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LED & SMME DEVELOPMENT



Accelerating economic growth and development in the Free State: Framework for a responsive partnership approach towards sustainable economic development in the Free State

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Accelerating economic growth and development in the Free State:

Framework for a responsive partnership approach towards
sustainable economic development in the Free State

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Executive Summary

This report addresses one of the key responsibilities of the Premier's Economic Advisory Council (PEAC) of the Free State, viz. the development of a comprehensive and coherent economic-development strategy, to enable the achievement of the economic objectives of the Free State Development Plan (FSDP). To underpin this report, the PEAC commissioned a number of research reports, the bulk of which will be released at a later stage in an effort to encourage more in-depth discussion of the different issues.

With 10,6 per cent of South Africa's area, 6,4 per cent of the national population and 4,9 per cent of the country's Gross Domestic Product (GDP) the Free State is relatively large in physical area but small in population size and GDP contribution. The weak position of the Free State economy is reflected by the relatively low (2002) *per capita* income level (R11 854 compared to R17 164 for South Africa and R32 356 for Gauteng), a high unemployment level of 38,9 per cent (SA 40,8 per cent) and close to 49 per cent of the population "living in poverty".

Historically, the Free State had a solid economic base, which unfortunately has been dented sharply by the decline in the gold-mining industry over the past decade, the rationalisation of the grain industry and the interaction of a number of structural barriers to faster development. Unless these factors are addressed in a concerted, systematic and proactive way, there is a real danger that a "vicious circle of stagnation" will accelerate and the province will drift into deeper conflicts.

The PEAC is convinced that a "turn-around" towards a new growth path is possible, as long as all stakeholders and players in the Free State's economic process co-operate to achieve that goal.

1 Factors limiting economic development

Three sets of structural factors seriously limit the Free State's development momentum, viz. sector-growth weaknesses, spatial-development imbalances and a strained development environment.

Just as the rapid growth of the gold-mining industry shaped the region's economic ascent during the 1960s, '70s and '80s, just so its decline is responsible for the regional economy's stagnation since the early 1990s, with the employment share of gold-mining falling from 19,4 to 8,0 per cent over less than a decade. As there are no gold resources at comparable or lower costs in the Goldfields area, this decline will continue, with an escalation after 2010. Unfortunately, other minerals (including diamonds and coal) are unable to compensate for that decline.

In the agricultural sector a number of forces have interacted to reduce employment and the value-added of conventional farming in the Free State. This has augmented the dampening impact which the declining gold industry has had on other sectors of the regional economy, leading to an overall -0,1 per cent real GDP growth *per annum* over the past 12 years. The lack of any new, distinct growth sector has led to the widespread perception that economic stagnation in the Free State is "chronic".

Geographically the Free State's internal industrial- and services-sector development has suffered from the region's proximity to Gauteng's economic centre and the drastic decline in the province's platteland towns and villages, leaving only Bloemfontein and Sasolburg as relatively dynamic larger centres.

On socio-economic and socio-political levels a relatively sharp polarisation between racial and private-public leadership has further hampered steady growth and dynamic development efforts, with institutional weaknesses and a particularly high level of HIV/AIDS infection constituting additional development impediments.

The absence of a clearly articulated future vision of the Free State's economic growth path and its competitive advantages accentuate all these factors.

2 A new approach to the Free State's economic growth and development

The PEAC is convinced that the Free State's disappointing economic situation is neither unique nor irreparable. Future growth momentum will depend on the mobilisation of a new range of growth niches and the reactivation of a number of platteland places. Rather than waiting for the emergence of a unique new "dominant" sector (like gold-mining) or for the Goldfields area to re-ignite, future growth may have

to rely on several, relatively modest endogenous growth stimuli which interact to raise overall growth performance.

Such a turnaround cannot be achieved by the private sector or through local efforts alone. Endogenous development initiatives have to be complemented by systematic, co-ordinated and sustained public-sector efforts, incorporating both the provincial government (and provincial parastatals) and national authorities. The crux will be bottom-up entrepreneurial initiatives “matched” and supported by co-ordinated local, regional and provincial efforts, facilitated by national and sector-focused interventions.

The strategy document outlines relevant areas for local initiatives and public support, evolving as public-private partnerships.

3 Opportunities for sector growth and transformation

The PEAC sees significant growth and development opportunities in three sectors of the Free State economy, viz. agriculture, manufacturing and tourism, with a range of other sectors (trade, transport and communications, construction, financial and business services as well as educational and health services) each offering significant, though “non-spectacular” growth opportunities. Even the steady decline of the mining sector still leaves opportunities for the re-utilisation of redundant mine infrastructure facilities. Closer co-operation between mining corporations, local small(er) enterprises and public-sector players in the Free State could help cushion the process of mine redundancies.

In agriculture much will depend on proactive efforts to further diversify the product range and to skilfully combine commercial and evolving subsistence farming. Also significant are efforts to increase value-adding in the agricultural and agri-processing value chain.

In manufacturing the success of Sasolburg’s petro-chemical complex cannot be the only base for a provincial secondary industry. Focused efforts are needed to maintain, if not expand, industrial activities in the Bloemfontein-Botshabelo area and around the former Qwaqwa growth point, with the Goldfields offering more limited opportunities for new processes.

Tourism may constitute the most significant “new” growth sector, with the potential including both the Free State-Lesotho mountain range and a number of more decentralised attractions, spurred by the Free State’s location within a 350-km road-distance radius of Gauteng’s urban agglomerations. There are clear indications that the sector is taking off, even though the short-run job-creation impact should not be overrated.

In each of the smaller sectors mentioned earlier there are distinct growth opportunities, linked to an already existing sector base. Although the proximity to the Gauteng industrial and services hub dampens new developments in the Free State in most of these sectors, concerted public-private partnership initiatives should show modest success. In several of these Lesotho’s consumer, investor and other demands should be viewed as important potential stimuli.

4 Spatial development opportunities

With a low overall population density, economic activities in the Free State are largely concentrated around three urban clusters (Mangaung, the Goldfields area and Sasolburg) and two development corridors, viz. Bloemfontein-Maseru and Qwaqwa-Ficksburg. Beyond these, only a few tourism spots and a range of small towns and transport routes determine the spatial pattern of development.

Compared to other provincial centres like Johannesburg, Pretoria, Durban and Cape Town, Bloemfontein (population 400 000) is relatively small and has only a limited metropolitan growth potential. Sluggish regional growth and the decline of gold-mining have further limited that momentum. Yet, in the absence of significant secondary towns in the province, Bloemfontein has to cater for the consumer and general household needs of about 2,5 million Free State residents and about 1,5 million Lesotho residents. This should result in steady growth of trade, financial, business and professional services as well as further and higher education. It should also attract some larger corporates if linked to proactive investor marketing.

The Goldfields urban area faces the Free State’s greatest challenge – to transform a modern urban complex in a way that it becomes less dependent on its dominant

economic base. Even modest success will need close co-operation between all levels of public-sector support as well as the corporate and community-development segments of the private sector. Ideally, these effort should be “driven” by an efficient parastatal.

The Sasolburg urban complex also stimulates developments in the Free State, even though most of its economic spin-offs spread into southern Gauteng. As a result, its multiplier impact on the Free State is more limited. The same applies to some of the other “border area” activities close to the Eastern and Northern Cape, KwaZulu-Natal and Mpumalanga.

Activity axes along major through-roads (like the Mangaung-Maseru axis) also offer some scope for clustered business and/or industrial developments, even though the overall impact may remain modest. The same applies to what is probably the Free State’s greatest development challenge, viz. the reactivation of at least some of the decaying smaller towns, and the steady expansion and “formalisation” of rural as well as urban informal-business activities.

