



# CDS RESEARCH REPORT

LED & SMME DEVELOPMENT

## Evaluation of local economic development (LED) in the Free State



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# **Evaluation of local economic development (LED) in the Free State Province**

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# 1. EXECUTIVE SUMMARY

This report examines the current status quo with respect to Local Economic Development (LED) in the Free State Province, and the impact which LED projects are having on local communities. The research investigation sought to establish, firstly, what the national and provincial picture is with respect to LED, and secondly, with reference to a series of case-studies, to establish what is happening on the ground in the Free State.

The study reveals that LED has indeed become well established in the country and the province, at least as a concept, an ideal, or something to work towards. However, a series of key blockages are impeding the widespread and successful implementation of LED at all levels. Whilst some noteworthy LED successes have been achieved across the country, there are key constraints related to shortages of funds, staff, skills and resources, particularly at local government level. Additionally, government and various researchers have established that LED is not living up to expectations. There seems to be confusion regarding its definition and application. Furthermore, there is confusion regarding the purpose of LED, and whether LED is purely about poverty relief or whether it is about encouraging economic growth. Ideally, it should be about a combination of the two.

At the provincial level, key policy documents, most notably the Free State Poverty Relief Strategy and the Free State Development Plan, do create a framework for development, which has significant LED ramifications. However, previous research undertaken into the impact of LED projects in the province reveals a distressing picture. Few, if any, projects have become sustainable; few if any permanent jobs have been created; there are concerns over project mismanagement; and the lack of adequate business and market planning and training inhibits success. In addition, projects seldom seem to involve the private sector and it is apparent that poverty is not really being addressed.

A key element in this study was the undertaking of a series of detailed case studies in towns (municipalities) across the province to identify best case examples of LED, as well as problematic cases. The results are examined more fully in the main document and appendices. However, at this juncture, attention can be drawn to some key issues:

1. The most successful projects are those driven by the private / community sectors.
2. There is little evidence that municipalities are making a significant contribution to LED and, in many cases, their actions may well be impeding it by deterring investment.
3. Municipalities have poor business skills and management systems. They also have financial difficulties, and there have been allegations of irregularities. These are major stumbling blocks, as is the politicisation of development through the exclusion of role-players.
4. Contrary to experience elsewhere in South Africa and internationally, there is little evidence of partnership formation, which is regarded as critical to

project success internationally. In several cases major political rifts have developed within towns.

5. The most successful projects are those driven by tourism, those which have linkages to the international markets, and those which are managed according to sound business principles.
6. Many LED projects in the province have either not lived up to expectations or have provided only short-term relief.

The implications of these findings are profound. They suggest that, if local role-players and local government in particular are to make any real contributions to issues of poverty relief, economic growth and job creation, a radical rethink of the entire concept and application of LED in the province is an urgent necessity. Failure to take this bold step may well aggravate local level poverty, unemployment and suffering.

LED clearly has a critical role to play in terms of considerations of poverty relief, addressing development backlogs and simultaneously promoting sustainable economic growth. In order to achieve this, the document details a number of key recommendations, including:

1. The need to establish a permanent provincial LED facilitation and support unit. A related need is to undertake realistic research and provide advisory support.
2. The need to properly define what LED is and what its goals are.
3. To align LED with provincial policy and business and market realities.
4. The need for adequate and appropriate training of officials, adequate funding, and for ensuring accountability
5. The active encouragement of local leaders, local level forums and partnerships, and close co-operation with beneficiaries.
6. Establishing LED units and development agencies at the local level to drive the LED process.
7. The pursuit of viable, sustainable projects, whether they are led by local governments or non-state actors.
8. To encourage economically viable projects which meet poverty and growth requirements and which can also encourage SMME development.
9. Local Government must be businesslike in its approach. Development should be apolitical and accountable.
10. To support learning centres, training and study tours.
11. To require monitoring and evaluation principles and processes.

Provincial government clearly needs to take a key role in this process, given the very real incapacities which exist at the local level and the need for external direction, guidance, support and facilitation.

## **2. INTRODUCTION**

### **2.1 SETTING THE SCENE**

Local Economic Development (LED), both internationally and nationally, has become one of the key post-1970s development interventions. LED focuses on the specific economic challenges which manifest themselves in unique localities. From the standpoint of LED, there is a strong reliance on local resources, leaders and institutions to respond to locally-based economic crises and opportunities.

In South Africa, the abolition of the oppressive apartheid system presented all tiers of government with the key challenge to promote both Reconstruction and Development in all communities. Related to this priority has been the embrace of democratic principles in the country, and the allied recognition of the need to allow all stakeholders a say in the interventions which directly affect them. Citizens' rights to participate in decision-making are reflected in the enhanced role and status of local government in the new constitutional order. Key powers have been devolved to local government, as enshrined in the Constitution (RSA, 1996a), the Municipal Systems Act (RSA, 2001a) and the Municipal Structures Act (RSA, 2001b). These Acts and the associated Local Government White Paper (RSA, 1998) introduced the concept of 'developmental local government' to the national development lexicon. The development strategy of LED has been a key strategy for local governments, as part of the integrated planning process (DPLG, 2000).

In addition to these critical changes at municipal level, various international and national economic changes are compelling local areas to become more pro-active in developmental terms. Key issues in this regard include the accelerated trend towards globalisation which encourages all locations to find a niche for themselves in the global economy, and the widespread acceptance of neo-liberalism, as reflected in the South African GEAR strategy (RSA, 1996b). The latter encourages localities and their entrepreneurs to pursue growth opportunities as they present themselves. A fundamental challenge in terms of economic promotion is to ensure that it is not just the wealthy who derive benefit, but rather that development is explicitly pro-poor in focus, strategy and involvement. This thinking is reflected in the Local Government White Paper (RSA, 1998) and is more explicitly stated in the current draft LED policy document (DPLG, 2002).

LED has been recognised as a critical approach to pursue, within the context of empowered local authorities, pro-active actions by local citizens, and the need to ensure that development is pro-poor in its focus and outcomes. However even though LED has been encouraged in South Africa for over ten years, it is apparent that it is not without its difficulties. Not all LED projects succeed. There are fundamental problems with many projects, such as grant-dependence, critical staff and resource shortages, and difficulties in designing projects in terms of their being fundamentally economically sound. These challenges have been identified and analysed by a range of authors, and by the Department of Provincial and Local Government (DPLG) in South Africa (Nel, 2001; Tomlinson, 2003; Nel and Rogerson, 2004). Given that municipalities are at the cutting edge in dealing with poverty, development backlogs

and unemployment, it is vitally important that the development prospects of LED initiatives be maximised.

It is within this particular context that this study seeks to position itself, namely to identify the opportunities and hindrances in the application of LED in the Free State Province at present. The relevance of this study becomes all the more important when one acknowledges factors such as the debilitating levels of poverty prevailing in many to the province's towns and rural districts; the negative effects of mine closure and agricultural change; and the failure of the free market to cater for the needs of the most disadvantaged. In response to this situation, LED has been attempted for several years in the Free State.

Unfortunately, as the recent assessment by Marais et al (2002) vividly indicates, LED is not trouble-free and many obstacles exist which prevent LED from meeting the needs of the poor, laying an effective growth path and fulfilling the expectations made of it. In order to respond to this reality, identifying appropriate courses of action for the future is as critical as is the need to identify current blockages. It is within this context that the need for this study was identified.

This document is structured as follows:

1. Background to the project
2. What LED is
3. Core findings, drawn from two sources:
  - a. Desk-top research about the state of LED in the country and the province
  - b. Primary research which was undertaken in a series of case-studies
4. Findings are synthesized and analysed
5. Key findings and recommendations are drawn.

## **2.2 PURPOSE AND OBJECTIVES OF THE STUDY**

LED has been identified in the Free State Development Plan as one of the key development options available for the Free State province. As a result, its current and potential role needs to be understood and analysed to promote its impact on the cities, towns and rural districts of the Free State, through appropriate support and encouragement.

LED is both a spatial and a sectoral intervention. At one level, its focus is on the enhancement of the employment status and the comparative and competitive advantages of any given locality. At another level, it is intimately related to the development of specific economic sectors, such as the SMME and tourism sectors. It also has a role to play in phases of economic decline, e.g. of the gold mining industry and the agricultural sector, through promoting alternative growth options.

Although greater definitional detail on the concept of LED is provided below, for purposes of this study a rigid definition of LED was not applied. Rather, LED is interpreted in terms of internationally accepted practice as locality-based interventions



undertaken by local stakeholders, usually operating through partnerships, to achieve economic and employment improvements within that locality. In addition, it needs to be seen as:

- local government responses to DPLG policy requirements
- private sector actions, usually in collaboration with the public sector
- targeted sectoral support
- linkages with SMMEs, but being broader in terms of scale, sectoral and spatial focus
- locally appropriate institutional arrangements, and
- a process of adaptation and change dependent on unique local circumstances and changing economic and contextual realities.

The study is in line with current national and provincial policy regarding the role of local governments and key economic sectors. The enhanced pursuit of LED in the Free State is deemed appropriate on the basis of the following considerations:

- all Local Municipalities are legally mandated to pursue LED as a critical driver within their 'developmental local government' mandate.
- the need to enhance the LED capacity of the new Mangaung Local Municipality.
- locally appropriate interventions are an urgent necessity in the 'Goldfields', following the closure of many of the region's mines.
- declining rural service centers and impoverished rural areas need economic regeneration.
- to further encourage growth in more the prosperous and the tourist orientated towns and areas.

International and national experience does however suggest that simply initiating LED is no guarantee for success. In many instances, LED interventions across the world have not lived up to expectations. South African evidence indicates that LED has experienced mixed fortunes in practice, and in addition, the national government's LED Fund which has supported targeted LED poverty-relief projects is now also being questioned (Nel, 2001). This investigation seeks to identify the current status of LED in the province, the key opportunities and obstacles which exist and how the impact and spread of LED can be extended.

The research investigation therefore sought to achieve the following objectives:

1. Through a series of carefully selected case-studies, and an analysis of previously completed LED assessments, to establish what the current status quo is in terms of LED in the province. Selected case studies were chosen to reflect both best-case scenarios, as well as typical cases. This assessment took cognisance of the varieties of LED experience and paid particular attention to the following:
  - Causal and catalytic considerations and blockages to the initiation of LED.
  - Institutional issues, including formalised support structures such as Local Business Support Centres (LBSCs), local government LED units, Chambers and the roles of the key stakeholders. This included issues of participation, empowerment and partnership formation.



- Strategic, policy and project considerations, including funding, applied interventions and administrative considerations.
  - The distinctions between LED policy and projects.
  - Considerations of process and how initiatives have fared over time – both positive and negative. Attention was also paid to the key sectors and what measures have impacted the most on them.
  - Outcomes, impact, opportunities, obstacles and cost-effectiveness.
2. To contextualise the above within the national and international experience of LED interventions.
  3. To identify a series of key policy and strategic considerations to assist the province, local governments and other key stakeholders to enhance the spatial and sectoral impact of LED. Such guidelines have sought to answer the following questions :
    - What are the roles of the key stakeholders?
    - What key interventions are needed e.g. in terms of training, facilitation, financial assistance, supporting structures (e.g. LBSC, LED Units)?
    - What are the various blockages which should be addressed?
    - What objectives can realistically be striven for?

### **2.3 KEY QUESTIONS FOR INVESTIGATION**

Based on the issues specified in the preceding objectives, the research team sought to find answers to the following questions:

#### *Institutional issues:*

1. How successful are local governments in implementing their new mandate, and should they be the main drivers ?
2. How widespread is non-local government-led LED and who are the key drivers?
3. What are the roles of the different levels of government?
4. Within local government, where should LED be driven from?
5. What evidence is there of partnership formation and what are the ideal combinations of partners?
6. What are the key considerations with regards to management, institutional design, and participation?
7. To what degree are LED principles institutionalised within the daily management of municipalities. For example, are there warning lights when council takes decisions which undermine the principles of LED?

