provide council with a portfolio of activities. Supporting enterprise development has not been mentioned specifically. Secondly, there seems to be no regulatory or licensing problems in the three municipalities. Thirdly, two of the municipalities mentioned that incentives schemes are available for private sector investments. Finally, two of the three municipalities LED plans are subsections of their IDPs, while in one case a separate LED policy is available. When asked what the main components of the LED plans are, the following answers were provided:

- To develop LED
- To develop tourism
- To implement projects
- To identify the different needs present
- Fulfil the LED capacity functions
- To identify the different sectors which need to be addressed
- Develop action plans
- Ensure that the policy is in harmony with national and provincial needs

Although it might be part of some of the above aspects, no specific attention is being devoted to enterprise development in terms of the main components. However, when asked how important enterprise development is in terms of this policy, the three respondents mentioned that it is viewed as very important. Despite the importance of this function, only one of the three municipalities mentioned that institutionally they made provision for this function.

Other constraints in respect of LED and REED governance were also identified during the interviews and need to be highlighted. Firstly, although the intention of LED and REED is

clear, only limited resources exist to make this operational. Secondly, what is strikingly absent is a LED / REED watchdog role by council and the LED forums which exist. This absence should be analysed at two levels. Firstly, someone who can make technical inputs to other non-LED proposals presented to council. Indeed, it would be advisable that all proposals passed by council have been scrutinised in terms of their impact on REED or LED. The main question with regard to such proposals should be how they would impact on local enterprise development, if approved? Secondly, this also requires councillors who can ask these questions during council meetings. Thirdly, it also seems that some of the LED functions are also split between different departments. For example, in one case the LED manager is responsible for all so-called LED programmes, but not for the incentive programme for private sector enterprises offered by the municipality. Although LED realities and REED are cross-cutting issues, some effort should be made to ensure that the important aspects related to this function are managed from a central point, or better coordinated across departments.

In summary, it seems that the level of importance in respect of enterprise development varies considerably between municipalities. However, what seems critical is that very few municipalities have managed to effectively operationalise the LED concept. Overall, there is very little indication that an enabling environment for LED and the RNFE is being effectively created. In cases where the importance of this is realised, limited financial means exist to actually create this environment adequately. Again, these observations reflect the findings from our case studies of Dihlabeng and Xhariep.

## **7.2 Cornerstones 2 and 8: Create adequate mechanisms, processes, and structures which articulate local needs / Local organisations, groups, and associations representing the poor**

These cornerstones require the active involvement and support of local businesses with specific emphasis on business organisations representing the poor. Five key issues need to be raised in this regard. First, nearly all municipalities regard it as important to support their local Small Medium and Micro Enterprise (SMME) sector. One municipality also suggests support to the informal (second) economy. Mangaung Local Municipality has recently established an SMME support centre, while the Matjhabeng municipality has an SMME office/desk. However, as noted earlier, the history of successful business support initiatives in the Free State, and for that matter in South Africa, has been limited. Secondly, despite this intention, there is very little actual reflection on the local needs of the existing SMME sector. In none of the cases could we find indications of what the needs of local SMMEs are. Thirdly, it also seems that there is very little contact between the local business community and the respective local authorities. This is even more alarming when one considers that such contact and organisational development with the second economy is even more limited. Fourthly, municipalities are not actively fostering the development of business organisations. For example, there seems to be limited evidence of organisations for small (second economy) manufacturers and retailers, or of small manufacturers and retailers having contact – at least not on any regular basis. This limitation also applies to the more formal organisations. Fifthly, on the more positive side, some municipalities at least consider workshops for information sharing as important activities to help arrange.

Considering the three municipalities with whom the in-depth interviews were conducted, a number of comments need to be made: (i) that racial issues seem to be prominent when businesses needs are considered. Very little progress has been made in bringing formal black African and white owned businesses together. In cases where this has actually happened, one of the two groups withdrew after a period because they felt excluded. These divisions also seem prevalent with regard to participation in the development of the IDP or LED plan. (ii) little has been achieved by trying to organise formal businesses. In one case the initiative did not work, while, in another case it had been tried but long-term commitment and engagement seems to have been a problem. (iii) in only one of the three municipalities were initiatives to organise the informal business sector attempted. However, they were not organised per sector (for example all the spaza shops together). (iv) a database of businesses was created in all three of the municipalities interviewed – specifically for the SMME sector. This provides a reasonable baseline from which enterprise support and development can be facilitated. (v) it also seems that attempts were made to bring businesses together and to promote business networks. In one of the municipalities mention was made of mentorship having take place – referring to the mentorship programme of German Technical Operations (GTZ) through the department of Labour in Kroonstad. However, there was also some scepticism expressed as to whether these mentorship programmes were assisting the emerging businesses. (vi) the involvement of business in the development of the IDP or LED strategy varied in the three cases. In one case big business was fairly involved but small enterprises were excluded. In the other two cases the involvement of business in general was minimal.