5 Cross-cutting issues and opportunities

Given the wide range of growth-impeding factors of the Free State’s economic-development process, it is of the utmost importance that the region obtains its full share of the central government’s financial and other development support. In fact, public-sector bodies in the province, assisted by and closely operating with private-sector bodies or leaders, have to strengthen the local capacity to utilise or “milk” any potentially available national resources.

Similarly, the proactive involvement of the Free State’s public-sector, working together with private initiatives, also calls for the strategic restructuring of some important institutions and a more focused utilisation of available support programmes. In this context particular attention has to be given to the small-enterprise sector and its role in the activation of growth and employment opportunities. Once again, this calls for a systematic combination of national, provincial and local support programmes.

The supply of appropriately trained and skilled labour is equally critical for accelerating growth, with the Free State particularly sensitive to the brain-drain towards

nearby Gauteng. Here again, proactive public-private partnerships are needed in the training and applied research fields to reverse nett outflows. More specifically, and working from the perspective that knowledge (its generation, transfer and regeneration) has become a very important factor in economic growth in South Africa and across the globe, the province should promote the following:

- /// research and development (R&D) in science, engineering and technology, and their increasing contribution to the South African National System of Innovation through the activities of the existing research and development institutions and facilities,
- /// the development of the human knowledge base of the province, especially at further-education and higher-education levels as well as life-long learning,
- /// the expansion of the ICT infrastructure to facilitate competitive business, government and development communication,
- /// cross-provincial institutional linkages and networks to enable the Free State to participate effectively in “knowledge-economy” activities across South Africa.

The PEAC sees the Free State’s complex economic interaction with Lesotho’s economy as both a challenge and a creative opportunity for the stimulation of provincial economic growth. Once again, however, these challenges call for creative programmes and support from all levels of government.

6 The road ahead

The legacy of more than a decade of economic stagnation has become a growth-retarding factor of its own. Any concerted efforts to “turn around” such stagnation will, therefore, have to include effective steps to propagate and “market” a new, revitalised Free State economy. These efforts will have to show that the combination of:

- the central geographic location of the Free State,
- its close links to the country’s national history and political evolution,
- its close interaction with Lesotho’s economy and society,
- its two dynamic urban centres (Bloemfontein and Sasolburg) and
- a number of promising sector niches

can create the preconditions for a “turn-around process” if actively supported by public as well as private investors, business interests and public stakeholders.

Parallel to such a determined marketing effort, the province needs to monitor its economic-development process very carefully, maintaining an open mind about effective as well as less effective support efforts and the need to regularly re-evaluate its development strategies.

Within the parameters of its role and mission, the PEAC is committed to help strengthen and guide these efforts. //

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Abbreviations used

ARC	Agricultural Research Council
B+B	Bed-and-breakfast establishment
BEE	Black economic empowerment
CDS	Centre for Development Support
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DEAT	Department of Environmental Affairs and Tourism
DoL	Department of Labour
DoT	Department of Transport
DTI	Department of Trade and Industry
EU	European Union
FET	Further education and training
FGDC	Free State Goldfield Development Centre
FS	Free State
FSDC	Free State Development Corporation
FSDP	Free State Development Plan
GDP	Gross domestic product
GRP	Gross regional product
HDI	Human Development Index
HSRC	Human Sciences Research Council
ICT	Information and communication technology
IDC	Industrial Development Corporation
IDZ	Industrial Development Zone
IT	Information technology
LED	Local economic development
Nepad	New Economic Plan for African Development
NGO	Non-governmental organisation
PEAC	Premier's Economic Advisory Council
PGDA	Provincial Growth and Development Agreement
PPP	Public-private partnership
SADC	Southern African Development Community
SME	Small and medium enterprise
SMME	Small, medium and micro-enterprise
TEP	Tourism Enterprise Programme
TMF	Thabo Mofutsanyane (district)
VFR	Visiting friends and relatives

Reports prepared for the PEAC

- 1 *Economic Profile of the Free State:*
“Background information on the economy of the Free State”,
Urban-Econ, April 2004, 19 Sections, 150 pp.
- 2 *Provincial Development Plan(s):*
“Evaluation of the process of compiling the Free State development plan (FSDP)”,
Roefs, M., D. Atkinson and S. Makgoba, HSRC (Bloemfontein), October 2003, 30 pp.
- 3 *Local Economic Development (LED):*
“Evaluation of LED in the Free State Province”,
Nel, E., Rhodes University and the HSRC, University of the Free State, November 2003, 55 pp.
- 4 *Mining Sector:*
“An assessment of the mineral potential of the Free State”,
Ehler, D. L., M. G. C. Wilson and G. Henry, Council for Geoscience, November 2003, 71 pp.
- 5 *Mining Sector:*
“Proposals for the utilisation of redundant mine infrastructure for the benefit of local communities”,
Reichardt, M., March 2004, 26 pp.
- 6 *Small-Scale Mining:*
“Small-scale mining potential of the Free State”,
McGill, J., E. Phelane and R. Moseme (Miningtek/CSIR), March 2004, 45 pp.
- 7 *Small-Enterprise Development:*
“Opportunities, obstacles and action steps for the development and strengthening of SMMEs in the Free State”,
Rogerson, C. M., May 2004, 75 pp.
- 8 *Education, Training and Research:*
“The Free State in the 21st century – Critical linkages to the emerging knowledge economy”,
Abrahams, L., Link Centre, University of the Witwatersrand, March 2004, 56 pp.
- 9 *Free State and Lesotho:*
“Exploring linkages between the Free State and Lesotho in the social and economic sphere”
Zingel, J., Democracy and Governance Unit, HSRC Bloemfontein and Rural Urban Integration Consultants, Maseru (report pending)
- 10 *Provincial Spending:*
“Provincial-government departments (in the Free State) and the spatial allocation of funds”
CDS/HSRC, Bloemfontein (report pending)
- 11 *Water Supply and Demand:*
“Water Demand of the Free State Province 2005–2020”
Viljoen, M. F., Free State University, Bloemfontein
- 12 *Tourism-Sector Development:*
“Study of the tourism potential of the Free State”
Visser, G. and N. Kotze, Free State University, Bloemfontein
- 13 *Farm Workers:*
“Farm workers and their livelihoods – Life on the farm: Shifting social and moral foundations of the farming community”
Atkinson, D., Free State University, Bloemfontein
(part of a book-length study already completed)
- 14 Agricultural diversification (report pending)
- 15 *Manufacturing Industry Study:*
“Current trends, spatial and sectoral considerations and future prospects”
Nel, E. (Rhodes), C. Rogerson (Wits) and L. Marais, CDS–UFS

SECTION 1

Introduction and Background

1.1 Role of the PEAC

When the Premier's Economic Advisory Council of the Free State Province was established in September 2001 (for an initial three-year period), its role included

- /// reviewing the provincial government's economic policies and development strategies,
- /// analysing and reviewing national and global economic trends and their impact on the Free State economy,
- /// evaluating key economic issues and their impact on current and future plans, and
- /// advising on policies towards meaningful economic transformation, accelerated growth and poverty alleviation, and innovative people-centred and community-based empowerment strategies.

The activities of the PEAC and its progress over the first two years have been detailed in the Annual Reports of 2002/03 and 2003/04. The set of seven key responsibilities includes:

the development of "a comprehensive and coherent Economic Development Strategy to enable the achievement of the economic objectives of the Free State Development Plan".

In pursuing its role during the past three years the PEAC has been aware, and deeply concerned about, the Free State's economic stagnation, its high and increasing levels of unemployment and the inability to make significant progress with poverty reduction and social upliftment.