#### *Substantive issues:*

1. Are there discernible spatial and sectoral trends with regards to LED?
2. What factors help to catalyse the emergence of LED ?
3. How do projects fare after they no longer receive initial grant funding or

- circumstances alter? Do projects and programmes have the potential to become sustainable in the longer term?
4. What initiatives are the most effective, with regards to employment creation, economic transformation and cost-effectiveness?
  5. What are the key difficulties experienced with the implementation of LED and why does it sometimes fail, or not even get off the ground?
  6. Are there discernible sectoral, spatial and scale features which can be identified?
  7. What needs to be done in the future to support, fund and facilitate LED? What goals are realistic to pursue? What blockages are there and how can they be addressed?
  8. To what degree do the spin-offs of successful LED interventions reach the previously disadvantaged?
  9. What are effective indicators and mechanisms to measure the impact of an LED strategy?

### **3. LITERATURE REVIEW**

#### **3.1 DEFINING LED**

Zaaijer and Sara (1993:129), state that LED "...is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area".

According to the World Bank (2000:1): "LED is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all". A subsequent World Bank document asserts that "LED is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life to all in the community. 'Community' here is defined as a city, town, metropolitan area, or sub-national region" (World Bank, 2002).

These quotations clearly identify the core focus of LED, emphasising the concepts of partnership, economic sustainability, job creation and improvement of community well-being.

#### **3.2 OVERVIEW OF LED INTERNATIONALLY**

In recent years, LED has been recognised, internationally, as a key response to major contemporary trends, such as:

- increasing decentralisation of power and decision-making to the local-level, which parallels the neo-liberal era reduction in the role of the central state in the economy.

- globalisation forces, which in a context of the diminishing importance of the nation-state, compel a local-level response,
- economic change within localities, varying from de-industrialisation to local innovation which requires local leadership initiative, response and direction, and
- the dubious results achieved by macro-level planning and regional development interventions (Nel, 1994, 2001)

These trends are not unique to any portion of the globe. Though occurring at different rates, the effects of globalisation, and global economic crises, have helped to ensure that local economic initiatives and self-reliance are a discernible trend around the world.

The goals of LED tend to revolve around issues of job creation; empowerment; the pursuit of economic growth; the restoration of economic vitality and diversification in areas subject to recession; and establishing the 'locality' as a vibrant, sustainable economic entity.

Having examined what LED is and why it developed, attention now turns to an overview of the major characteristics of LED.

### **3.3 BROAD STRATEGIC APPROACHES TO LOCAL ECONOMIC DEVELOPMENT**

Whilst the phenomenon of LED might be taking place around the world, its focus differs fundamentally from place to place. Two broad orientations can be discerned, namely:

1. A market-led approach, based on business development,
2. A bottom-up or market-critical approach, based on community development (Rogerson, 2000; Scott and Pawson, 1999).

Whilst the former focuses on the pursuit of economic growth, investment attraction and courting the high-profile business sector, the latter tends to be associated more with support for emerging micro and community businesses. In general terms, both foci are equally valid and it can be argued that both should be pursued in conjunction with each other in order to meet the needs of a wide spectrum of stakeholders, to provide for balanced growth, and to ensure that capital-generating large businesses can generate meaningful spin-offs for the small and emerging business sectors.

### **3.4 MAJOR CATEGORIES OF LED INTERVENTIONS:**

In order to pursue either market-led or market-critical development, implementing agencies (such as local governments or development associations) generally tend to pursue fairly standard intervention measures which address the needs for financial, infrastructural, information, planning and training support. In all cases, support varies from measures designed to support large enterprises, such as tax rebates, to support measures for micro-enterprises, such as training, job-banks and equity participation. The five major LED interventions are:

1. Financial support

2. Land and building development
3. Information and marketing assistance
4. New planning and organisational structures
5. Training and employment (Nel, Hill and Eising, 2002).

### 3.5 MAJOR LED PROGRAMMES

LED interventions, be they market-led or market-critical, tend to have a focus on achieving set goals related to economic growth and empowerment. In order to achieve such goals, support agencies conventionally pursue a fairly definable range of programmes. The most common programmes include:

1. Encouraging local business growth
2. Support for new enterprises
3. Improving the local investment climate
4. The promotion of inward investment
5. The provision of both hard and soft infrastructure
6. Sector support for identified lead sectors
7. Area targeting to address unique challenges
8. Poverty reduction to ensure equity, and
9. Regeneration endeavours in areas subject to economic change. (World Bank, 2002).

### 3.6 DEFINING LED IN THE SOUTH AFRICAN CONTEXT

In South Africa, LED tends to have a more distinctive pro-poor orientation and the degree of national state endorsement of local-level action is particularly noteworthy (Rogerson, 2003; Nel, 2001). In the South African context, LED usually refers to actions initiated at the local level, typically by a combination of partners, to address particular socio-economic problems or to respond to economic opportunities. In the South African case it is now a local government mandate, but can also occur as a result of private or community-level initiatives. The present study will focus on all possible variations as partnerships are critical in the application of LED.

LED should be seen as having the following dimensions:

- It can exist at the *policy level* e.g. a municipality's decision to be more business-like, or to encourage procurement, investment etc.,
- It can exist at an *institutional level* e.g. having a Job-Centre, LED office or Section 21 company.
- It can exist at the *project level* i.e. it operates as a defined, focused undertaking e.g. a chicken co-operative; a tourism promotion strategy; an LED Fund project, or a private sector initiative.
- Support for *survivalist or livelihoods* programmes.

- The operation of independent / private *support centres* e.g. LBSCs, local banks with community support programmes.

These aspects are not mutually exclusive, and often co-exist.

In its operation, LED can either have a '*pro-poor*' focus (i.e. seeking poverty alleviation) as encouraged by the Department of Provincial and Local Government, or a '*pro-growth*' focus (i.e. seeking economic growth), as encouraged by the Department of Trade and Industry (Tomlinson, 2003). These two divergent approaches respond to very real needs in the country. But they can also lead to divergences of opinion on the ground, and Tomlinson has raised the concern that the '*pro-poor*' variant of LED may well, inadvertently, be marginalised in the country at the present, by the focus on Industrial Development Zones (IDZs), Export Processing Zones (EPZs) and other GEAR related initiatives. With this in mind, it is critical that development interventions in South Africa, and in the Free State in particular, prioritise the needs of the poor. Projects need to be sustainable as well as economically viable.

The policy and practice of LED has become remarkably well established in South Africa in recent years. The experience of LED started with limited cases of applied LED in small towns, in the early 1990s, and rapidly accelerated through the activities of the 'forum' movement. The concept of community- or locality- based development, implicit in the 1994 RDP, was effectively enshrined in the 1996 Constitution (in terms of the developmental role of local government) and has since been supported by a range of policy and legal measures.

Applied LED has evolved apace, such that by 2001 all major urban centres had initiated LED Units or Economic Development Departments, whilst a range of NGO-, community- and private sector-led initiatives have developed. In the remainder of this section, the evolving LED policy in South Africa is reviewed before moving on to discuss current practice in the country.

### **3.7 POLICY CONTEXT**

As noted above, the 1994 Reconstruction and Development Programme (RDP) Document made implicit references to the notion of LED, through overt support for community-based development and locality based initiatives (ANC, 1994).

In 1996, the national Constitution (RSA, 1996) mandated local governments to pursue 'economic and social development'. This concept was taken significantly further in 1998 when the Local Government White Paper was released (RSA, 1998). This document introduced the notion of 'developmental local government', which is defined as '...local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives' (RSA, 1996a:17). In addition, local government is required to take a leadership role, involving and empowering citizens and stakeholder groups in the development process, to build social capital and to generate a sense of common purpose in finding local solutions for sustainability. Local municipalities thus have a crucial role to play as policy-makers and as

institutions of local democracy, and are urged to become more strategic, visionary and ultimately influential in the way they operate.

In this context, the key thrust of such development strategies in post-apartheid South Africa, according to Minister Mufamadi is that, "...The very essence of developmental local government is being able to confront the dual nature of our cities and towns, and to deal with the consequences of the location of the poor in dormitory townships furthest away from economic opportunities and urban infrastructure. The solutions to these problems are complex and protracted" (Mufamadi, 2001:3). As Rogerson comments, "...In terms of the mandate of developmental local government, the establishment of pro-poor local development strategies is therefore critical and central for sustainable urban development as a whole, particularly in dealing with the apartheid legacy of widespread poverty" (Rogerson, 2000:405).

The statutory principles for operationalising these concepts of development are contained in the Municipal Systems Act (RSA, 2000a). The Act devotes a great deal of attention to the notion of Integrated Development Plans (IDPs), of which LED is regarded as a key element. In essence, according to the Department of Provincial and Local Government, the IDP is, "...conceived as a tool to assist municipalities in achieving their developmental mandates" (DPLG, 2000:21), and as a planning and implementation instrument to bring together the various functions and development objectives of municipalities. Integrated Development Planning has been defined as "...A participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalised" (DPLG, 2000:15). Future government funding allocations to local governments will be determined by the nature of planning and development priorities identified in such plans.

In 2002, a draft LED Policy Document, entitled 'Refocusing Development on the Poor' was compiled (DPLG, 2002). This document clearly argues that government policy must focus on 'pro-poor' LED, which explicitly targets low-income communities and the marginalised. Another emerging policy of note is the government's 'Urban Renewal Strategy' which, though still to be finalised, has a clear focus on issues of urban regeneration and targeted support for township areas.

In order to support LED, the government introduced an LED Fund in 1999 which, though only providing support for poverty relief schemes, is clearly having some impact across the country.

A key drawback with South African policy is that despite its sophisticated focus and nature, it tends to implicitly suggest that LED is a local government prerogative, providing little recognition or incentive to support the often critical role played by the private sector, NGOs and CBOs in the development process.

### **3.8 SOUTH AFRICAN EXPERIENCES OF LED**

The most prominent current initiatives suggest that LED in South Africa clearly tends to be an urban-focused activity (Rogerson, 2000). Despite this, at the micro-level, a

range of NGOs and CBOs are clearly pursuing very valuable training and job creation strategies in rural and urban areas throughout the country.

Applied LED initiatives range from 'market-led' initiatives pursued in the large cities to draw in big business, to build sports stadiums and convention centres and to 're-image' cities in a global era, through to small-scale, but carefully targeted poverty relief, training and job-creation schemes which focus on areas such as crafts, sewing, brick-making etc. (Rogerson, 1997, 2000; Nel, 2001). Durban has set up an Economic Department and Cape Town has created an Economic and Social Development Directorate. Both cities are seeking to achieve global competitiveness and poverty relief and are focusing on tourism, place promotion, business attraction, support for small and micro-projects, community projects, and support for flagship projects such as the Cape Town Convention Centre.

Some of the most critical LED endeavours are currently being pursued in towns subjected to severe economic stress. These include mining towns, such as in the Free State, North West Province and KwaZulu-Natal, and fishing villages, such as Lamberts Bay and Stilbaai, that have been subjected to the loss of their previous economic mainstay. In places such as Welkom and Klerksdorp, urban farming, tourism promotion and small business support are some of the more prominent strategies that are being pursued.

In rural areas, farming ventures and poverty relief interventions, often led by NGOs, tend to be a common trend. Support for rural markets and training in farming in the Stutterheim district is a case in point.

Also of note are the various Presidential Lead Projects, such as Katorus and Cato Manor, where significant levels of state funds have been targeted at defined 'problem areas'. The emerging Urban Renewal Strategy will also contribute in this area.

Nel (2001) has identified four variants of LED as it is currently applied in South Africa, namely:

1. Local Government-led LED where the elected local authority becomes the active change agent
2. NGO- or Community-led LED, often in the absence of other logical economic leaders
3. Development Corporation or Section 21 Initiatives – there are several examples of development agencies which have been specifically established, often by local governments, to pursue LED-type activities. Examples include Welkom and Stutterheim.
4. 'Top-down' LED – this refers to instances where significant government or external resources are specifically targeted at an area in an endeavour to catalyse LED. Though somewhat contrary to the conventional notion of spontaneous, community-based development, such support has a role to play, particularly in disempowered communities lacking leadership capacity and resources.