Although some efforts were made with regard to the two cornerstones discussed above, there seems to be ample opportunities to improve on ensuring that a local business perspective is captured and assimilated into policy. At the same time, organisational development related to enterprises in the informal economy could assist in addressing the needs of this sector more specifically.

### **7.3 Cornerstone 3: Promote active private-sector institutions and links**

Linked to the above cornerstones, cornerstone 3 considers the types of links which exist between the emerging entrepreneurs and big business. Most IDPs and LED plans are fairly restricted in this regard, with only the larger urban municipalities reflecting any significant progress in this respect. Despite these initiatives, none of the municipalities considered a business satisfaction survey. Although the costs involved might have been a stumbling block, it means that the view of formal and informal businesses might not be captured accurately. In principle making markets work for the poor or emerging businesses requires effective linkages with big business. This is a role which can be facilitated by the municipality.

### **7.4 Cornerstone 4: Create effective and functioning infrastructure (both hard and soft)**

As previously noted, infrastructure provision is high on the agenda of the residential environment. However, we could not find one municipality which related the provision and maintenance of infrastructure to the creation of a favourable business environment in their

IDPs. Furthermore, it is usually businesses in the informal economy which suffer through the lack and inefficient maintenance of infrastructure. Recent societal upheavals in the Free State have been related to poor infrastructure and the poor maintenance of it. Although this has mostly been related to the residential environment, it can be expected to also have a negative influence on business opportunities and confidence.

Considering the in-depth interviews with the three municipalities, the following aspects should be highlighted:

- All the municipalities mentioned the importance of adequate infrastructure. However, what seems to be missing from the responses was an understanding of the importance of infrastructure provision and maintenance for businesses.
- In only one of the municipalities did the importance of services and infrastructure maintenance come out specifically. This municipality noted that businesses in former black African townships did have a specific problem pertaining to infrastructure maintenance and service provision. Considering the fact that these businesses are mainly in the informal economy, adequate service provision and maintenance surely impacts negatively on their ability to access the mainstream economy.
- As in most cases, crime and crime prevention pose serious problems for communities and businesses.
- Another constraint in infrastructure provision and maintenance is that it is often only seen in terms of new state funded projects. The importance of infrastructure to existing and emerging enterprises is not always recognised.
- In the more rural southern parts of the Free State road maintenance has important consequences for rural enterprises. A part of the problem is that provincial roads do not fall within the jurisdiction of local municipalities.
- As infrastructure provision and the LED components are seldom in the same department, there seems to be some conflict between these departments in municipalities. In order to promote LED and enterprise development, effective service delivery is important. Those responsible for service and infrastructure provision should understand the link with LED.

As most municipalities are unable to address the infrastructure constraints of businesses effectively, it is unlikely that new infrastructure programmes that will benefit business development will be considered. However, at the same time municipalities could develop a better understanding of the infrastructure requirements of different business groupings. The newly-established Municipal Infrastructure Grant could potentially fund some infrastructure related efforts.

## **7.5 Cornerstone 5: Promote access to integrated and open markets**

In general, it seems that most IDPs and LED plans do not reflect these issues to any significant degree. The peripheral reference to integrated and open markets in some of the IDPs and LED plans relate, firstly, to specific sectors in which possible employment creation could take place. Secondly, some reference is made to the link between training and the requirements of the market. Overall, this is probably a major obstacle for reducing poverty and encouraging growth.

From the in-depth interviews the following aspects were highlighted:

- Many of the initiatives considered the agricultural markets and did not necessarily focus on the RNFE.
- Some concerns were also expressed with regard to state contracts which only benefit businesses in the larger urban areas.
- Some comments were made with regard to the value of local procurement.
- What seems to be absent is a creative assessment of business activities and helping these businesses to improve market access (some good examples in the agricultural sector are available – see for example Marais, 2005).
- If a number of businesses also formed a business organisation, they could engage in bulk purchasing which might improve their business performance and market access.