In order to address these fundamental issues and trends, the PEAC decided to commission a number of studies, each focusing on a major issue or symptom of the overall malaise. With most of these reports completed the PEAC is now in a better position to reflect on growth, development and transformation prospects over the next decade. The interrelationship between these reports is summarised in *Box 1*.

Box 1

Research commissioned by the PEAC

As background to this report, the PEAC commissioned 14 studies over the 2003/04 period. These studies are placed into context in this box. The PEAC also studied the following policy and planning documents made available by the respective bodies.

- /// The 2003 to 2007 Free State Development Plan (FSDP)
- /// The Provincial Growth and Development Agreement (PGDA) (October 2003)
- /// The 2003/04 to 2005/06 Strategy Plan of the Department of Economic Development and Tourism
- /// Provincial budgets
- /// Key documents of Mangaung, Mathlabeng and other municipalities
- /// Annual reports of Free State development parastatals, incl. the Free State Development Corporation (FSDC)

As general background to all the sector reports, the lengthy “Free State Economic Profile” provided comparative data for all the sectors and briefly summarised sector growth trends. In-depth sector studies were prepared for agriculture, mining (3 reports, which also cover the re-use of obsolete mining infrastructure and the potential of small-scale mining activities), manufacturing and tourism.

Important cross-cutting issues covered in separate reports include small-business development, local economic development, education, training and the challenges arising from the “knowledge economy”, interaction with Lesotho, and a survey of the Free State’s water resources. In addition, the PEAC supported the publication of a book-length study on farm workers and sustainable livelihoods in the Free State and it commissioned a report about the planning process used in the FSDP and one on the spatial allocation of public-sector funds.

Some of these reports (in particular those on small enterprises, on LED and on manufacturing) contained detailed references to platteland places, thereby reflecting on the different dimensions of the “dilemma” of the Free State’s smaller towns.

Parallel to these detailed studies the PEAC also reflected on the interaction of underlying growth and development impediments and how these could be tackled in order to reactivate economic growth. This report is the outcome of that reflection, informed by the more detailed research undertaken on specific obstacles and growth forces, and influenced by an intense awareness of the complex and socio-politically sensitive nature of many of these obstacles as well as any efforts to address them. In addition, it was agreed at the outset that the report would be concise and strategically focused in order to facilitate its discussion and strengthen its impact.

1.2 The Free State economy in national perspective

Key demographic and economic data on the Free State economy are summarised in *Box 2*. With 10,6 per cent of South Africa's area, 6,4 per cent of the population (2,9 million) and 4,9 per cent of the country's Gross Domestic Product the Free State is relatively large in size but small in population and even smaller in terms of GDP contribution. In sharp contrast to the two relatively best developed provincial economies (Gauteng and the Western Cape) the Free State's population is significantly less than its area share (i.e. it has a relatively low population density), and its GDP share is even less than the population share, which implies a less than average *per capita* GDP.

In its starkest form this relatively weak position of the Free State economy is reflected in the 2002 annual *per capita* income levels, which are R17 164 for South Africa as a whole, R32 356 and R26 154 for Gauteng and the Western Cape respectively, but only R11 854 for the Free State. Thus, the Free State's average is just above a third of Gauteng's.

Admittedly, the Free State's economic indicators show clearly that it is not the "least developed" regional economy of the country. With an average unemployment level (2002) of 38,9 per cent (close to the national average of 40,8% although far above the Western Cape's 24,6 per cent) it is significantly below the 47 per cent of KwaZulu-Natal and the 56,6 per cent of the Eastern Cape. Similarly, the urbanisation level of the Free State is 71,7 per cent, which is the fourth-highest and almost double

the level of the Eastern Cape. Also in line with this, the Free State's share of "people living in poverty" (54,7 per cent with a national figure of 48,9 per cent) is significantly lower than the share in the Eastern Cape (68,4 per cent) and Limpopo (62,6 per cent). Even in functional literacy the Free State average is the fourth-highest in the country and in age-dependency the third-lowest – clearly placing it in the middle range of South African regional-development indicators.

The Free State's demographic structure reveals lower than average annual population growth over the past decade, and an equally lower projected growth rate. Underlying this overall trend are, however, fairly dramatic shifts in the spatial settlement pattern.

- /// After a sharp increase in the population of the former "homeland areas" (ThabaNchu, Qwaqwa and Botshabelo) between 1970 and 1991, these areas have had little growth, if not outright decreases, since 1992 (from 583 000 in 1991 to 555 000 in 2001, and probably less than 530 000 currently).
- /// The population of Free State cities and regional towns remained virtually static over the decade 1992 to 2001 (at about 64 per cent of the provincial urban population).
- /// In contrast, small and middle-order towns absorbed substantially more people over the decade, from 502 000 in 1991 to 790 000 in 2002, even though few of them had a solid economic base to absorb the in-migrants.
- /// The number of people settled on commercial farms in the Free State decreased by 230 000 between 1991 and 2001.
- /// The African share in the Free State population is currently about 84 per cent, compared to 75 per cent for South Africa as a whole.

Viewed in historical perspective, the Free State has been one of the central areas of South Africa's unfolding black-white political economy, having been colonised in the Great Trek era, strictly controlled under the apartheid era (with people of Indian descent even disallowed entry into the province at one stage) and having flourished economically for some decades due to the richness of the gold-fields and the importance of the Free State's maize fields for South Africa's staple-food production. The region also had its well known "mega projects" like Sasol started in 1955, at the northern tip of the province, the Orange River dams as major capital

projects of the 1960s, the vast Lesotho Highlands Project at the Free State–Lesotho border in the last 15 years, and the Cape Town–Witwatersrand, Port Elizabeth–Witwatersrand and Durban–Johannesburg transport axes covering road and rail links.

Thus, the Free State had a solid economic base, which unfortunately has been sharply dented by the decline in the gold-mining industry over the past decade and the rationalisation of the grain industry, which together cost the provincial economy more than 100 000 jobs. It is this “shock effect”, combined with a number of other limiting factors, which currently characterises the Free State economy as one of South Africa’s particular “problem areas”, calling for concerted action at national, regional and local levels.

If these structural forces, and more short-term obstacles, are not addressed in a concerted, systematic and proactive way there is a real danger that a “vicious circle of stagnation” accelerates and the province drifts into deeper conflicts. On the other hand, a determinate approach should enable the province to gradually overcome structural growth impediments and evolve along a new growth path.

The PEAC is convinced that such a “turn-around” onto a new growth path is possible, and that all stakeholders and players in the Free State’s economic process should co-operate in order to achieve that goal.

1.3 Structure of the report

Given the background summarised above, the report consists of seven sections.

- /// Section 2 provides a frank review of the Free State’s current economic position and the factors underlying its disappointing development and growth performance.

- /// Section 3 outlines a combined approach of broad-based, interactive local, regional and sectoral development, which should play a catalytic role in the mobilisation of the region’s latent development potential.