A recently undertaken national survey of the practice of LED within local municipal areas sheds light on the situation on the ground (Nel and Binns, 2003). The survey revealed that South African local authorities are conscious of the need to embark upon 'developmental local government', and more specifically to initiate defined LED programmes. Of the 87 local authorities around the country that responded to the survey, 73 (84%) had either initiated LED programmes or were in the process of doing so. The balance (16%), had yet to do so, largely due to funding and capacity constraints, but were nevertheless aware of the new developmental mandate and, to a limited degree, were implementing some LED-type strategies.

Those local authorities which said they were implementing LED programmes, identified the main reasons for this. The primary reason (51%) was as a response to prevailing levels of unemployment. Other responses included business closures (18%), and the need to stimulate the local economy (23%). Less frequently cited reasons included economic decline, poverty and the need to co-ordinate local initiatives.

All 87 local authorities surveyed are, to varying degrees, implementing a range of definable LED strategies. The most popular strategies mentioned were public works projects (promoting job creation) and tourism, each with a score of 72% of responding local authorities, and 71% each for infrastructure provision and poverty alleviation. The range of strategies pursued clearly reflects the national government's priority accorded to poverty alleviation and job creation programmes, in terms of both policy and targeted funding support, such as the LED Fund. All local authorities now appear to be involved in some form of development and job creation, representing a marked improvement on the 20% figure noted in a 1994 survey.

Simultaneously, small business support (47% of responses) reflects the priority accorded to this sector by the Department of Trade and Industry. In terms of more market-driven approaches, the current fixation with the perceived potential of tourism (72%) as a major growth area, is abundantly clear. Traditional western-style LED approaches, such as industrial recruitment (47%) and incentive provision (39%), do not score as highly as poverty relief interventions. This indicates the different development trajectory being followed by local authorities in South Africa compared with western nations (Clarke and Gaile, 1998). South African local governments show limited compliance with the neo-liberal orthodoxy of the government's current macro-economic GEAR programme, with its advocacy of market facilitation by local authorities (RSA, 1996b). The relatively low score recorded for privatisation (16%), in spite of GEAR policy objectives, is noteworthy and reflects a seemingly limited focus on this issue. It is really only in the larger cities, such as Johannesburg, with its '*iGoli*' campaign, that serious attempts at privatisation have been embarked upon. Infrastructure provision (71%) is evidently very significant and would seem to be a response to the large infrastructure backlog and the availability of targeted central government funding. Issues such as support for urban agriculture (7%) were rarely mentioned in the survey, despite much government rhetoric suggesting its significance in addressing the country's very real development challenges. The latter may well reflect 'urban bias' on the part of municipalities, as well as the reality that such activity has tended to have been supported by NGOs in various centres and not local authorities.

When asked to evaluate their ability to implement LED, almost all respondents expressed very negative sentiments, with hardly any positive comments being made. Municipal officials expressed concern over their lack of funds, limited support and guidance from national and provincial government, together with serious personnel constraints.

The key constraint noted was the shortage of funds (90%), despite the existence of the LED Fund. This reflects the reality that over 50% of local authorities are experiencing severe financial difficulties in terms of generating adequate revenue (Nel, 2001) and the very limited support provided by central government. The unfortunate situation has arisen in South Africa and elsewhere that, whilst significant powers have been decentralised to local authorities, the accompanying resources to implement them have just not followed, creating a situation which Stockmayer has referred to as the 'decentralisation of poverty' (1999:3). Other significant constraints on the implementation of LED and include personnel constraints (53%), insufficient training (43%), poor support from government (30%) and legal constraints (23%). The very high scores recorded in response to this question are indicative of the very real operational constraints which local governments are experiencing in their quest to implement developmental local government.

### **3.9 CRITIQUE OF LED ON A NATIONAL BASIS**

The widespread failure of many LED projects is starting to emerge and indicates the limitations of their approaches. As has been observed recently: "it appears that the results have generally been disappointing" (Hindson, 2003:4) with capacity and resource constraints being the key hindrances in many local authority areas (Nel, 2001). In a critical commentary, Meyer-Stamer (2003:4) argues that "LED in South Africa tends to be confused and highly selective. Adding to this the limited capacity and experience local governments tend to have in terms of promoting economic development, it is unlikely that LED will make much of a difference". Accordingly, Meyer-Stamer contends that LED should focus on markets and that competitive business and community development interventions should be used to deal with social problems. This viewpoint echoes the critique offered by Hindson that by focusing on poverty, albeit valid and justifiable, questions of economic growth are left either largely unanswered or sidelined.

In contrast to the pro-poor stance adopted by the Department of Provincial and Local Government, is the view espoused by the Department of Trade and Industry which links LED more firmly to mainstream economic development and to small business promotion in particular (Rogerson, 2002). Nevertheless, the disappointments associated with a decade of policy initiatives to support the Small, Medium and Micro-enterprise (SMME) economy are reluctantly being acknowledged by national government (Nel, 2002). Tomlinson (2003) has examined the reality of policy conflicts in the country and argues that, in contrast with international experience, South Africa's focus on small businesses and poverty relief only parallels international experience in terms of community-based LED and not more mainstream varieties. Within this same context he also finds that LED is being marginalised by the lack of available resources, the dominance of large scale state interventions, such as in new programmes for Industrial Development Zones, the narrow

conceptualization of what LED is, and the rather unfortunate reality that “LED is increasingly being used by central government to shift to local government some of the responsibility for dealing with unemployment and poverty” (2003:113).

Despite these contextual factors, LED is nonetheless still taking place on the ground in South Africa with varying degrees of success, as case-studies in this collection vividly illustrate. It is, therefore, perhaps appropriate to argue that South African LED officials and policy makers need to take stock of the deep-rooted structural constraints which are inhibiting their actions, to learn from successes where they have occurred, and to re-conceptualise their roles, targets and strategies to ensure that appropriate and meaningful development is achieved.

What is needed is probably not the refinement of the current system of understanding and applying LED but, perhaps, a complete re-think of what it means, its goals and how to achieve them. Within this context, some of the most critical issues include re-defining what LED is and what strategies should be pursued, taking LED out of the narrow confines of the local government mandate into the arena of true partnerships and ensuring that there is more than the tokenistic support for the strategy which currently exists. A key concern which Hindson (2003) and Rogerson (2003) both identify is the current marginalisation of non-local government actors in the South African variant of LED and, by implication, the failure to adhere to the internationally recognised belief that partnership formation and collaboration is one of the most critical ingredients in LED.

The experience of LED in the Free State clearly reveals what recently was described as a ‘mixed balance sheet’ (Nel *et al.*, 2002). In a recent unpublished document, DPLG conceded that there are currently a range of policy initiatives – such as pro-poor LED, the Urban Renewal Strategy, SMME development, and economic empowerment – “that impact more or less directly on local economic development and [that] have yet to be assimilated into a coherent LED framework that addresses the aims of economic growth, employment creation, equity and poverty alleviation” (in Nel and Rogerson, 2004). In addition, this self-critical evaluation acknowledges that the “current state of the policy environment calls for increased conceptual coherence” which requires potentially “differentiated policy approaches to address LED aims under the conditions pertaining in the economy”. More specifically, DPLG suggests that a key “challenge is to bring about increased policy convergence aimed at re-connecting the globally connected and locally marginalised sectors of the [South African] economy”.

Some of the key issues identified by a range of authors (Nel *et al.*, 2002; Tomlinson, 2003) are:

- The failure rate of initiatives is high;
- In many ventures, particularly in smaller centres, there is only limited private sector involvement;
- What is being achieved is the provision of facilities of a global standard in certain localities versus constrained achievements in the poorer areas;
- The ‘politicisation’ of development is an issue, where individual interests override the greater common good;

- Projects appear to move through a ‘life-cycle’ which often sees the demise of once-promising endeavours;
- There is a clear problem of grant dependence and the limited sustainability of many projects;
- The economic aspects of projects, especially the marketing of products, are often neglected in planning and often threaten project sustainability;
- A question needs to be raised as to whether local authorities should be driving economic development and job creation, or whether local governments should rather be facilitating it.
- Many regard LED as an ‘unfunded mandate’ i.e. local governments are required to pursue it, but lack the necessary funds and staff;
- There is a clear need for more training, facilitation and funds;
- In Rogerson’s view, ‘...the most distinguishing feature of South African Local Economic Development policy is the new emphasis on a strong pro-poor focus in rhetoric, albeit if not always in practice’ (Rogerson, 2000:408);
- There is currently inadequate facilitation and support;
- There is a possible ideological conflict between GEAR and socially responsible programmes;
- Community-focused programmes are often difficult to sustain, because of high staff turnover, limited resources and capacity.

These considerations reflect the very real challenges which applied LED has faced in South Africa in recent years. These issues must be addressed in the undertaking of future LED initiatives.

Finally, the DPLG’s own critical assessment of the performance of LED in South Africa (quoted in Nel and Rogerson, 2004). draws attention to a series of important institutional issues that require attention, *inter alia*,:

- The problem that the decentralisation of powers from national government to the local tier has placed “huge additional LED responsibilities on a sphere of government which often has very limited capacity to implement them effectively”
- The frequent lack of coordination between different government actors and private sector, donor and NGO LED initiatives leading to often fragmented and unco-ordinated initiatives at local level
- The imperative to link LED taking place within municipalities to other regional and national initiatives, including sectoral programmes
- The lack of clear understanding and/or agreement at local level of what LED actually means.

This discussion calls for caution when applying LED and indicates that, in efforts to refine LED policy and practice in the Free State, cognisance should be taken of the bigger, national picture: firstly to identify difficulties (potential and actual) and

secondly, to help chart the way forward in terms of putting mechanisms and guidelines in place which can hopefully ensure the success of LED on the ground.

## **4. RESEARCH APPROACH AND METHODS**

The research undertaken for this report, was done by four research agencies, namely the Human Sciences Research Council (Bloemfontein office), the Centre for Development Support (University of the Free State), the Geography Department at Rhodes University, and McIntosh, Xaba and Associates (Free State office).

The research utilised existing provincial and local government data, as well as and HSRC and UFS networks. Primary research was undertaken in a selection of representative local authority areas in the province.

Primary information was sourced from:

- Direct contact with local government areas (municipal staff and other key stakeholders) where known cases of LED are taking place.
- Interviews were also undertaken in a range of localities in which LED has effectively not yet commenced or where projects have failed, in order to identify the key blockages which exist.
- Project participants, beneficiaries and the leaders of non-local government LED initiatives were also interviewed. In the case of the participants and beneficiaries, the primary objective was to ascertain what the impacts, benefits and costs have been on the target communities.

The primary techniques employed were based on participatory principles including a range of interview techniques, transect walks and direct field observation. For the primary interviews, both structured and unstructured interview techniques were employed as appropriate.

Primary research was undertaken in the following centres, which are believed to exemplify both ideal cases of LED and places which have experienced difficulty in applying LED:

- Bloemfontein/Mangaung
- Goldfields/Mathjabeng
- Bothaville
- Clarens
- Smithfield
- Qwa Qwa.

Secondary research also included a desk-top based review of published documents, policy, previous research about LED in the Free State, and academic writings which examine LED from an international, South African and Free State perspective. Provincial sources which were drawn on include:

- The Free State Poverty Strategy
- The Free State Development Plan
- Mangaung Municipal Reorganization Plan

- Khanya Reports
- Available documents on each local municipality
- Centre for Development Support Reports.<sup>1</sup>

## 5. FREE STATE DOCUMENTATION: AN OVERVIEW

In addition to the key national documents, the application of LED in the Free State is clearly shaped by two core documents, namely the Free State Poverty Relief Strategy and the Free State Development Plan, both of which are examined below and critiqued with reference to applied LED. In addition to these two core documents, the documents detailed in the Methodology section above and two other provincially-based research documents need to inform any provincially-based assessment of LED. The latter are: The Evaluation of LED Projects in the Free State (Marais, Botes and Mosothoane, 2002) and the national evaluation of the LED Fund (Ingle, 2003). This section draws heavily on the key input from Marais *et al.*

### 5.1 THE FREE STATE POVERTY RELIEF STRATEGY

The goal of the Free State Poverty Relief Strategy is to reduce poverty in the Free State population from the current 63% to 45% by 2010, and to 30% by 2020. The strategy further states that, internationally, a target has been set to reduce the proportion of the population living in extreme poverty by half by the year 2015. The Department of Social Welfare has been given the lead role in eradicating poverty in the province. The two main mechanisms for achieving this are the provision of social grants, and the establishment of projects to generate income (with specific implications for LED).