Market access might be the single most important consideration for the future. Although some initiatives could be undertaken in terms of the retail sector, creative consideration should be given to other sectors. For example, extensive tender information and advice could be made available to local business people. This need not only be related to the local municipality but could include provincial government tenders and private sector information. In the case of manufacturing effectively linking with market programmes of the Department of Trade and Industry could also be considered.

#### **7.6 Cornerstones 6, 9 and 10: Promote access to effective and efficient support services**

A number of IDPs / LED plans emphasise the importance of supporting SMMEs. However, very little is available on the specific services that are being provided to these SMMEs. Support services in the Free State were mainly been conducted in Bloemfontein (Mangaung) and Welkom (Matjhabeng). GTZ, through a programme in the provincial department of labour is currently attempting to provide mentorship and support to individuals in the informal economy. A pilot project was initiated in Kroonstad, while a role-out programme is envisaged for Bloemfontein and Botshabelo.

From the in-depth interviews the following was evident:

- That no in-depth understanding of the support needs of local enterprises exists. For example, one municipality suggested that the local municipality should provide transport.
- One municipality provides some basic support to entrepreneurs, but is hampered by the fact that there is no external support available. They have to provide this support with their own limited resources.
- Another municipality provides training through the Department of Labour to projects initiated by the state. Although such training is important, it is very specifically directed at specific interventions, and not at assisting existing entrepreneurs.
- Although local procurement options are available (as mentioned earlier), there seem to be very few support systems to assist individuals in this regard.
- In one of the municipalities a specific effort has been made to train the emerging entrepreneurs on business and entrepreneurial skills through the Further Education and Training College in the area. The second municipality that extensive training and workshops are being provided to local entrepreneurs.
- In another municipality, workshops to increase the capacity of local entrepreneurs are planned. However, little detail is/was available in this regard.

- The third municipality mentioned that preferential procurement to emerging SMMEs has also assisted in improving capacity with the local emerging SMMEs. However, neither specific amounts nor the actual numbers of entrepreneurs assisted in this regard were available.
- Although this was not directly asked, it does seem as that a fair degree of efforts in terms of business support goes to projects / business created through state support mechanisms. Although these initiatives should be supported, it could also mean that existing businesses are not necessarily attended to.

SMME support systems in the Free State have not always worked well. Far more can be done to provide adequate support to entrepreneurs.

### **7.7 Cornerstone 7: Promote management capacity of emergent entrepreneurs**

Except for the limited SMME business advice initiatives which do exist in the Free State, no specific attempt is made with regard to building the management capacity of emergent entrepreneurs. From the interviews conducted a few comments need to be made. Some managerial training does take place. This managerial training usually coincides with some of the other initiatives mentioned. However, once again this training seems to be done more on an *ad hoc* basis and not as part of an overall programme.

### **7.8 Summary: relevance of REED framework for the district IDPs**

The above in-depth analysis is the result of interviews conducted with the respective LED managers of three municipalities. Throughout, we compared the assessments of the municipalities with the districts of Dihlabeng and Xhariep. Table 2 summarises our findings on the district level IDPs in the context of the REED framework. These findings are consistent with our survey of three municipalities.