Box 2
Basic facts on the Free State economy

Land area	129 480 km ²	10,6% of South Africa
Population (2002)	2,95 mill.	6,4% SA
Population growth <i>per annum</i> (1996–2001)	1,12%	1,52% SA
Population growth estimated 2001–06	0,72%	1,18% SA
Age dependency ratio	55%	63% SA
Economically active population	1,09 mill.	37,3% of population
Child mortality	24‰	13‰ SA
Functional literacy	68,6%	72,4% SA
HDI (2002)	0,55	0,60 SA
People living in poverty (2002)	54,7%	48,9% SA
Annual <i>per capita</i> income	R11 854	R17 164 SA
Unemployment (2002)	38,9%	40,8% SA
Equitable share in national budget allocation (1999–2002)	6,8%	
Urbanisation level (2002)	71,7%	55,4% SA
GDP 2002	R49,1 bill.	4,9% of SA

Main Sectors	GDP		Employment	
	1990	2002	1996	2002
Agriculture	9,2	9,2	18,2	20,1
Mining	21,5	14,6	19,5	9,7
Manufacturing	18,7	15,6	7,8	6,9
Electricity, water	5,3	3,6	1,8	1,8
Construction	2,6	2,1	2,3	2,2
Trade	10,4	10,0	9,2	10,6
Transport, communication	5,8	6,4	4,1	3,7
Finance	7,1	10,3	3,9	5,0
Community services	19,4	28,2	17,6	24,7
TOTAL	100,0	100,0	84,4*	84,7*

*Excludes self-employment by households

Free State government budget (R mill.)				
	1998/9	%	2003/04	%
Equitable share	5 432,2	87,7	7 985,7	86,1
Conditional grants	511,8	8,3	1 010,9	10,9
Other revenue	251,3	4,0	280,5	3,0
TOTAL	6 195,3	100,0	9 277,1	100,0

District Economies (2002)

	Population	GDP	Unemployment	People living in poverty	Growth p.a. '90–'02
Motheo	26,0%	30,9%	41,1%	61%	1,3%
Lejweleputswa	26,9	26,5	36,6	66	–2,3
Thabo Mafutsanyane	26,3	14,0	34,1	72	0,3
Northern Free State	16,3	25,5	38,3	62	0,4
Xhariep	4,5	3,1	38,3	57	0,9

Total	100,0	100,0	38,9	—	-0,1
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/// Section 4 reviews the development potential in key sectors and niches of the Free State economy, whereas section 5 indicates the most important spatial dimensions of economic development in the province.

/// Section 6 considers the most important and promising instruments to facilitate people-centred partnership approaches, including the public sector as well as all segments of the private sector.

/// Section 7 addresses implementation challenges, clarifying the PEAC’s perception of the road ahead after the release of this report, yet also bearing in mind, of course, that the PEAC is merely an advisory institution.

The PEAC recommends that research reports which cover major development issues and key growth sectors be released gradually. In each case the edited version will link the research results with the proposed overall strategy and recommendations put forward in this report.

Through the release of these sector or issue reports public debate on appropriate interventions can be further stimulated, and a partnership approach encouraged, with major emphasis falling on action to be taken by the private-business sector, parastatals, NGOs, community initiatives and other players in the regional economy.

This process, through its impact on provincial-government departments, local and district authorities and other policy shapers, should lead to a strengthening of the strategic approach presented in this report as well as a private-public partnership stance in the mobilisation of economic development in the Free State. //

SECTION 2

Factors limiting Economic-Development Momentum

Before we can even begin to consider appropriate steps to overcome some of the current development impediments of the Free State economy, it is essential that we understand the full range of growth-impeding factors influencing day-to-day business and economic activities in this region. This section highlights critical factors that “hold back” economic growth and development in the Free State.

The range of impediments can be grouped into three categories, viz.

- /// sector decline or structural adjustments
- /// infrastructure and spatial development weaknesses
- /// development environment impediments

Each of these are briefly reviewed below.

2.1 Weak sector growth

Three types of problems interact to make the lack of dynamic sector growth a major factor in the Free State’s current economic stagnation: The sharp decline in gold-mining-sector activities; structural adjustment problems in other core sectors; and the apparent lack of new dynamic sectors to “drive” future growth. Each one of these deserves closer attention.

2.1.1 Gold-mining

We have already referred to the fairly rapid decline in the output of Free State gold-mines over the past decade, in line with diminishing resources and a relatively stable, if not declining, gold price, combined with the escalating operating costs of the mines and a resurgent Rand. Measured over just the past eight years the share of mining in the regional GDP declined from about 17,5 to 14,0 per cent, and the employment share even sharper from 19,4 to 8,0 per cent. Recent upward trends in the value of the South African currency have further impaired the profitability of the Free State gold-mines, since the dollar price for gold bullion has not increased proportionately. As there are no indications of further gold resources at comparable

or lower costs in the Goldfields area, this decline will have to be accepted – with the redundancy process likely to escalate further after 2010.

Although painful, this decline did not come as a surprise. It should not be regarded as abnormal internationally, or necessarily indicative of the long-term economic stagnation of the provincial economy. The world is full of examples of declining mining industries and how this virtually paralysed cities and regions, unless (and until) the public and private sectors of the respective areas tackled these structural challenges in a concerted way, activating new growth forces. Probably the best known example is the decline of the coal industry in central (Western) Europe during the 1960s and '70s, which forced well known German cities like Dortmund, Duisburg and Essen to drastically reorientate their economic growth process – with the outcome a few decades later far from disappointing.

The fact that the other two important minerals extracted in the province (diamonds and coal) provide no substantial growth momentum either does not alter the situation: It only strengthens the need for a sector-refocus. What is more important, these facts call for effective strategies to manage the decline and restructuring of this sector as a major public-private partnership initiative. This challenge has so far not been tackled in an effective way.

2.1.2 Agriculture

With its vast area, the relatively low population density, its central location in South Africa (vis-à-vis consumption centres and transport routes to major harbours) and the density of dams and other water supplies, the Free State has traditionally been part of South Africa's staple-food basket (focusing on wheat, maize, cattle and sheep). World-market competition, rising operating costs in the modern farming enterprises and climatic factors have dampened further expansion of these large-scale units. In addition, rising labour costs have resulted in fairly large rationalisation and mechanisation processes, which have reduced the significance of conventional agriculture as an employer and as a potential growth stimulant.

Parallel to the relative decline in conventional farming in the Free State, a number of niche products or crops have emerged in Free State agriculture, including potatoes,

groundnuts, sorghum, sunflowers and asparagus on the crop side, and flowers and cherries on the horticultural side as well as game farming on the livestock side. The range could, probably, be further expanded, especially in irrigation areas and near rivers, mountains and other unique environments. So far, however, the overall impact of these alternatives has not compensated for the stultifying effect of the stagnating conventional segment.

Aside from agricultural activities on commercial farms, the Free State also faces challenges in the sphere of land reform, the modernisation of subsistence agriculture and support for emerging black farmers.

Thus, while the agricultural potential of the Free State remains significant, the management of the transformation process is deficient and lacks an effective public-private partnership process.

2.1.3 Lack of “new” growth sectors

In this context of a sharply declining dominant sector; the consolidation of the second core sector; and a shift of the development momentum in manufacturing and trade towards Gauteng and other regions of the country; the absence of any “visible and imagination triggering” new (growth) sectors or niches has further hampered the Free State’s development morale. While most other regions of South Africa have for some time been looking at tourism as a new growth sector (possibly even overstating its potential in terms of steady employment) the Free State has been relatively slow in focusing on this – thus accentuating the apparent “void” in the provincial development base. The same applies to other niches within the services sector, where promising trends are visible, but not much has been made of them in provincial or regional economic-development strategising. Here we think of financial and business services, transport, communications, and personal as well as professional services, including health and education.

This perspective of “lacking a major growth sector” has been strengthened by an almost insular approach towards regional or provincial growth, viz. the neglect of interactions between Free State enterprises and growth sectors in other regions.

2.2 Spatial and infrastructure weaknesses

The rather complex weaknesses related to the spatial spread of economic development amount to a major challenge for the Free State government and emerging local authorities. The virtual “implosion” of some small-town economies, combined with the demise of Welkom as central town of the gold-mining region, constitute some the most critical problems for the provincial economy.