One of the priority areas of the Free State Poverty Relief Strategy is that of promoting jobs and generating income for the people of the Free State. The following ways to promote job creation and to sustain households are mentioned: the agricultural sector;

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<sup>1</sup> Botes L, Erasmus A, Fourie F, Marais L, Moses J, Oberholzer J, Potgieter P, Pretorius A & Smit M.1998. *Pre-feasibility study for the establishment of an economic development zone (EDZ) in the Free State: Progress Report 1.* (For Department of Trade and Industry: Free State Province) Bloemfontein: Centre for Development Support.

- Pelsler AJ, Botes LJS, Arntz T & Matebesi Z. *Local Development Committees in Bloemfontein: Findings of an empirical investigation.* For the Bloemfontein City Council.
- Ackermann R, Oberholzer J, De Bie P, Menton R & Botes LJS. [Urban Econ in collaboration with the Centre for Development Support and Africon.] *Motivation for an Industrial Development Zone in the Botshabelo area.* For the Ministry of Finance, Expenditure and Economic Affairs, Free State Provincial Government.
- Marais L & Botes L. *Bloemfontein as a first choice for economic investment.* For Central Business Corporate
- Marais L, Botes L & Mosothoane S. *An evaluation of Local Economic Development projects in the Free State.* For the Department of Local Government and Housing in the Free State.
- Pretorius A, Le Roux I, Marais L, Kuzambiza M, Botes L, Wessels J. *Strategic project identification for local economic development: towards a replicable framework.* For the United Nations Office for Project Services: Small Enterprise and Human Development.

SMMEs; public work programmes; projects generating income; and social grants. In many small urban areas, social grants are one of the main contributors to the local economy.

The Free State Poverty Relief Strategy has the following key proposals with regard to promoting jobs and income:

1. A much larger network of business advisors should be established in the whole of the Free State. A network of people who are capable of working with micro-enterprises is needed. They should be backed up by a team of high-quality advisors to small businesses, who in turn should be capable of analysing a business employing 20 to 50 persons, and helping them to improve productivity. This approach is likely to make the biggest impact on jobs. These advisors could well be located in a network of Business Service Centres.
2. A proactive process is needed to identify businesses with a potential for growth throughout the Free State. This should augment the report entitled “Positioning the Free State Province on the High Road”. Many of these businesses are likely to be owned by white people. To ensure that the support of the Business Service Centres filters through to disadvantaged people, such support should be subject to the condition that businesses adopt affirmative action policies, and engage in the training and development of staff.
3. No single department should provide all these specialist services. A range of specialist services should be set up, to which any local extension service or business advisor can refer people, or which can be accessed, for example, through the Internet. The following services, in particular, should be included:
  - A marketing advisory service, providing advice on market research, promotion and export enquiries. This service should also co-ordinate a Free State Directory of suppliers, so that people can source locally where possible.
  - The development of more local brands.
  - An advisory service for agri-processing and farm industrialisation. This service should cover specialist help in respect of business plans, health and hygiene, and provision equipment.
  - Specialist tourism advisors.
  - Small-scale mining advisors.
  - Retail advisors for small shopkeepers, to help shops in small towns to remain viable.
4. Many of these services could be outsourced, but should be delivered through a Free State branded service. Donor funding might well be able to facilitate the setting up of such a service.
5. There needs to be an extended “development team” operating at the level of each council after amalgamation, with a range of skills required for developing businesses, projects generating income, as well as other social functions. This will require a further study of the core processes of departments, as well as possible restructuring. Administrative boundaries should also be linked to



District Council boundaries, so that development can be co-ordinated at that level.

6. Great care must be taken with the current funding programmes (for example, the Community Projects Fund (CPF), Land Reform Grant and Poverty Alleviation Fund) to ensure that they really help to create viable enterprises. In view of the difficulties that they have experienced, they should be thoroughly re-evaluated.
7. Government needs to review its approval processes for these funds. It needs to simplify and standardise these processes and reduce the control from above. It can only do this by ensuring that there is greater capacity in the groups, and by providing much more training to project participants to ensure viability and help with aftercare. To facilitate sustainability, participants should also be required to subject themselves to the discipline of saving prior to receiving support. Disciplined financial management should also be a requirement.
8. The support for labour-based construction methods should continue. Even if such methods are temporary, they do provide an income source that is significant for the households involved.
9. The Free State Government should approach the President's Office to enquire about the potential of using a subsidy, similar to the Housing and Land Grant, as a Sustainable Livelihood Grant. This grant should be subject to the submission and approval of a business plan, as in the case of the Land Grant.
10. All of these recommendations will come to nothing unless there is a major review of the allocations in respect of economic development. The biggest problem facing the Free State is poverty and lack of income. The budget allocation for economic development must be increased to much more than the current level of 2% if there is to be a serious attempt by the province to help people to increase their income. Failing that, the province will simply wait and see what the impact of government macro-economic policy will be. The province will continue to be a provider of welfare, but not a serious stakeholder in the battle for local economic development.

Many of the aspects mentioned above will also be addressed in the literature review that will be conducted below. Furthermore, it must be assumed that many of these initiatives will take place in the context of a changing global economy. Although not impossible, it might be difficult to implement them.

However, a more worrisome aspect is the fact that little progress has been made with the abovementioned initiatives since the acceptance of the Free State Poverty Relief Strategy. Furthermore, the initiatives, require extensive funding. The suggestion concerning a reallocation of the budget is valid but this is unlikely to be sufficient. An additional concern is whether the capacity and resources exist to find, appoint and support the necessary advisors.

## 5.2 THE FREE STATE DEVELOPMENT PLAN

The Free State Development Plan has five key priority areas, namely:

1. Enhancing economic development and job creation.
2. Providing and facilitating sustainable development of infrastructure.
3. Investing in the development of the people of the province.
4. Ensuring a safe and secure environment.
5. Good co-operative governance with sustainable use of resources and the environment.

In terms of economic development and job creation, a number of strategies are proposed:

1. Strengthening the competitive advantage of the Free State.
2. Promoting the creation and expansion of SMMEs.
3. Enhancing the security of livelihoods, and self-reliance.
4. An increased share in the tourism market and investment in the economy.
5. Expanding and diversifying the agricultural sector (agri-processing).
6. Adding value to mining products and petro-chemicals.
7. Sustaining a viable mining industry.
8. Developing and expanding the transport and distribution industry (expansion of warehousing).

In order to strengthen the competitive advantage of the Free State, the strategy states that “we will develop a comprehensive economic strategy for the Province, establish and support a system to promote private inward investment in key economic sectors, finalise and implement sectoral development zones and economic corridors for the Free State (including SDIs and IDZs) and promote the export of Free State products”.

In order to achieve the promotion and creation of SMMEs, the following actions are suggested:

- Work in partnership with business and local government, establishing a public-private partnership to support economic development and assist municipalities to plan for and support local economic development programmes.
- Establish a variety of support bases for SMMEs, including a local business support infrastructure with 100 micro-business advisors and 60 small business advisors across the province. Establish a central business support infrastructure including eight specialist business advisors. Establish a market information system and an industrial database for the Free State.
- Establish a project to support local procurement by large public and private sector organisations.
- Provide assistance in the training of SMMEs in business skills and in the establishment of an award for entrepreneurs throughout the province.

The enhancement of livelihoods will be conducted in the following ways:

- Ensuring that the current projects for the alleviation of poverty are sustainable, and making them more business-oriented.
- Working with Departments to ensure that, where appropriate, they establish effective livelihood programmes, e.g. community-based public works programmes.

- Access to natural resources is important, so that poor people can grow their own food and access natural materials to contribute to their livelihoods. It should be ensured that each household has access to a minimum of 200 m<sup>2</sup> of land for crop production, either on household plots or on communal land.
- The Province will also seek to develop community-based services and support for poor people, such as home-based care for HIV/AIDS sufferers, and paralegal services. These groups can provide a small income for many people, while also providing services to the broad community.
- It is crucial to improve the social safety network and to ensure prompt payment of social grants to beneficiaries and increase the uptake of the Child Support Grant.
- The Province will establish a project to minimise the impact of retrenchments and ensure that those who are retrenched do not become destitute.

The increased share of tourism in the market will be promoted by the development and increase of tourism routes, destinations and activities. Increased participation in events and activity tourism, improved tourism marketing, and business support based upon an effective database should also increase the market share of tourism. A website of businesses catering for tourism, as well as their products and services, will be created.

In terms of diversifying production and adding value to agricultural products before they leave the province, the following actions will be taken:

- Research and implement new agricultural product ranges
- Establish the capacity to support agri-processing (research, technical aspects, business, marketing),
- Establish new black farmers
- Research regarding new products in mining and petro-chemicals. A strategy that can be developed and implemented in the jewelry manufacturing industry will be promoted, while a strategy for the establishment of small-scale mining will be advocated if it appears to be viable.
- The mining industry will be consulted on measures to improve the sustainability of existing mines and the opening of new mines.
- In terms of developing the transport industry, the plan argues that the Free State occupies a central position in the country, with many main roads and rail routes passing through it. In order to improve these facilities, the province will seek to develop a strategy for transport and distribution, including warehousing. It also plans to develop a dry port, including a cargo airport.

Although the Free State Development Plan is laudable for its comprehensive approach, the following critical questions are relevant:

- Has enough research been carried out in order to understand the global economy and the links with the Free State and other local economies in the Free State? What are the current trends and how do they impact on local economies? This aspect is analysed in detail by the World Bank manual on LED.
- Would it not be wiser to give priority to one or two approaches rather than the current eight approaches? For example, the mining and agricultural sectors are, to a large extent, driven privately. A focus on some of the other efforts might therefore be more appropriate.

- The time has probably also come for an assessment of progress made thus far in the implementation of the strategy.
- Although the role of social grants in the development of the Free State is mentioned, limited mention is made of how a local area could ensure that these grants contribute to LED efforts. For example, in many towns, hawkers arrive on the day of pension payouts and access prime locations for business. In this way local businesses lose a certain amount of business. Aspects to be considered in this regard include a larger percentage of social grant payments into bank accounts. Negotiations can be initiated with banks, with a view to the scrapping of bank charges on accounts with limited deposits. Alternatively, regulations as to where these hawkers may conduct their business could be investigated.
- In terms of the development of tourism, it is noteworthy that no specific areas are identified, and that this aspect is only broadly mentioned.

One area that needs urgent attention is the availability of information to monitor the goals and objectives set out in the Free State Development Plan.

### **5.3 KEY FINDINGS ABOUT LED DERIVED FROM RESEARCH IN THE FREE STATE**

This section attempts to provide an overview of the key issues highlighted in the relevant source documents. The majority of the documents are related to research conducted in the Free State, though they may also include some material not directly related to the Free State. This section discusses the opportunities and constraints facing development in the province generally. In the second sub-section the focus on existing evaluations of LED projects is a key aspect of the research investigation.

#### **5.3.1 *The changing production processes and global economy***

Marais and Botes (2002), in their assessment of economic change in Bloemfontein conducted for Central Business Incorporated, identified a number of changing business processes influencing the potential for local economic development. Some of these aspects are:

- The technological era has resulted in decentralised regional offices of large corporations becoming less important. The availability of cell-phones and electronic communication makes it possible for managers to manage regional staff just as effectively from Gauteng as from Bloemfontein or any other location in the Free State. Furthermore, the number of managers needed to manage certain functions has also decreased. With the aid of electronic communication methods it is possible to manage more people per manager than it was 15 years ago.
- As the Free State, Northern Cape and Lesotho have a share of between 4% and 7% in most consumer products, it is difficult to produce products profitably in the Free State, since it is not close enough to other markets in South Africa. Thus, although in spatial terms the Free State is located fairly centrally in terms of access to the market (mainly Gauteng), it is still located on the periphery in practical terms.