**Table 2 Summary of relevance of REED framework for the IDPs**

<i>REED Cornerstones</i>	<i>Dihlabeng IDP</i>	<i>Xhariep IDP</i>
<i>1. An enabling environment that provides for an attractive investment climate and dynamic entrepreneurship</i>	The importance is recognized but the district complains about the lack of financial resources. Scope for improvement and involvement of private sector.	The importance is recognized and the possibility of involving the private sector is taken into account. There is no description of specific programmes.
<i>2 Adequate mechanisms, processes and structures that address local needs</i>	There does not seem to be any explicit mechanism nor procedure to address local needs.	The district had an institutional organisation that encourage the involvement of disadvantaged local groups, through the involvement of Non Government Organizations and Community Based Organizations
<i>3 Active private sectors institutions and linkages</i>	The existence of private sector institutions is not reported in the IDP.	Private sector institutions are considered to have a relevant role in the IDP. However, there is no description of them nor a detailed exposition of their roles
<i>4 Functioning and effective infrastructure (hard and soft)</i>	Soft infrastructure is recognized as critical (learning and training in particular). There is no evidence of specific programmes.	Soft infrastructure is recognized as critical (learning and training in particular). There is no evidence of specific programmes
<i>5 Access to integrated and open markets</i>	This cornerstone is largely neglected in the IDP.	Considered only in terms of the necessity of hard infrastructure. The importance of the market as an open place of exchange is neglected
<i>6 Access to effective and efficient support services and resources</i>	Creation of business support centres is recognized as critical. One programme is considered without providing detailed information (Bethlehem centre).	Access to services is considered critical especially in terms of a lack of information. Business development services are said to be planned but no specific project is described.
<i>7 Adaptive management capacity and entrepreneurial competence within business and enterprises</i>	There would be scope for support of capacity building especially in agriculture which is the comparative advantage of the area. No reference to specific training programmes nor to micro-finance is made in the IDP.	Some strategies are listed in terms of support to small business especially with respect to training. However, there is no reference to specific programmes and the importance of micro-finance is only considered in theory
<i>8 Local organisation, groups and associations (representing the poor) as building blocks</i>	There is no mention of such organisations apart from the involvement in partnerships of NGOs in the provision of basic needs by the municipality in order to address the effects of poverty (i.e. nutrition programmes).	There is evidence of involvement of organizations representing the poor in order to better understand their needs . No evidence is presented on what strategy is actually implemented for this objective.
<i>9 Active participation and ownership of development processes by well-linked stakeholders</i>	The idea of involving different parts of the civil society is vaguely addressed.	Participation of different stakeholders is considered relevant and the advantages in terms of sustainability and attention to local needs is well explained. Details on the actual programmes and the actual involvements of stakeholders are not presented
<i>10 Ongoing learning from success and failures by all stakeholders</i>	The Monitoring and Evaluation section is extensive in this IDP. However, there is no evidence that these guidelines have actually been employed in a proper evaluation exercise.	Since an evaluation system is neglected in the IDP, no strategy corresponds to this objective. A minimum of monitoring and performance observation could shed light on the outcomes of the individual projects and their outcome. Evaluation results should then be incorporated in the subsequent planning phase.

The main sources of growth are different in the two municipalities. For the IDP of Xhariep agriculture retains its central role and the contribution to the local economy should be improved. However, the municipality will try to develop tourism as well as a programme of

infrastructure development, which should both create employment opportunities in the area and alleviate poverty. Mining and manufacturing (linked to rural areas) are also considered as priority sectors. In Dihlabeng the IDP plans to enhance agriculture, potentially implementing value adding manufacturing processes, to improve the manufacturing sector, to promote the city of Bethlehem as a service centre, and to boost tourism in the area.

However the IDPs require thorough M&E systems are absent or inadequate. The system should provide an institutional framework and processes to actively involve all stakeholders. The IDP of Dihlabeng provides a very detailed system of evaluation. However, evidence of evaluation is not provided and concerns about the effective capacity of local government to evaluate the operational aspects of LED has been questioned.

In Xhariep there is some support for creating new representative organizations for the poor, and the IDP process itself requires the participation of different groups (ethnicities, gender etc.). Although the participation of different stakeholders is explicitly set out as an objective in the IDP of Dihlabeng, a set of effective programmes to involve different segments of civil society, especially the poor and private sector, is absent. Service provision may only improve with the effectiveness of three processes: participation, evaluation and analysis.

## **8 Concluding remarks**

The conclusions will deal with three subsections. First, the main findings from this analysis will be summarised. This will be followed by a discussion of some of the reasons for the main conclusions. Finally, a number of recommendations will be made:

- (i.) The REED framework provides an excellent template against which enterprise support can be evaluated.
- (ii.) The Free State economy has not always performed well during the past fifteen years. It has been negatively influenced by changes in the agricultural, mining and manufacturing sectors.
- (iii.) Extensive migration from farms to small and medium urban areas has increased the pressure on the RNFE in many small towns.
- (iv.) The RNFE in the Free State contributes approximately 21% of the Free State economy, as well as 25% of the job opportunities in the Free state. Although the urban economy of the province is important, an appropriate strategy for the RNFE in the Free State should be developed.
- (v.) Current national and provincial policies emphasise the importance of support to enterprise development.
- (vi.) LED initiatives linked mainly to the LED fund have had limited long-term economic benefits to local communities.
- (vii.) The contacts between municipalities and businesses are not always well- structured and organised.
- (viii.) LED is in some cases still equated to state-funded projects and not enough is being done in respect to enterprise development.
- (ix.) Market access to business in the RNFE has not been addressed except for some efforts around local procurement.
- (x.) Overall monitoring and evaluation in respect of initiatives around IDPs, LED and REED are not well entrenched.