2.2.1 Spatial development imbalances

The “centrality” of the Free State – it borders directly on six of the other eight provinces as well as on Lesotho, and has direct routes to four of South Africa’s six major harbours (Durban, East London, Port Elizabeth and Cape Town) – has not really helped the region in its “internal” economic development during the past few decades. In fact, historically, developments “just on the other side of provincial or national boundaries” were at times more significant than those inside the region: We can mention the “Southern Transvaal” (Vanderbijlpark, Vereeniging, Sasolburg) developments of the 1960s to 1980s, the Kimberley diamond boom of the late 19th century, the Orange River Dam (Gariiep Dam) building of the 1960s, the Lesotho Highlands Water Scheme of the 1990s and the Johannesburg–Durban transport corridor. Towns and firms in the Free State could participate in those developments (as Sasolburg did), but the bulk of the momentum did not spill over into the Free State economy.

Aggravating these spatial imbalances we find an almost total absence of corporate headquarters located inside the Free State, a factor that has for long weakened the private sector’s relative strength in Free State society. What is more, communication and IT trends over the past eight to ten years have further “flattened” corporate management structures, which led to a curtailment of “regional offices” in all but the three largest centres of the country (Johannesburg, Durban and Cape Town). To crown it all, Bloemfontein’s role as judicial capital of South Africa has been undermined by the establishment of the new Constitutional Court in Gauteng. Similarly, hopes in the past decade that Bloemfontein (as the “most central” city in South Africa) would succeed in securing the seat of a new South African parliament did not materialise, while current efforts to give the Free State a significant role in

South Africa's "Africa involvement" (e.g. the location of the AU parliament) are still inconclusive.

The Free State's relative proximity to the national economic hub (Gauteng being a mere 3 ½ hours away by car) has further reduced the scope for local, market-driven manufacturing facilities. Besides, with a share of only four to seven per cent in national consumer spending, local demand is normally too small to justify regional production facilities.

2.2.2 Small-town decay

A survey of Free State small-town developments commissioned for this study revealed what is a well known experience for many Free State residents, viz. the wide-spread decline in development momentum in a large number of the province's towns and villages. This includes a deterioration of the physical and service infrastructure, an exodus of established businesses, a decline in local employment opportunities, near-bankruptcy of municipal finances and the absence of clear, widely supported growth visions. Most significant (and disconcerting) is the wide-spread communication, consultation and co-operation gap or divide between the local business community on the one side and local councillors and political leaders on the other side. At the same time, as already indicated, the population of several of the smaller towns increased significantly over the past decade, given the exodus from commercial farms and the former homeland areas as well as the declining gold-mining sector.

This trend is all the more worrying since in the past the Free State, given its vast area and low population density *and* its well established road and rail network, depended to a great extent on its network of small towns for the underpinning of economic activities in the platteland. The only exceptions were the few larger centres (essentially Bloemfontein, the Goldfields and Sasolburg) which, unfortunately, cannot easily compensate for the increasing vacuum at the small-town level.

2.2.3 Infrastructure deficiencies

For reasons which can be linked to the centrality of the Free State in terms of South Africa's transport infrastructure, but also to the spread of smaller towns and the rapid growth of Welkom, Sasolburg and Bloemfontein during the 1970s and '80s, the core of the transport, education and health, communication, energy- and water-supply infrastructure of the Free State had been fairly well developed before the 1990s, especially if compared to the more remote regions of the country. This helped maintain the province's competitive edge in a range of economic activities, notwithstanding other structural weaknesses. Unfortunately, those standards started to drop in the 1980s; this process accelerated during the 1990s and has been further aggravated lately by the decline in mining revenue and local-authority funding. The abolition of racial differentiation made infrastructure bottlenecks even more visible. Currently, weaknesses in the Free State's physical and social infrastructure have become a serious *deterrent* to inward investment, growth and development, which is in sharp contrast to a well developed infrastructure being a lever for the *attraction* of investments.

2.3 Impediments in the development environment

This segment of the causes underlying the Free State's economic stagnation includes a further range of far-reaching, socio-politically sensitive problems, each of which calls for concerted action.

2.3.1 Polarisation of society

Against the background of development impediments already mentioned, two issues related to the structure and group interaction of Free State society have added significantly to the dampening of development initiatives and the relative ineffectiveness of many development efforts. The two issues relate to black-white and black-black as well as private-public sector interactions and relations in Free State society.

As known all too well to people resident in the province, black-white relations in the Free State have historically been very difficult and have over the past 15 years gone

through a difficult adaptation process. In apartheid South Africa Free State society was totally white-dominated, with Asians virtually excluded, coloured people only present in very small numbers and Africans limited to either migrant or farm labour, or to the “homeland spots” of Qwaqwa, Bophuthatswana (ThabaNchu) and Botshabelo. After the political transformation, local Africans formed the majority of the electorate. This was reflected in the composition of the Free State representatives in the national parliament, as well as in the provincial legislature and in local councils. It was also reflected in the changing composition of the civil service, which went from being totally white-dominated to African-dominated, with many of the white civil servants taking a “package” and leaving the province.

Although white-black relations have improved impressively over the past decade, it should be clear that such dramatic shifts also had an effect on professional and operational white-black interaction in the Free State public sector and in the transfer of skills and experience. These issues contributed to the initially very weak interaction between a largely white-dominated business sector and the black-dominated public sector in the province and also had an influence on consultation processes at local (LED), district and provincial levels. These changes may even account for the rather disconcerting attitude of some strategy planners who felt that “consultation of the business sector” (white *and* black) was not really necessary, since “public action was the real factor”. To further aggravate problems, regional (north-south) sectionalism in the black community made partnership approaches difficult, and often diffused focused initiatives.

These points suggest that further improvement in group and stakeholder relations will be critical for the re-activation of local economies, since (as shown all over the country) the business sector, *including* enterprises owned by all race groups, is too important to be ignored in the complex dynamics of South Africa’s economic development. At the same time it seems critical that whites resident in the Free State and those co-operating in its economic and business processes, embrace “the new Free State”, with all its strengths, imperfections and challenges.

2.3.2 HIV/AIDS

According to recent HSRC data, the Free State has South Africa's highest HIV/AIDS infection rate. This is understandable given the Free State's central location, the prominence of long-distance through-roads and rail links, the spread of HIV/AIDS through the mining sector, and the presence of migrant labour. The unfolding of this pandemic constitutes a major drain on human resources, the skills supply and public-sector-development funding, in particular as the long infectious phase is now evolving into the phase of active disease (the onset of AIDS proper) and escalating mortality.

2.3.3 Institutional weaknesses


In any developing community public-sector institutions, ranging from provincial and regional authorities to local authorities and parastatal bodies, are critical for the effective implementation of development strategies and for efficient interaction with the private business sector and civil society. Similarly, an active, organised business sector can be a valuable element in an interactive socio-economic development process.

Compared to performance levels in some of South Africa's other provinces the operational capacity and managerial effectiveness of all three sets of institutions (the public sector, organised business and civil society) are relatively weak in the Free State. This state of affairs can be related to historical forces and past practices. A strengthening of these structures and institutions is one of the greatest challenges facing the provincial economy and Free State society.

2.4 Conclusion

It should be clear from our discussion of this wide range of development and growth obstacles and impediments that the Free State does indeed face some formidable challenges. It is not just a matter of the “replacement” of jobs lost at the gold-mines or through the greater mechanisation of agriculture. The region has to re-evaluate its position and role in the rapidly changing South Africa, which in addition faces challenges of globalisation. This re-evaluation has to be a process, far more comprehensive than the production and dissemination of a strategy document, or the completion of a few “road-show” contact sessions. It should be a process in which every stakeholder becomes aware of the challenges (including the absence of any “quick-fix solutions”). All interest groups have to re-evaluate their own positions, have to appreciate the positions taken by government and other dominant players (organised labour and business, tertiary education and research bodies, major NGOs and professional organisations) and then have to plan adjustments of their own modes of proceeding accordingly.