- The majority of retail companies have established huge procurement and distribution centres in Gauteng, Cape Town and Durban. The purpose of these centres is to buy products from producers (usually in bulk) and then distribute them to the various outlets in the country. Although it is still possible, in some cases, to produce and deliver goods to retail outlets locally, it is difficult to compete against the scale of purchasing at these distribution centres.
- The fact that Bloemfontein and the Free State have traditionally not hosted the headquarters of some of the big companies in South Africa, also has an impact on the province's local economic development. Most major decisions about procurement for Free State retailers are taken in remote headquarters. The suppliers from the Free State itself are thus overlooked.

Against this background, one should consider the relevance and consequences for local economic development:

- It should be acknowledged that local economies are competing with economies on a national and even an international scale.
- Accessing markets is an essential aspect of any initiative for local economic development. In this regard, international markets should be seen as a possibility.
- In view of the limitations of the situation in the Free State, business people who have traditionally seen only their local areas as possible markets need to change their way of thinking. What is needed is to use the advantages of electronic communication systems to be able to source work from other parts of the country and the world.
- Limited research in the Free State context is available on how globalisation and changing processes of production and management influence local economies, and how they might influence local economies in future.

Although these global trends are not always conducive to local economic development, the Department of Land Affairs (1999) was of the opinion that local economies could develop mechanisms to reduce income leakage.

### **5.3.2      *The limited value of LED projects***

The evaluation of 16 LED projects in the Free State by Marais, Botes and Maishoane (2002) and Ingle's (2003) contribution to the national survey of LED Fund projects has shown that only a small percentage of those in the Free State projects have the potential to become financially viable. The CDS has reached the same conclusion with regard to the income-generating projects of the Department of Social Development in the Free State.

Typical problems identified with these projects are:

- The inappropriateness of municipal financial systems to accommodate these entrepreneurial projects. As Ingle (2003) argues, it is unrealistic to expect municipalities which struggle to supply or charge for basic services to be able to manage economic projects.

- The fact that very few of these projects have had skilled individuals to manage them results in the management of many such projects being ‘chaotic’. In some cases, concerns regarding project irregularity were noted, and clear evidence of antagonism between municipalities and residents or project beneficiaries was found.
- In several municipalities, reluctance to answer questions regarding LED projects was noted and information from various officials was often contradictory. In some cases, it was alleged that politicians had taken over projects for the purposes of gaining support.
- The fact that all of these projects had to be initiated and planned from scratch has been a major handicap.
- In many cases, the business plans for projects did not link those projects effectively to the real needs of the community. In addition, the viability of many project applications has been questioned. Business planning was found to be inadequate and the reasons why government released funds under such conditions have been called into question.
- Many projects, understandably, have an agricultural focus. However, lack of adequate support and the physical distance of the farmlands from communities was a common problem. Concerns as to whether an agricultural approach (over half of all LED investment) can lay the basis for diversifying the provincial economy have been expressed (Marais et al, 2002).
- SMME development, which is seen by government as a lead sector, has not performed well as an LED approach. According to Marais *et al's* (2002) evaluation, very few SMMEs were established as a result of LED initiatives. None of these projects were identified as being economically competitive. This implies poor project design, training, implementation, market research and business planning, all of which are extremely serious considerations.
- Support for the informal sector is a common approach. However, in many cases, traders do not seem to want to be moved from areas of peak pedestrian flow to less strategically situated, albeit better equipped, areas.
- In some cases, LED-targeted funds were incorrectly absorbed into general municipal accounts – this was a particular concern after municipal amalgamation. Marais *et al.* (2002) established that in many cases municipal financial arrangements are simply not geared to manage entrepreneurial projects. In addition, in some cases, LED Funds could not be accounted for.
- Although there has been employment creation, most tend to be short-term jobs created through infrastructure projects. Ingle (2003) was not able to find a single long-term job created in the LED Fund projects which he investigated – a very worrying situation indeed. Despite an investment of over R15-million in the 16 projects studied by Marais *et al.* only 95 long-term jobs – all in agriculture - had been created. No long-term jobs were created in other sectors, such as mining, infrastructure, tourism and manufacturing. In total, only a modest 403 short-term jobs were created. The failure to generate any long-term jobs in critical areas such as manufacturing and tourism is clearly cause for concern.
- Key capacity constraints exist in terms of the fact that many projects are consultant-driven and hence are dependent in nature. Business planning is often not properly understood and is inadequate; LED committees and officials lack requisite management skills; and project planning is often poor.

- The lack of synergy between government departments – horizontally and vertically - does not help the LED process on the ground.
- In many cases the beneficiaries were not properly identified in project planning and poorly involved in implementation. In many instances, project failure and mis-management exacted a heavy toll on these people.
- Only one project, in Welkom, was found to exhibit any significant attempt to link with the private sector and large commercial enterprises.
- In most cases, project leaders seem indifferent to experience gleaned from other projects, which often leads to a repetition of failure.

Sadly, as Ingle observes, it could be argued that the LED programme is not alleviating poverty and in many cases it may actually be entrenching it. He goes on to note that “LED in the Free State ... has supplied a catalogue of text book cases on how not to go about LED”.

The possible policy implications of the above factors are:

- A reconsideration of the project approach to LED. For an effective LED approach, the institutionalisation of an LED strategy is necessary.
- Specific emphasis should be given to supporting individuals and businesses already in operation, rather than starting projects from scratch.

### 5.3.3 *Assessing the business sense of projects*

Marais *et al.*, (2002) found that, in general, the business sense of projects was limited. This can be attributed to a number of reasons:

- In general, officials at local level do not have the capacity to plan projects from an entrepreneurial perspective. This has resulted in far too many end-beneficiaries being linked to projects. As a result, these projects have not been financially viable.
- No proper business plans were in place for the projects. Although project plans were available, these were focused mainly on the project process in order to ensure that the funds were spent in a coherent manner. Considerations such as potential financial scenarios, breakeven points, aspects of risk management and marketing plans were typically absent from these plans.
- One explanation for these trends may be that very few of the plans were developed by business experts.

From the perspective of operations and policy, the following aspects should be considered:

- Consultants and municipalities should be required to develop proper business plans, with due consideration of their various elements. This should be done instead of drawing up project plans in respect of which the main consideration is to get the money spent.
- Business-orientated consultants should be used to a larger degree.



#### **5.3.4 Strategic project selection for LED**

The manner in which most LED projects have been approved is also problematic. This is linked to the above problems related to the business plans. In virtually no cases were approvals informed by strategic economic and business guidelines. Marais *et al.* noted that there had been minimal interaction between the municipality or the consultants who drafted the project plans, and those who carried out the assessment at provincial level. In fact, no real assessment framework existed in terms of which to approve projects.

#### **5.3.5 The relationship between the private and public sectors**

An area of confusion is that of the roles and responsibilities of the private and public sectors. Marais and Botes (2002) found, in Bloemfontein, that there is still no common understanding in this regard. The private sector is of the opinion that the public sector wants to play too big a role. In essence, the private sector wants to see the public sector providing a conducive environment for business to operate in. The public sector, however, wants to ensure that a more equitable business environment is achieved.

Another aspect to this relationship is the alacrity with which land developments are processed. In a competitive global environment this is of the essence, and cities such as Durban have committed to a 20-working-day feedback to prospective developers (Marais and Botes, 2002). This is an area in which local municipalities could play a facilitating role. Municipalities should also provide a strategic framework within which LED can take place. The importance of this is that it goes beyond the project approach and includes place marketing, SMME development, the integration of the LED function into the operations of the municipality, and so forth.

International LED experience indicates that partnerships between the public, private and other sectors are not a hindrance but are in fact critical to project success.

#### **5.3.6 Information on the economy**

Marais and Botes cited the lack of information on economic issues as a crucial shortcoming in the Mangaung Local Municipality. At the time of their investigation no coherent attempt was underway to rectify this shortcoming. The upshot of this is that it is extremely difficult to measure progress, and that targets in terms of local economic development are usually set without measuring or monitoring mechanisms in place. Consequently, it is extremely difficult to provide useful feedback on the impact of LED initiatives although Mangaung Local Municipality has shown some progress in this regard. Local municipalities and consultants should be made aware of this problem, and should be assisted in developing simple, cost-effective economic development indicators.

### **5.3.7 *Using procurement as a method for LED***

It is generally accepted that one of the mechanisms for developing the role of SMMEs is to link them to a specific industry. In the Free State, three sectors have historically dominated the economic environment, namely the public sector, mining (Free State Goldfields) and agriculture. One way to promote LED therefore, is to link local economic development and SMMEs to public-sector procurement systems. Marais and Botes found that, although this does in fact occur, shortcomings exist in this regard. Mangaung Local Municipality, and other government agencies, could be more sensitive to the need for local procurement. An extensive procurement policy document was released by the Mangaung Local Municipality with fairly detailed delineations of the previously disadvantaged status of businesses and the preferential procurement points that such status would earn. The motivation for the policy is set out mainly in terms of a preferential procurement point of view however and not from a local economic development point of view. It should be mentioned that Marais and Botes identified this problem in the private sector as well.

It is fairly easy to use service providers from Gauteng and neglect the local providers. Marais and Botes note conflicts about what the definition of a local business should be. For instance, examples were cited of cases, specifically in the printing industry, where businesses only have administrative offices in Bloemfontein, while the actual printing takes place elsewhere. Altogether Marais and Botes concluded there is room for local preference in procurement. Local economic development agencies ( both public and private) should develop procurement policies with some understanding of the role of these policies in LED promotion. However, these policies should not create the impression of a closed environment. Furthermore, the manner in which some tenders are subdivided could also be considered to ensure a larger degree of SMME participation.

Marais and Botes also identified conflict between preferential procurement and LED in Bloemfontein. All governmental institutions are required to provide tenders according to the Preferential Procurement Act. However, in some cases allegations were made of tenders being provided to companies from outside the region that have a significant PDI status in their directorship, as opposed to local businesses without such status. The study provided two interpretations of this situation. On the one hand, there were those who said that it was contrary to the drive for LED. On other hand, there were those who argued that, traditionally, white businesses in Bloemfontein have been slow to transform and that therefore it is right that such business should rather go to outside businesses with PDI status.

### **5.3.8 *Benefits of LED for disadvantaged communities***

One of the major challenges of LED initiatives is not to focus only on economic growth but to ensure that economic growth also leads to development at a local level (Khanya-mrc, 2001). With this in mind it is important that a pro-poor LED approach, as one of the LED approaches in an LED strategy for Local Municipalities, should be considered.

### **5.3.9      *Emphasising the benefits in various sectors of the economy***

Although there are some LED strategies that find a competitive advantage in one area of the economy, it seems that, in most cases, a variety of efforts in various economic sectors are needed. Marais and Botes concluded that potential success in the city lies in ensuring coherent efforts in various sectors of the economy with effective monitoring and evaluation systems.

### **5.3.10     *Role of consultants***

In many LED projects consultants are used, with varying levels of success. Marais *et al.* identified the following with regard to consultants in LED projects:

- The majority of consultants were either engineering firms or town and regional planning firms.
- Virtually no consultants with business management backgrounds were used.
- Consultants were mainly concerned with getting the LED grant spent in order to access the consultation-fee percentage, rather than ensuring that the initiative became financially viable.
- The technical expertise of consultants in projects that required construction phases was usually very good.
- Most local municipalities have not used the consultants effectively in order to ensure that capacity is built.

### **5.3.11     *SMME development and entrepreneurial training***

As in the case of the Free State Poverty Relief Strategy, as well as the Free State Development Plan, Marais *et al.* indicate that more attention should be given to SMME support (see also Khanya-mrc, 2001).