- (xi.) Aspects that are typically absent are business satisfaction surveys and surveys on the needs of emerging SMMEs.
- (xii.) Organisational development of businesses in the informal economy has not taken place. In the South African context (as highlighted in the Xhariep case study) the establishment of effective co-operatives could be one mechanism through which to facilitate organisational development.
- (xiii.) Effective SMME support seems to be lacking. Despite some initiatives in this regard, this remains under-resourced or *ad hoc*. Although local and district municipalities should assume responsibility for such services, municipalities cannot be expected to finance these directly.
- (xiv.) Linkages between emerging, established and big business are not always being actively supported.
- (xv.) Infrastructure development for enterprise development purposes is not actively promoted and implemented.

From the above assessment, it would seem that entrepreneurial development has not received adequate attention. An analysis of entrepreneurial development in terms of the REED framework suggests that much more can be done. The question is why this has not materialised?

A number of factors have contributed to this state of affairs. First, it is not clear that the state financed LED programmes between 1999 and 2004, greatly assisted enterprise development. This may have happened despite the intention of programmes to address SMME development. The LED programmes mostly funded community projects with the intention of developing new SMMEs. This meant that municipal energy went into maintaining these projects. Second, the desperate financial situation of municipalities has made it extremely difficult to support enterprise development and LED units are typically under-resourced. Third, the CDE (2005) report notes that extensive economic development training is required. The report concludes: *"If government says that jobs will be created mainly by the private sector, they should make it clear how it will be done at a local level"* (CDE, 2005).

Considering the above specific proposals are as follows:

- (i.) LED units are typically understaffed to actively promote enterprise development. However, this should not be a stumbling block. LED managers should see themselves as facilitators. The aim should be to facilitate access to NGO programmes and government support.
- (ii.) Despite units being understaffed, it seems that enterprise development has not received sufficient attention. It is vital that enterprise development is prioritised.
- (iii.) Local municipalities should actively seek the assistance of the Small Enterprise and Development Agency (SEDA) to assist in the creation of local business support services. Not only are resources limited at the municipal level but SEDA has developed some expertise in this regard.
- (iv.) Organisational development with regard to the informal economy seems to be vital.
- (v.) Municipalities should gain a thorough understanding of the business and training needs of enterprises – specifically emerging enterprises.

- (vi.) Although some training does take place, specific training focusing on long-term gains should be considered.
- (vii.) Information from the Department of Trade and Industry on the various programmes should be made available to all entrepreneurs.
- (viii.) Local entrepreneurship can also be fostered through specific entrepreneurship programmes.
- (ix.) Monitoring and evaluation data on enterprise development is typically absent. A specific effort should be made in this regard as it is essential to build a knowledge framework which can in the long-term assist further learning.
- (x.) Specific efforts should be made to assist LED officials to understand markets and to play a facilitative role in this regard.
- (xi.) LED units should also develop mechanisms to gain an understanding of business needs.
- (xii.) Effective links between small and big business should be facilitated.
- (xiii.) What is required is one or two case studies of areas outside the main urban areas of the Free State where extensive enterprise support is provided.

In drawing up IDPs, policy-makers have given little or no explicit attention to the RNFE. Nevertheless, strategies that see only farming in the countryside can miss RNFE opportunities and issues, and policies that stress decentralization (e.g. with the potential for predatory and capricious local governments) may actually produce threats to the micro businesses that make up a large and important part of the local economy.

Generally speaking, rural areas are poorly serviced with the physical infrastructure required to access national market centres or export points. Local government planning departments need to ensure that the rural-urban split of resources dedicated to infrastructure provision in the IDP is fair, and this may necessitate lobbying by local government and other relevant agencies.

Information on market opportunities should be made more readily available. This should include not only an initial study to identify viable markets for rural producers and urban entrepreneurs, but a regular flow of information that provides reliable market intelligence. It could be used not only to give producers an idea of price trends, but also, for example, opportunities for product customization.

It is well recognized that poorly functioning financial systems in rural areas are an impediment to growth, but the development of credit co-operatives and micro-credit organizations should be complemented with training on how to develop business plans and approach financial institutions. Issues relating to the effective targeting of credit and appropriate terms of repayment require further research, although the notable successes in the field are numerous enough to provide some useful guidance.

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