Comparative development history reveals many of these regional development dilemmas. We find them as lagging regions or provinces in developed countries, and we can see parallels in the “catching-up” challenge facing several of the eastern European economies after they shed socialist development models, and while they move into the EU family. Success has usually been shaped by the interaction of two sets of forces: Broad-based local initiatives and public-private partnerships on the one hand, and strong, strategic support from national or multi-national (EU) authorities on the other. Seldom has either of these sets of forces alone been sufficient.

In the next section we outline key elements of such a “new” approach needed for the Free State to meet the challenges of a changed South African business and development environment. 

SECTION 3

Towards a responsive Partnership Approach to Development

Noka e tlatswa ke dinokana
(A river swells from little streams)

Section 2 concluded that the disappointing economic situation of the Free State is neither unique nor irreparable. The regional economy had a strong sector growth base (albeit unduly dependent on just two sectors), a reasonably well developed infrastructure, close links with economic activities in adjoining regions and a reasonably well equipped labour force within a relatively highly urbanised society.

We also indicated that serious and systematic efforts to overcome the stagnation and lack of development initiatives requires a new approach, where both the public and the private sector co-operate closely on a partnership basis. The suggested approach contains two major elements or dimensions, viz.

- /// broad-based endogenous development and
- /// systematic exogenous development support.

It is argued in this section, and further explained and illustrated in the remainder of this report, that both these elements are absolutely essential; neither of them alone can achieve the much hoped for “breakthrough”.

Both of these elements are briefly explained below, and their interaction in the broader strategy is discussed in sections 6 and 7.

3.1 Broad-based endogenous development

With the decline of its core sector (gold-mining) and limitations existing in all the other sectors, the future internal growth momentum in the Free State will largely depend on the mobilisation of the broadest possible range of (less dominant or “significant”) growth sectors or niches in the largest number of places or clusters of local growth areas. The emphasis in a strategy of broad-based endogenous development thus has to fall on the range or variety of growth forces, areas,

sectors/niches and other development-supporting factors discernible in the provincial economy.

Such an approach suggests that it is better for a country or region to have several (related or unrelated) growth niches, each to some extent competitive vis-à-vis (some) other region's and (ideally) also globally, rather than just one major growth sector or one overwhelming, comparative advantage (like a major, exportable mineral, e.g. gold). In such a broad-based growth path the decline of one or two of these competitive niches will not affect the overall performance too much.

Growth opportunities can be found for any economic sector. Section 4 shows that in the case of the Free State, they could include segments of mining and conventional agriculture, with the emphasis, however, falling on, *inter alia*, new agricultural niches; the processing of a range of petrochemical, pharmaceutical as well as textile and clothing products; a wide range of tourism services; transport and trade-hub facilities; some training and research niches; as well as professional services. Similarly, these growth opportunities could be linked to different geographic areas – like Bloemfontein, the Goldfields area (e.g. the re-use of mining-infrastructure facilities), the Sasolburg complex, the Orange River dams or the Free State–Lesotho border area (including the former Qwaqwa). Thus, as we shall illustrate in Section 4.2, there is even the potential for small towns to redevelop into tourism growth points as Clarens has done.

This endogenous growth approach stresses the potential of individually non-spectacular and non-“unique” competitive advantages, which, as a rule, are entrepreneurship- or private-sector-driven. Yet, to become a reality, these opportunities usually have to be encouraged and facilitated through different types of public interventions. If the latter is present, the totality of these impulses and their interaction should add up to sufficient growth, development and transformation to successfully address the challenges mentioned earlier.

It should be clear from this brief sketch of a decentralised approach to regional growth that for it to succeed, dynamic bottom-up, private-sector-driven partnerships are critical, though not sufficient. They have to be complemented by public-sector-initiated and efficiently implemented support, which is the other part of the overall strategy. In the context of the Free State such an approach also depends significantly on proactive, partnership-like co-operation between black and white enterprises, interest groups and business partners and, equally important, close co-operation between public and private-sector players at local, district and provincial levels.

3.2 Exogenous development support

The strength and sustainability of endogenous, grassroots-driven development in the Free State will depend crucially on the consistency, appropriateness and forcefulness of public-sector development support, where such support can come from the provincial or the national level of government, re-enforcing local- and district-authority action.

As it is on the grassroots level and in the private sector, initiatives have to be encouraged, supported and complemented, and higher-level support often has to be “fought for”. Given the wide range of development-support programmes maintained by the national government for the nine provinces, it is up to provincial authorities to identify the most appropriate programme/s for each local-development initiative (or for strategic projects and programmes) and to try as hard as possible in order to negotiate the best package of national support for the Free State.

To be effective this negotiation process also has to be partnership-driven, with the private sector, local, regional or sectional development agencies and all levels of government co-operating and re-enforcing the thrust. The Free State faces tough competition in its search for public resources and project support – competition from the other provinces, from the dominant metropolitan areas and from national-priority projects. As indicated, the Free State has a past growth record and it faces special transformation problems that fully justify transition support, but it still has to fight its own battle for attention and exogenous support. Naturally, such support need not

only come from national-government departments; bodies like the DBSA, the IDC and other parastatals as well as statutory bodies are equally relevant, just as foreign donors and multilateral initiatives (e.g. in the context of Nepad) can play a significant role. Yet in all these cases the initiative and momentum will have to come from the Free State.

This closer interrelationship between the endogenous and the exogenous dimensions of partnership-based growth further highlights the importance of the provincial government and its systematic and forceful approach towards both the endogenous and the exogenous dimensions. It has to encourage local initiatives and local projects and efforts, but it also has to fight alongside local partners for the attention of national bodies and inclusion in national projects and programmes.

3.3 Characteristics of an interactive partnership approach

This brief subsection provides a few thoughts about the nature and possible unfolding of such a two-sided partnership approach.

Let us first put forward what is unlikely to succeed. We cannot expect the provincial government or local authorities (let alone any national government department) to identify all potential growth opportunities and to activate them in a classic command-economy way. Even if consultants or researchers identify specific opportunities, it takes active entrepreneurial involvement to assess their significance and commercial viability, and even more effort to act upon them and to transform these opportunities into viable and sustainable businesses or development projects. Civil servants at provincial, district and local-authority levels are usually not trained or “equipped” to play such a role on their own, however keen politicians and others may be to galvanise new growth areas.

Here we come to the crux of this approach to local and regional development: We have to activate local “players” who are able, motivated and have the capacity to identify new business and development opportunities, to act upon them and to transform *potential* into *actual*, sustainable enterprises and activity clusters. For

success in these initiatives the overall business and investment environments of regions or towns play a significant role, i.e. public stakeholders have to facilitate these processes, help to clear obstacles, provide incentives or generally “steer” developments.

Box 3 illustrates the relationship between business operators and public-sector facilitators schematically, suggesting that all these efforts in the final instance centre around (growth) *sectors* or niches on the one hand and *places* or areas on the other.

We can illustrate this relationship with two examples.

/// The development of a pottery is one way to create local employment opportunities and, thereby, relieve poverty in platteland areas. There is, however, a big difference between starting such a project in Clarens or Smithfield (both of which both have revealed potential in this area) and starting it in some remote village with no support systems or partner enterprises. Similarly, the pottery might be started by a local community group which has no experience and no direct access to technical or marketing know-how, or it could be started by an experienced entrepreneur or a group of operators who already have some experience or own a facility in some other part of the country. Naturally, we would expect the latter to have a higher likelihood of success and, thus, be a more reliable “job creator”.