Of course, the question arises as to who should provide and facilitate such support. Most municipalities simply do not have the staff to assist in this regard, and even in cases where they do, the staff are not qualified to provide such a service. Furthermore, the appointing of staff to perform this service does not always bring immediate income to the local municipality. It seems that this is not high on the agenda of local municipalities in the Free State (with the exception of the Mangaung Local Municipality). Marais and Botes also mention that, in terms of both national and international experience, the promotion of existing SMMEs shows more success than the creation of new ones.

United Nations Office for Project Services (UNOPS)-initiated LED focuses on the provision and facilitation of SMME funding (Le Roux *et al.*, 2002) while the Department of Land Affairs makes the same proposal (Department of Land Affairs, 1999). Although the South African experience shows that this will not always result in a larger degree of equity in business ownership, it should be kept in mind in developing SMME programmes. Additional mechanisms to support SMMEs according to the Department of Land Affairs (1999) are the establishment of business support centres and entrepreneurial training.

### **5.3.12     *Assisting local businesses to access finance and foreign markets***

Ensuring preference for local business is one way of keeping money in a local area. However, a way of ensuring that more money flows into an area is to induce local businesses to access foreign markets. The Department of Trade and Industry promotes various opportunities in this regard that should be channelled to local business people with the aid of either an LED unit in a municipality, or chambers of commerce. Finance for this is also of importance (Department of Land Affairs,1999).

## **6.     ANALYSIS OF THE INITIATIVES**

In this section, details of the case-studies which preceded the drafting of this document are summarised. Syntheses and analyses of the findings follow in subsequent sections. For purposes of streamlining the flow of the main document, only short summaries of the various studies are detailed here.

The localities investigated were: Bothaville, Clarens, Kroonstad, Free State Goldfields, Qwa Qwa and Smithfield. Although the focus was on specific towns or areas, the roles of the municipalities in the new local municipal areas were not neglected, although primary attention was devoted to particular towns and the LED projects occurring within them. The towns are examined sequentially below.

### **6.1            BOTHAVILLE**

Bothaville and Wesselsbron constitute the Nala Municipality. Unemployment stands at an estimated 48%. This has been aggravated by poor economic performance in the area.

#### *Current LED Projects*

In 2001, an LED forum was established and a supervisor for LED projects was appointed by the Municipality. The forum only represents Council and the taxi industry, neither the black nor the white business sectors are represented.

The most successful project is ‘Pride of Community’ at Monyakeng at Wesselsbron. It consists of six sub-projects and runs a community centre and an orphanage. A key feature of the project is a 100 ha. farm from which the sale of sunflowers provides an important source of income. Concerns however exist over available funds for payments to beneficiaries. This indicates that there is a degree of grant dependence and the ultimate sustainability of the projects is in some doubt.

Other projects include a poultry project which has not really made real progress; an independent sewing project with sustainability concerns; and a catering and juice

project which seems to have some potential although concerns over short-term grant dependence with the project have been raised. In Kgotsong at Bothaville, projects have achieved very little and officials are reported to be uncertain about how these projects are funded. Projects focus on farming and agriculture. It is alleged that the beneficiaries only earn R 100 pa., while on the farm only 2 ha. out of nearly 760 ha. appear to have been worked.

The Harvest festival run by local interests is said to generate over R 500 000 per event. However it seems to be severely hampered by the poor relationship which exists between the municipality and the business sector.

### *Municipal-business relations*

The key impediment in the local area would seem to be the breakdown in relations between the Nala Municipality and the business sector, a relationship characterised by ‘animosity, mistrust and mutual allegations of racism’. The failure of the Municipality to support local tourism promotion stands in conflict with standard national practice. The Municipality has also failed to support the only key event which could promote significant development, namely the Harvest Day festival. Furthermore, the Municipality has failed to maintain infrastructure. These are retrogressive steps which must be retarding development.

Whilst the white business community clearly do not all seem to have accepted the new political dispensation, the black business community also found the municipality inaccessible. There are legal and financial concerns about the institution and it is worrying to note that, in 2002, R600 000 was budgeted for legal fees and only R 200 000 for poverty relief.

### *Successes / Failures*

The farming project at Wesselsbron appears to have enjoyed reasonable success, while the Harvest festival event has considerable potential. Most of the smaller projects seem to have little potential to achieve sustainability or to transform the local economy

### *Role of the Municipality*

It was noted that Municipal officials see it as their exclusive preserve to create jobs and there appears to be a poor understanding of the economic nature of LED. Such an approach cannot lay a firm foundation for the area’s future.

### *Role of Other Stakeholders*

The business sector is keen to develop the town, but the absence of a working relationship with the Council (identified by both the black and white business sectors) is a key impediment.

### *Evaluation / Key Lessons*

The LED process cannot be described as a success, with the possible exception of some of the activities at Wesselsbron. Key impediments include:

- The fact that most projects are not sustainable and do not operate along business lines.
- Antagonism between the municipality and the business sector while the politicised nature of development is clearly a handicap.
- Concerns over municipal management of LED and the failure to include the business sector.

If the above are not addressed, it is highly unlikely that the municipality will experience any economic growth. Job losses, increasing poverty and disinvestment are almost inevitable. Urgent action and local reconciliation should be a priority.

## **6.2 CLARENS**

Clarens is a very small north-eastern Free State town, which provides an excellent example of how tourism can be used to drive LED. During Easter 2002, the town received more than 30 000 visitors per day. The role of the municipality in this LED success is a key question. This is all the more important given the significance which tourism has for South Africa as a new economic driver. The town's economy has been positively influenced by its attractive environment and proximity to Johannesburg. For several years, it functioned as a base for the Lesotho Highlands Water Project tunnel. Clarens now forms part of the Dihlabeng local municipality.

### *Current LED Projects*

Tourism-based development, driven by the private sector but with initial support from the former (not the present) local government was the key LED driver. Natural attractions and adventure sports have led to the establishment of 10 restaurants, 16 galleries and 50 bed and breakfast establishments which offer 1 000 beds in all. In addition, the town is well marketed. Occupancy rates in the B & Bs are up to 80% per weekend. The economic transformation started with the vision of a businessperson who invested in the town in the 1980s and from the growth experienced in the town's population and economy when the Lesotho tunnel was being built. The former Clarens TLC provided positive support and leadership for tourism and improved infrastructure to facilitate economic growth

### *Other Key Considerations*

The process of LED is the result of private initiative and tourism opportunities developed from the 1980s. A key challenge is how to involve the disadvantaged majority of local residents.

### *Successes / Failures*

Private sector-driven tourism development succeeded because of available finance, external involvement, practical vision, networking and initial municipal support.

Unless municipal support is continued, and the initiative becomes more pro-poor, it is unlikely that benefits will accrue to the previously disadvantaged.

#### *Role of the Municipality*

In contrast to the former Clarens TLC, the new Dihlabeng Municipality has no defined LED or tourism policy, and Clarens effectively has no representation on the Council. The Municipality has made minimal progress with LED and has yet to integrate LED into its operations. There appear to be few realistic plans to assist black business development or to promote pro-poor development.

#### *Role of Other Stakeholders*

The transformation has been business-driven and in a small town this has clearly transformed the economy. Until 2000, a business-Council partnership played a key role. As this does not seem to have continued, the development of Clarens may well be unduly retarded in the future.

#### *Evaluation / Key Lessons*

The case study indicates that:

- Clear strategies and public-private partnerships are important to pursue
- External and private capital are critical for success.
- Infrastructure development can assist economic and tourism development.
- Municipalities can contribute to small town revival.
- Political stability and apolitical development programmes are critical for success.
- Local champions can play a key role.
- To extend benefits to the poor, greater and more focused effort will be needed.
- The new local governments must recognise and develop obvious assets with economic potential – failure to do this is a major concern at present.

### **6.3 KROONSTAD**

Kroonstad, with Steynsrus and Viljoenskroon, forms part of the Moqhaka Municipality. The area has experienced worrying job losses in almost all economic sectors in recent years, with the most alarming drop being in mining. Unemployment is estimated to be around 40%.

#### *Current LED Projects*

Limited projects exist on the ground and include the provision of hawker stands, attempts to reuse the vandalised show-grounds, attempts to start using commonage land, and various small or collapsed poultry and pig projects.

#### *Other Key Considerations*



There are rumours of corruption in the Municipality and the Scorpions are reported to have been involved in investigating this. Political in-fighting in the council would seem to be delaying progress.

#### *Successes / Failures*

It seems that there has been no real progress or achievements in terms of LED.

#### *Role of the Municipality*

The Municipality is doing very little in terms of LED and a clear gap exists between the business-orientated IDP and local understanding of LED. Funding, staff shortages, political in-fighting and allegations of corruption have negatively affected the Municipality and local development prospects. Surprisingly, LED falls under the Community Services department and officials point to financial constraints as accounting for the limited impact of LED. Tourism apparently receives no municipal support.

#### *Role of Other Stakeholders*

The business sector claims that it is rarely consulted about economic activities

#### *Evaluation / Key Lessons*

Kroonstad typifies the problem of having sophisticated IDPs drawn up which do not match local capacity and reality. LED cannot be said to be taken seriously and the case reveals the challenges of:

- inadequate staffing and training
- lack of funds
- political in-fighting
- failure to collaborate with the business sector through genuine partnerships.

## **6.4 FREE STATE GOLDFIELDS**

The Free State Goldfields fall within the Matjhabeng Municipality comprising Welkom, Virginia and surrounding towns. In the past, the area depended heavily on gold mining and it has been severely affected by the decline in that industry. Up to 100 000 jobs have been lost, making the area one of the province's crisis zones.

#### *Current LED Projects*

To the credit of the area, the FGF (Free State Goldfields Development Centre) was established in the early 1990s to try and rescue the local economy and to drive LED. A sophisticated IDP was drawn up which identified the need to encourage new economic sectors, and to encourage SMMEs, partnerships and training. Key current strategies include:

- trying to make the area a distribution hub

- support for the agriculture sector (and paprika projects in particular)
- training and support
- gold jewelry
- tourism
- the Phakisa race track, which has had a positive impact on the local economy of up to R 300-million in the last three years. Uncertainty does however exist about the sustainability of the project.

#### *Other Key Considerations*

There are mounting tensions reported between Mangaung (as the seat of the provincial government) and the Municipality of Matjhabeng over the location of a transport and cargo airport and support for the Phakisa race track. This conflict is counter-productive and can only aggravate poverty and unemployment. Local competition like this should be avoided at all costs. In addition, links between the Municipality and business could be improved, even though Matjhabeng's relationships with the business sector are better than in some of the smaller municipalities.

#### *Successes / Failures*

Key successes include the gold jewelry programme, farming support and the Phakisa race-track. Pro-poor projects and SMME support seem to have been slower to get off the ground.

#### *Role of the Municipality*

The FGF, which has the support of the Municipality, plays a key coordinating role locally. Funding and staff shortages at the municipality are key limitations. Politicisation of development and the tensions between economic growth versus pro-poor options appear to have slowed progress.

#### *Role of Other Stakeholders*

Various stakeholders, including NAFCOC and the Welkom Chamber of Commerce, clearly are alive to developments in the area. Whilst views on what should be done vary from big to micro-business approaches, there appear to be reasonably good working relationships in the town. In this situation, the FGF seems to form a key bridge. Greater evidence of partnership formation to achieve development would be ideal.

#### *Evaluation / Key Lessons*

Key lessons include:

- The potential of business-orientated projects and the need to work with the market.
- The need to adopt a defined, assertive response to economic crises.

- The need to put a defined LED institution and Developmental Agency in place.
- The difficulties of implementing pro-poor projects.
- The dangers of rivalry between centres competing for scarce resources.

## 6.5 QWA QWA

Qwa Qwa is one of the poorest parts of South Africa. The area was an apartheid homeland and dumping ground for people. Until 1994, one of the few economic interventions of any note was the artificial support for industrial development in the area. Reductions in industrial and administrative employment since 1994 have significantly affected the area, creating a 'poverty pocket'. The Maluti-a-Phofung municipality now administers the area and clearly faces enormous challenges. The population exceeds 300 000. Other role-players of note include the Free State Development Corporation and the provincial government.

### *Current LED Projects*

LED is mentioned in the IDP and includes issues such as tourism, mining, agriculture and small business development. By 2003, only 4% of envisaged LED projects were reported as having been completed and 45% had been started. Though not pursuing LED specifically, the Free State Development Corporation has taken over the old industrial sites with some degree of success as these areas still continue with reasonably high rates of industrial occupancy. Sound management and low costs appear to be reasons for the survival of the industrial estates.

The area is a priority area for development in the Free State. The provincial government has supported the area through project funding, decentralising services and the allocation of rural development funds. The result has been significant investment in infrastructure, housing and poverty relief projects. To date, some R12-million has been invested by the Departments of Agriculture and Social Development in 81 poverty relief projects, with sewing and baking being the most common projects supported. Lack of training and economic skills on the part of the implementers has apparently been a constraint.

There is one LED Fund project, a dairy, but poor municipal management seems to have impeded success.

The presence of the Golden Gate National Park has led to the creation of some 400 jobs while Working for Water has employed about 200 people.

### *Successes / Failures*

Reportedly all serving to retard LED are: lack of staff and funds; poor economic understanding; problematic land ownership issues; failure to incorporate LED within broader municipal policies; and the sidelining of Harrismith which has LED potential. Constraints experienced by industry include the limited links with the small business sector, industrial competition, and the lack of integration with the local municipality

The government projects are noteworthy, but low skills levels, capacity constraints on the government side and poor integration of projects are cause for concern. In the industrial areas, firms are vulnerable to global economic changes.

In terms of rural development, physical and health infrastructure has improved significantly but there has apparently been little progress with the economic projects.

#### *Role of the Municipality*

Though the Municipality is well intentioned, progress has been impeded by staff and capacity constraints, poor project management, and the absence of evaluation and monitoring.

#### *Role of Other Stakeholders*

Government and the Free State Development Corporation have played a key role. However their projects, while critical, raise questions of long-term sustainability. In addition, the failure to generate many economic projects is a cause for concern as is the short-term nature of many of the government interventions.

#### *Evaluation / Key Lessons*

The area has received significant external support, which it clearly requires. What the area shows in terms of LED is:

- The limited capacity of local government to lead and manage projects.
- The risk of grant dependence and the limited sustainability of externally-driven government projects.
- The role which the Free State Development Corporation can play, albeit that the industrial areas exist somewhat artificially and are vulnerable to market forces.

## **6.6 SMITHFIELD**

Smithfield, together with Rouxville and Zastron, constitute the Mohokare Municipality. Smithfield has enjoyed remarkable LED success in the last few years, as reflected in the improvement in the local economy. The economic revival centres around tourism, community-based enterprises and skillfully exploiting the town's strategic location potential - it being on the main route to the Eastern Cape from Gauteng. Unfortunately, the initiatives appear to be only private sector- and NGO-driven. The Municipality has, reportedly, made little if any contribution to LED in the town.

#### *Current LED Projects*

In common with projects around the world, LED in Smithfield started when external people saw the potential in the town and began investing in guest houses. Another investor opened a small pottery. The latter is very successful and produce is exported

to Europe. A recently opened weaving business which received DTI and Free State Development Corporation support is also tapping into international markets. The latter project will be expanded to other towns in the region. An addition project which has received government support is a community trust which runs a delicatessen. These projects seem to have generated well over 100 permanent jobs.

A key initiative is the KwaSizabantu Mission (KSM) which is a non-profit organization. It generates its own funds through sales of produce and food to national market chains and SAA. They run a bakery, fast-foods outlet and a poultry business on commercial lines, and have created an AIDS shelter and a school. Thirty permanent jobs have been created without any external funding – truly a testimony to the success of well-motivated and well-managed business and socially-focused development, and the key role which church-based projects can play.

Spin-offs from these projects include a local building boom. Future plans include a golf course, equestrian centre, hiking and cycling trails.

#### *Other Key Considerations*

The research undertaken suggests that there has been remarkable private sector success. However, it has been noted in the research that ‘the Municipality and business sector inhabit different universes’. Approaches by the private sector and ratepayers to the Municipality have, allegedly, been ignored. Business people – black and white – were unaware that there was meant to be an LED officer in the Municipality and they all found dealing with the Municipality to be unhelpful. Significant deterioration in services and infrastructure in the town has been noted and the Municipality is regarded by many residents as ‘a liability and an embarrassment’. At the time of the research, the Municipality had apparently discontinued its telephone connection in order to save money. The fact that the Municipality’s head office is in Zastron does not help the situation.

The Department of Transport withdrew its support for a planned Truck Stop near the town following irreconcilable differences at the local political level.

#### *Successes / Failures*

Significant success appears to have been achieved by the private and church-based projects in the town which have generated significant numbers of permanent jobs, generating economic growth and local pride.

The local Municipality appears to have negatively impacted on development through its actions, particularly with respect to water supply which have, allegedly, attracted negative media and political attention.

#### *Role of the Municipality*

The municipality’s understanding of LED is clearly limited and it is reported that it sees LED as being restricted to applying the LED Fund. There is an LED official who

is doing his best, but without funds, a vehicle or support, there is little he can achieve. It would seem that little has been done in response to the IDP goals.

The local government has minimal, if any knowledge of the independent LED projects in the town and certainly has no involvement with them, despite their noteworthy successes.

#### *Role of Other Stakeholders*

Businesses, both black and white, share rather negative sentiments about the Municipality and its capacity to implement LED and there is a perception that the biggest handicap to development is in fact the Municipality.

#### *Evaluation / Key Lessons*

Smithfield is both an inspiring and a sad tale of LED. Inspiring, because of the success achieved by the tourism, business, community and church projects; and depressing because of the apparent of support and involvement by the Municipality in that success. Key lessons include:

- the significant successes which well motivated, corruption-free community and church projects can achieve.
- The important role which tourism and private sector-driven projects play.
- The importance of external investors, vision and leadership in economic change.
- The positive role played by central government and the Free State Development Corporation.
- The fact that local government can be a real barrier to development. One can only speculate how much the town would be succeeding if the Municipality had engaged more fully in the development process.
- Direct provincial and national government intervention, support, funding and facilitation will be needed if many municipalities stand any chance of living up to their 'developmental local government' mandate.

## **6.7 SYNTHESIS**

Having examined the detailed case-studies, attention now turns to an integration of the key findings from the cases, with a view towards the identification of common themes – both positive and negative.

#### *Background Conditions*

In almost all the cases examined, the local economy is experiencing decline, either from loss of mining or changes in the agricultural sector. Without exception, these downward trends are leading to job loss and the overall impoverishment of the residents of these localities.

In cases where there is an alternate resource or economic orientation, such as tourism potential in Clarens, there appears to be scope to develop alternate economic and employment foci.

### *LED Initiatives*

Whilst there is widespread recognition of the need to promote LED and it features in all IDPs, there appears to be an unfortunate mismatch between what is in the IDPs and the resources and ability to respond positively on the ground. Many municipalities correctly identify the need to have pro-poor strategies as a key objective, but clearly fail to recognise that LED is an economic activity and not a welfare intervention. This problem, and the associated failure to work with the market, and in many cases a reluctance to involve or even interact with the business community - both black and white - is a recipe for failure. The outright hostility between these two sectors in many towns will destroy the local economy, and urgent attention and interventions are required to inculcate a true understanding of what LED is. As international evidence shows, it can only succeed through the operation of partnerships between ALL key stakeholders.

It is indeed noteworthy that with the exception of the Majhabeng case (in the Goldfields), all local government initiatives appear to have either failed or achieved minimal results. The most successful initiatives are those in which the local government has little if any involvement, e.g. tourism in Clarens and Smithfield. The most successful pro-poor initiative is that run by a church in Smithfield, in which no government agency participates. The success of the latter can be attributed to a variety of factors, the most important being the local dedication of selfless leaders, the fact that it is apolitical, and thus avoids the squabbles and allegation of corruption which have been noted with many local governments. It is indeed tragic that the business sector in many of these towns appears to be operating in isolation. When a golden opportunity presents itself, such as the Harvest Day celebrations in Bothaville, local government and business do not see eye to eye, which ultimately is to the detriment of the town. This is in contrast to highly successful business-local government partnerships such as the Grahamstown Festival, where the town earns millions of rands every year, partly because the partnership is mutually rewarding.

### *The Role of Local Government*

It is indeed unfortunate that local government seems to be failing in its LED mandate. As the research reports indicate, there are often sound strategies in the IDPs, but on the ground, severe capacity and financial constraints and the apparent failure to really understand what LED is are not only ensuring that development is not occurring, but also that communities are being marginalised and business investment is deterred. It is apparent that weak municipalities can be a real barrier to development, scaring away investment and often failing to maintain even basic levels of services. Failure to play an effective leadership role, to interact with all key local role-players, and frequent allegations of corruption and local political disputes, are a serious impediment to development. Quite clearly, many local governments lack the capacity and the ability to embark on 'developmental local government'. In most cases, ambitious and

probably appropriate IDPs were drawn up, but there is little evidence that even minimal progress has been made in meeting economic goals and the capacity and resources are clearly not available.

DPLG and local government projects have almost all failed, as the secondary literature indicates. The key reasons would appear to be their support for non-sustainable, grant-dependent projects, developed on poorly designed and seemingly impractical business plans, and managed by officials with little if any time to manage the projects, and who would seldom appear to have economics training. This situation and the results of the LED Fund review must suggest that a radical shake-up of the system is required.

Although it is difficult to substantiate, it would appear that the local government LED projects in the Goldfields possess remarkable potential. However, it would seem that political processes – at the local level and possible rivalry with Mangaung - have impeded progress. The FGF is probably one of the most motivated, dynamic and resourceful LED Units in the country. It is tragic that their critical role in trying to save the Goldfields from the appalling crisis in which it finds itself is more hampered by politics than anything else. Its strategies appear economically sound and are the only local government ones identified in the survey which seem to have the ability to go beyond poverty relief and small-scale job creation, to actually attain the level of economic revival. If anything, the FGF must be supported, the development process must be de-politicised and other local governments in the Free State can learn from the goals, strategies and planning of the organisation.

### *LED Projects*

The most successful projects are those which are market-related and generally initiated by the private sector (or the church in Smithfield and the Municipality in the Goldfields). Tourism and various business operations, some of which have international linkages, are clearly the most successful. Small-scale poverty relief projects which local governments tend to be involved in, seldom appear to be sustainable, seldom have sound business plans, are not market-related, and seldom become sustainable, and therefore remain grant-dependent. Shortage of funds, leadership, and the failure to recognise the importance of partnerships are key impediments.

### *Current Barriers*

Current barriers are numerous. The most apparent are:

- Economic decline, which in many cases currently appears irreversible, particularly in former mining areas.
- The failure of local government to live up to its ‘developmental local government’ mandate or their own IDPs.
- The failure of local municipalities to think and act in an economically rational way, or to apply viable LED, or even engage with local stakeholders who could make a difference (the exception is the Matjhabeng Municipality).



- Critical capacity constraints, funding shortages, local political disputes and allegations of corruption retard development and repel investment.
- LED Fund and poverty relief projects tend to lead to short-term gains, grant dependence and a failure to become sustainable.

*What is Working?*

The most successful initiatives have the following features:

- They have often been driven by external, private sector leaders.
- National or Free State Development Corporation support has been important
- They tap into tourism or the international market
- Private sector projects or those which are market-based, and which are aligned with the market, are almost without exception sustainable.
- They operate through partnerships and seek to combine poverty relief with economic growth, whereby the former is the result of the latter.
- Sadly, successful LED seems to be taking place in spite of, not because of local government (with the exception of the Goldfields case).

## **7. EVALUATION AND CONCLUSIONS**

Based on the findings of the desk-top research and the case-studies investigated, the key questions posed at the outset of the investigation, can now be responded to.

*1. How successful are local governments in implementing their new mandate and should they be the main drivers ?*

As the evidence suggests, local governments are failing to live up to their mandate. Projects seldom become sustainable and local government does not appear to be forging meaningful partnerships with local stakeholders to revitalise local economies. The exceptions appear to be the Goldfields, and earlier endeavours by the former Clarens TLC which clearly facilitated economic development, a trend no longer practised by any of the smaller municipalities investigated.