/// The tourism sector could be a second example. Whatever the regional or local planning approach towards tourism development might be, it takes an entrepreneur (or firm) to decide to develop a game lodge on a Free State farm, to start a hotel near the Lesotho mountain range or to open an informal accommodation facility in Bloemfontein for Lesotho visitors who want to stay overnight after their shopping in the city. All three are enterprises in an emerging Free State tourism industry, but each will be totally different in format, capital cost, financial viability, legal restrictions and managerial demands.

These examples, and *Box 3*, highlight the challenge inherent in our suggested approach. The six segments in the “business operator” frame (A) of the box

distinguish different business operators which play the grassroots role. The core segments are

- /// well established (expanding/transforming) enterprises (A 4), which can include corporates with their base inside or outside the Free State,
- /// existing, recently established firms which may be in their consolidation or expansion phase and which may try to diversify their business portfolio (A 3),
- /// emerging enterprises, including franchised operations and (on the other side of the spectrum) informal sector operators.

In addition to these we can distinguish community enterprises and not-for-profit enterprises (NGOs, church-run schemes, etc.), some of which may be very innovative and entrepreneurial, and also public-private partnerships, like provincial-cum-private or local authority-cum-private ventures. The latter may be strategically very important, even though they will be few in number compared to private enterprises.

We also included “potential entrepreneurs” (A 1), i.e. those just out of school or older who have acquired an active interest to look for business opportunities or to start ventures.

On the ‘B’ side of Box 3 we show six different levels of public-sector involvement, where civil servants or support programmes could initiate supportive action or respond to requests or proposals. Not every level will get involved in each sector/area or with each type of project. It is the interaction of these different players which can result in a comprehensive, effective support programme as opposed to mere *ad hoc* interventions with little positive effect.

Practical experience shows us that such public-sector interventions (in the Free State as much as elsewhere) have to focus on the following strategic support areas:

- /// Research into regional, local and sectoral trends and opportunities, making the results available to the business community, local authorities and sector associations,

Box 3

Local and regional business and development dynamics

1 Lesotho boundary	2 Goldfields	3 Bloemfontein	D: Areas/places	4 Sasolburg/Northern Free State	5 Qwaqwa	6 Orange River dams
A: Business operators				Local and regional economic-development dynamics	B: Public-sector facilitators	
1 Potential entrepreneurs			1 Local authorities			
2 Emergent enterprises			2 District authorities			
3 Existing/consolidating enterprises			3 Provincial authorities			
4 Expanding/transforming enterprises			4 Parastatals and statutory bodies			
5 NGOs and community enterprises			5 National-government departments			
6 Public-private partnerships			6 Donor agencies (national/international)			
1 Mining	2 Agricultural niches	3 Manufacturing niches	C: Sectors/niches	4 Professional services	5 Transport and storage hubs	6 Tourism

- /// strengthen the overall development image of the region, covering sectoral, spatial and other competitive advantages,
- /// facilitate the identification or take-off of promising growth sectors or niches,
- /// proactively support catalytic or lead projects in the region,
- /// mobilise national government (and foreign/donor) support and/or resources for the region,
- /// address basic poverty-alleviation needs as well as issues of black empowerment and greater equity,
- /// maintain acceptable basic standards in the physical and social infrastructure,
- /// improve public-sector service efficiency.

These strategic intervention areas can each include a variety of projects and programmes, in line with South Africa's evolving regional, sector and local development strategies and policies. The next sections will touch on several of these in the context of the Free State's efforts to strengthen sector as well as spatial development. ///

SECTION 4

Activating Opportunities: Sector growth and transformation

Given the two thrusts within an integrated, bottom-up development strategy (sector-development facilitation and spatial-development support) this section will focus on sector support, taking into account, however, that the uniqueness of sector-growth opportunities is often closely linked to the particular spatial (i.e. urban/rural, geographic or locational) characteristics of an area. For example, the potential of the Ficksburg area as top cherry-growing centre of South Africa is directly linked to its topography and climate (seeing that extensive winter snow is essential for cherry growing).

4.1 The range of sector-growth opportunities

Box 4 summarises the range of sectors and sub-sectors or niches relevant for economic development and growth in the Free State. The structure of the list is based on standard industrial classification categories (distinguishing primary, secondary and tertiary sectors), and the information contained in the *Free State Economic Profile* as well as a range of PEAC research reports. The PEAC plans to publish some of these reports at a later stage, focusing in greater depth on the dynamics of critical sectors and their transformation. This section briefly covers all the subsectors and niches contained in *Box 4*, with the emphasis falling on the diversity of business and investment opportunities, and the need and scope for equally differentiated support policies to activate, strengthen and steer developments in line with overall goals.

“Opportunities” suggested here refer to one or several of the following, in the context of selected sectors:

- /// accepting the “inevitable” with respect to declining sectors and managing that process of down-scaling as efficiently as possible, which includes steps to minimise the socially destructive side effects of the downscaling,

Box 4

Sectors and niches relevant for Free State economic growth

1 Agriculture, forestry and fishing	5 Manufacturing
Crops: wheat, maize, sorghum, groundnuts, sunflower, soy	Agricultural processing (incl. meat, wheat, vegetables, etc.)
Livestock: cattle, sheep, horses	Agricultural machinery and equipment
Vegetables: potatoes, asparagus et al.	Leather tanning and finishing
Floriculture: cut flowers	Gold jewellery, petro-chemicals (incl. Chemcity), chemical-waste processing, fabricated metals, pharmaceuticals, printing and publishing, textiles and clothing, ICT, furniture and timber processing, craft products
Horticulture: cherries, other fruit	
Game farming	
Agri-tourism	
Retirement farming	
Inland fishing (aquaculture, dams)	
<i>Also see:</i> agri-processing, agricultural equipment, agri-professional services	
	6 Trade
	Retail trade: Formal and informal
	Wholesale and imports/exports (incl. Lesotho provisions)
	7 Tourism
	Sight-seeing, heritage and scenic tourism
	Wildlife, game and other eco-tourism
	Holiday and adventure tourism: farms and mountain resorts
	Community and cultural tourism
	Events and sports-linked tourism
	“Visiting Family and Relatives” (VFR) (informal/budget tourism)
	Business and shopping tourism (incl. Lesotho visitors)
	Retirement and second-home tourism
	8 Financial, property and business services
	Banking and insurance services
	Property services
	Business-related professional services (incl. Lesotho-focused)
	9 Transport, storage and communication
	Road, rail, air transport (freight/passenger), telecommunication
	10 Education, training and research
	11 Health, welfare and personal services
	12 Domestic and not-for-profit services, and community activities
2 Mining	
Large-scale: gold, diamonds, coal	
Small-scale: clay, salt, limestone, granite, gypsum, sand/stone aggregates	
<i>Also see:</i> mineral processing (gold), engineering and other professional services	
3 Construction	
Residential: upmarket (incl. renovations)	
low-cost (formal, incl. extensions)	
informal (incl. upgrading)	
Commercial and industrial (incl. farm structures)	
Road construction	
Dam and irrigation schemes	
Building material	
4 Electricity and water supplies	
Power generation and distribution	
Solar, wind and other energy supplies	
Water storage, recovery and distribution	

- /// identifying new opportunities in declining sectors or niches, which may give rise to renewed growth or just a dampening of the decline,
- /// identifying new opportunities in existing growth sectors or those hitherto growing only slowly,
- /// identifying niches in sectors which have so far received little or no attention, but might in future achieve significant growth (also called “new niches of excellence”); this could be based on local market demand, exports or a mixture of these.