*2. How widespread is non-local government-led LED and who are the key drivers?*

Based on the cases examined, the private sector and the NGO or Church sector is active, although their actions are not widespread. There is a very real sense that they are engaged in more sustainable projects than local governments are and that, though limited, they are starting to yield meaningful results. The creation of well over 100 jobs in Smithfield points to some of the most successful developments in the province and almost without exception these projects have no links to government.

3. *What are the roles of the different levels of government and where in local government should LED be driven from ?*

While national government's role should be to provide overall guidance, direction, policy support and funding, it also needs to ensure that the projects which it supports are viable and sustainable. Provincial government has a key role to ensure that weak municipalities are supported and encouraged to assist poor communities and to embark on viable projects. In this regard, a dedicated provincial facilitation unit is essential.

Local government must ensure that its staff are adequately trained, that partnerships are striven for at all costs with local stakeholders, that funds are accessed and investment sought and that the process avoids petty political or personal squabbles. LED should, ideally, be driven from the office of the Municipal Manager, or a dedicated municipal department, BUT it should work through a multi-stakeholder forum.

4. *Are there discernible spatial and sectoral trends in LED's incidence?*

It would be difficult to argue that there are definite spatial trends, although it is apparent that the better resourced and staffed areas, such as the Goldfields and Clarens, have done reasonably well. In parallel, poorer areas, such as QwaQwa, remain grant-dependent and poverty-stricken and the local economy relies on the continuance of artificial state intervention i.e. continued use of old, cheap Regional Industrial Development properties.

In terms of sectoral issues, trends are clearer. Mining and, to a degree agriculture are in decline. By contrast, some of the greatest successes have been secured with tourism, whilst SMME development has enjoyed some limited success.

5. *What factors help to catalyse the emergence of LED ?*

One is conscious that in many cases where LED has been initiated it is simply seen as being a local government mandate. Such a catalyst is hardly likely to drive the LED process indefinitely, and associated projects tend to be grant-dependent with limited prospects of sustainability. In places such as the Goldfields, the crisis caused by mine closure was a far more dramatic and compelling reason to drive and sustain an LED process. In other locations, identification of marketable resources with business potential has driven the process e.g. tourism development in Clarens and Smithfield. A final catalyst seems to be that of very real poverty, such as in Smithfield, where an apolitical, well-motivated Church organisation has responded with what seems to be considerable success to the situation.

6. *What evidence is there of partnership formation and what are the ideal combinations of partners?*

The formation of partnerships in Free State towns is sadly lacking in most centres, and government and local government need to learn from the positive experiences and success of KwaZulu-Natal, Western and Eastern Cape and Gauteng. Partnerships, internationally, are seen as integral to LED since the critical combination is one of municipal administrative, legal and infrastructural skills; entrepreneurial skills and finance from the private sector; and participation and collaboration from the community and NGO sectors. The effective collapse in dialogue between stakeholders in some of the Free State towns does not bode well for the future. In the smaller centers, there are only a limited number of stakeholders, all of whom need to be involved in the process. Failure to do this would seem to be causing accelerated economic and infrastructural decline and rising poverty.

6. *What are the key management, institutional, and participation considerations?*

It is apparent that projects need to be well-managed by properly trained staff with appropriate economics and business skills. LED units need to be well-funded, and need to work with all key stakeholders. There is clearly a need to institutionalise the process in terms of a provincial LED unit and local-level units which work through forums composed of key local level stakeholders.

7. *How do projects fare after they no longer receive initial grant funding or circumstances alter? Do projects and programmes have the potential to become sustainable?*

Unfortunately, it would seem that many of the projects which have been initiated are grant-dependent and cannot stand on their own. This reflects poor project selection, poor training and guidance, and the failure to do proper market research. The most sustainable projects are those which have responded to real market niches such as tourism, or are led by groups which have the right skills and focus, such as the Smithfield Church project.

8. *What initiatives are the most effective in terms of a range of considerations - employment creation, economic transformation and cost-effectiveness?*

There are, unfortunately, only a limited number of well-established, successful projects. Those which would seem to show the greatest promise either revolve around tourism, or the refocusing of a local economy, such as in the Goldfields. These are also the ones which seem have created, or have the potential to create, permanent jobs and operate along business lines. Many projects such as chicken co-operatives etc. do not appear to be sustainable because of their small scale nature, grant dependence, limited or inappropriate support from local government, failure to really penetrate the market, and skills limitations.

9. *What are the key difficulties experienced with the implementation of LED and why does it sometimes fail to not even get off the ground?*

As stated above, key difficulties relate to poor staff skills, lack of funds, absence of partnerships, allegations of corruption, politicisation of development, the initiation of non-viable projects, failure of weak municipalities to understand or engage in economic processes, and the absence of effective partnerships.

10. *What needs to be done in the future to support, fund and facilitate LED? What goals are realistic to pursue? What blockages are there and how can they be addressed?*

Addressing the difficulties will require effective support, funding and leadership from Provincial Government and para-statal organizations. It will also require the realization that petty local-level squabbles are severely impacting on the towns and their future and that local people need to be committed to any LED project. Economically viable goals, based on using local resources and viable strategies, must be striven for. Economic growth and poverty relief need to go hand in hand, as they cannot be seen as separate entities.

11. *To what degree are LED principles institutionalised within the daily management of municipalities. e.g. are there warning lights when Councils take decisions which do not link with the principles of LED.*

It would be difficult to argue that LED is a reality in the daily management of municipalities in terms of issues such as local procurement and daily decision-making. The only possible exception might be that of the Goldfields. The principle of 'warning lights' was not apparent, even though it clearly should be. This situation also reflects on what is a seeming mismatch between the IDPs and local realities in several municipal areas.

12. *To what degree do the spin-offs of successful LED interventions reach the people previously disadvantaged?*

Given the small-scale nature of many projects, and the fact that some projects have not really started, it would be difficult to argue that those most in need have experienced significant changes. Whatever benefits are conferred tend to be short-term, and dissipate when grant funding ceases.

13. *What are effective mechanisms to measure the impact of an LED strategy?*

It would seem that, with the exception of provincial and national studies with respect to LED, that local-level monitoring and assessment is not well established and clearly should be.

## *Conclusion*

LED in the Free State is clearly not living up to expectations. Many projects have failed to create the envisaged numbers of jobs and benefits, debilitating local constraints are impeding progress, and poverty and unemployment is probably getting worse. This reality calls for urgent and dedicated action to ensure that LED is more effective on the ground.

In parallel with national trends, LED is indeed being motivated by economic decline and job losses in the Free State. Most strategies pursued by municipalities parallel those of other local authorities, namely a focus on poverty relief, public works and infrastructure. Success has been limited and similarly staff and resource shortages are blamed for the situation. The unfortunate reality is that local failures, and inadequate external support, are 'decentralising poverty' as Stockmeyer (1999:3) has identified. On the ground, LED is poorly understood and the divergence of views held by DTI and DPLG has not helped matters. The experience of the Free State matches the difficulties identified by DPLG nationally (Nel and Rogerson, 2004), namely that there is limited use made of partnerships, municipalities often do not fully understand what LED is or have the capacity to apply it. Other nationally- identified difficulties, such as the failure to involve all stakeholders, the limited successes achieved and the poorly developed business nature of projects, are all also barriers to success in the province.

Based on national and provincial findings and the case-studies detailed here, a series of key recommendations to try and enhance the capacity and potential of LED can be identified.

## **8. RECOMMENDATIONS**

The Free State does not appear to be able to boast of a major LED success story in which an entire local economy has been successfully transformed. While Smithfield and Clarens are inspiring at the micro-level, and the Goldfields has tremendous potential, if one wants to look for role models, one would need to look beyond the provincial borders to towns like Stilbaai, Utrecht and Stutterheim and cities like Cape Town and Johannesburg. LED in the Free State is in a state of crisis in its current form and operational structure. The various government-supported LED projects have not generated adequate numbers of jobs, and very few of those are actually permanent in nature.

If government is committed to supporting LED, radical intervention will be required. Such intervention is needed to overcome the numerous blockages identified in previous sections and to capitalise on the strengths identified. Key in such an intervention should be:

### *a) Provincial role*

1. Develop a well-trained, committed, well-resourced, permanent provincial LED facilitation unit which has the funds and staff to support weak municipalities to design, fund and implement appropriate LED interventions. Such a unit should be trained, and be supported by, a professional development agency or universities.

2. National and provincial government can assist through proper market research, identifying national and international market opportunities, offering relevant and practical advice, and developing appropriate policy and realistic guidelines. Government should also promote best-practices, publicise findings, and encourage monitoring, evaluation and assessment to determine future action.
- b) *Interdepartmental and intersectoral co-operation*
3. LED must be seen as being more than just a line-function. It needs support from all branches of government. In addition, at the provincial level, LED should overlap, as closely as possible, with the objectives of the Free State Development Plan.
- c) *Conceptual clarity*
4. A working definition of LED needs to be developed which can offer meaningful guidelines to municipalities. Such a definition should combine the strengths of the DTI and DPLG perspectives and stress the need to strive for both poverty relief and sustainable economic development.
- d) *Municipal capacity*
5. All local municipalities should have a dedicated LED official, who reports to the provincial unit. Such officials should be obliged to undergo economic and development training (ideally the new SETA LED course). Only officials who have some practical business experience should be appointed.
  6. Municipalities need to be more entrepreneurial in all of their actions. LED thinking and goals must pervade all aspects of municipal activity. In addition, municipalities must operate more effectively in a business-like manner, deliver quality services, encourage investment and work with all key local stakeholders.
  7. Municipalities need to pursue more practical IDPs in which LED features prominently, and is pursued with vigour. Municipalities need to be realistic about their needs, capacity and ability. Better IDPs will require better in-house planners, as well as better-chosen consultants.
  8. Develop and support a local 'learning centre' e.g. the FGF, which officials from other municipalities can visit and learn from. Allied to this would be the need for study tours to identified LED success stories.
  9. Implement and utilise continual monitoring and assessment techniques to identify successes and blockages with strategies and to respond to such considerations.

10. Try to de-politicise development, and also reduce opportunities for corruption through proper reporting systems and the setting of appropriate standards. Ensuring that local authorities and LED agencies are accountable and corruption free is essential.

*e) Local networking and economic stimulation*

11. Require all local municipalities to start liaising with their local business chambers for the greater good of local citizens. Such collaboration should be extended to all key stakeholder groups which have economic and development interests at heart. Church and NGO organisations often have a key role to play in this regard. Local reconciliation needs to be sought if appropriate and conflicts have to be addressed. Establishing local-level forums and perhaps even LED agencies or Section 21 Development Corporations (such as in the Goldfields) is a viable route to take. Communities and project beneficiaries need to be intimately involved at all stages of project design and implementation.
12. By the same token, non-local government- led LED must be encouraged as far as possible. Local government must create and promote an environment conducive to investment and business development. It must provide the necessary infrastructure and support, particularly to bodies such as tourism agencies. Information provision and research by the local municipality is an important aspect of local development.
13. Local leaders and champions need to be supported and encouraged.
14. Work with market forces through provincial interaction with national chambers of business and international delegations.
15. SMME development needs to be encouraged, as does sub-contracting, local procurement and most important of all, the provision of SMME support staff and Business Service Centres as argued for in the Free State Poverty Relief Strategy.

*f) Effective project management*

16. Projects must be based on sound business principles and utilise effective market research. Government grant funding needs to be sought and made available only if projects conform to these criteria.
17. Projects need to also take cognisance of global economic realities and access such markets as far as is possible.
18. As far as possible, projects must encourage the use of local labour and effective local procurement.

19. Projects need to have poverty relief as a primary goal, but recognise that this may often best be achieved through support for formal business and economically competitive projects.
20. Wealth-generating projects need to be accorded more prominence than infrastructural delivery ones, and it is essential to pursue projects which aim at sustainability and economic diversification.

Provincial government clearly needs to take a key role in this process given the very real incapacities which exist at the local level and the need for external direction, guidance, support and facilitation.



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