To activate these new opportunities, the Free State has a few institutions with a reasonably good knowledge base on which to build its participation in the emerging South African knowledge economy. However, fundamental weaknesses are the muted application of the sciences and the lack of technology diffusion in the range of economic sectors, with resultant low levels of beneficiation and value-addition. High levels of human capacity are required to take advantage of the potential benefits of science, engineering and technology in the beneficiation processes – and that requires resources.

The Free State cannot develop its capabilities for innovation in isolation. Local institutions will need to build critical linkages with institutions in the South African National System of Innovation and among all the agencies in the Free State province, in order to build a sufficiently strong provincial knowledge base that can contribute towards low-, medium- and high-technology economic sectors.

4.2 Agriculture, fishing and rural livelihoods

Free State agriculture has in the past been mainly associated with plantation-style grain crops (basically wheat and maize) as well as livestock (cattle and sheep). Since both of these face limitations with respect to expansion, employment and increased value-added, a more appropriate approach stresses the broad range of agricultural products or niches which might be harnessed profitably in the vast 129 480 km² area of the Free State. A comprehensive, balanced strategy will have to include this evolving range of feasible products, always bearing in mind that it is the farming

community (and its partners in other sectors of the economy) which identifies new products, initially “tests” their profitability (or viability) and which tries out (new) markets, either locally or in the rest of the country, if not internationally. Experimentation with potentially viable new agricultural products is typically a bottom-up process – seldom do the initiatives come from the public sector, even though the latter has to play a major role in facilitating that bottom-up process (e.g. publicly co-funded applied research, export support and/or infrastructure facilities needed for the products).

Giving publicity to new products, spreading the message about their “success” (e.g. through case studies or prizes and awards) and indicating preconditions for such success could be viewed as one important support strategy, appropriately facilitated by provincial authorities (in conjunction with organised agriculture and business as well as research bodies).

As indicated in Box 4, the range of successfully grown crops, cultivated products and livestock is strikingly wide – in line with the geographic diversity of the vast area. Particularly striking are some of the products (cherries, asparagus, potatoes, cut flowers) which fall into the category of relatively “high value per volume”, which feature labour-intensive harvesting, and which are experiencing an expanding market. In the livestock category, game farming forms an expanding segment all over southern Africa, and horses seem to be particularly suitable for the Free State–Lesotho area.

Looked at more closely, each of these activities faces some technical, marketing, quality maintenance, distribution or financing problems or challenges. No doubt we could produce evidence of failures in each segment, or past complaints about insufficient public-sector support to reduce risks or facilitate finance, exports, quality research, etc. Yet, success is possible and realistic chances for the “success” of each niche can be worked out through proper research and business interactions, with the results conveyed in a coherent way to local operators or prospective investors. Over time, some of these products may experience greater market competition (due to more local or foreign suppliers, climatic changes or cost escalation). Similarly, some formerly profitable niches may become non-viable. At the same time others will be

added, in line with changing demand patterns. Taking the Free State as a whole, however, and given its low population density, its close links to neighbouring provinces, and the vast size and diversity of its agricultural land, the long-run potential for a 10 to 15 per cent share of agricultural value-added in the GDP should be feasible.

In capturing these opportunities we have to include *informal* as well as *subsistence farming*, ranging from market gardens and home-based agriculture (vegetable, poultry, goats/cattle) to farming in tribal areas and other un(der)utilised land. While these activities are often only marginal as a source of household income, with actual earnings fluctuating widely between operators and over the years, we should not underrate the informal sector, both as complementary income generator and part-time employer, and as an initial sensitiser for prospective farmers. As such these activities deserve a lot more serious attention with respect to applied research, training and skills transfer, group action, mentoring and financial support than provided in the past.

Two areas more indirectly linked to farming are *agricultural tourism* and *retirement farming* (or “second-home farming”). Both have become important in the Free State, given its relative proximity to the eight million strong megalopolis of Gauteng. Many (subdivided) farms in the Northern Free State and TMF region seem to hold an attraction for higher-income Gauteng households as a “pre-retirement investment”. This trend has several positive effects:

- /// It attracts enterprising people, including increasing numbers of black (upper-) middle class professionals, with access to finance, thereby helping to reverse the exodus from the conventional farming sector.
- /// It creates scope for the employment of local farm workers or managers.
- /// It can lead to further diversification of farming.
- /// It stimulates local investments in rural areas.
- /// It creates local-authority rates income and may mobilise a new category of “local ratepayers”.

Agri-tourism is currently viewed as another promising segment of tourism all over South Africa (and in the rest of Africa), creating a positive impact on rural communities. It can be linked to mere B&B accommodation or restaurants established on farms, to wild-life tourism on farms, or to game lodges. It may be focused on overseas tourists, upcountry visitors, or locals exploring “traditional communities” in order to experience cultural activities, view or acquire local crafts or otherwise interact with local communities. The Free State already has some “rural routes” where opportunities for such contacts are fairly extensive. Further routes are certain to be added, with rural agriculture often one of the attractions, and with the income created through tourism being a valuable addition to meagre earnings from subsistence agriculture, or unstable earnings from commercial farming.

Beyond the narrow sphere of agriculture we can also refer to *inland fishing* (in rivers and dams) and *aquaculture* (fish-farming) as further primary-sector niches with significant potential, in particular near Lesotho, and along the Vaal and Orange rivers as well as the larger dams. Aquaculture is increasing in significance all over the world, and the Free State has the potential to benefit in a substantial way.

Another set of opportunities (and challenges) relates to the interaction between *land-reform steps* (currently picking up momentum in the Free State) and agricultural activities. Since most of the reform-land units are much smaller than the original farms, extensive grain or cattle farming will not be feasible, and more appropriate crop–livestock combinations and innovative types of production (incl. co-operative ventures) will have to be explored and supported.

Linked to these reforms, and the unfolding of the longer-run process of rural–urban migration, is a whole range of further challenges, addressed in the “rural livelihoods” research programme and policy proposals evolving out of this. The Free State is not unique in facing these challenges, and its efforts may benefit from close interaction with similar efforts in South Africa’s other provinces as well as with the national government’s Integrated Sustainable Rural Development Strategy (ISRDS).

Finally, we can refer to agriculture-related or –linked activities in the manufacturing, trade, marketing and professional services sectors of the Free State:

- /// Some potential has been identified for the production (or assembly) of agricultural equipment and machinery in Free State-based plants, for sale locally as well as beyond provincial boundaries.
- /// The processing of locally produced agricultural products (e.g. the milling of maize or wheat or the tanning of skins) has always been an important segment of the (small) manufacturing sector of the Free State, with the gradual diversification of crops and the addition of higher-value products creating scope for further processing.
- /// Increased international and national competition in farming products forces producers to give more attention to marketing, branding and packaging, to distribution channels, quality control and customer service – all of which create local jobs, albeit in other sectors.
- /// The professional expertise developed in the (modern) agricultural sector of the Free State over past decades could also be made available (via consultancies, through joint ventures or through donor aid) to farmers or farming communities in other parts of the province, in adjoining areas (e.g. Lesotho) or elsewhere on the continent. In fact, South Africans are well known as experienced farmers in other African states, and this includes innovative farmers from the Free State.

If we combine all these segments and postulate concerted public-sector facilitation, it does not seem unrealistic to bargain on modest annual nett increases in agriculture-related employment (including involvement on a full-time, part-time or self-employment basis), both directly and through derived employment in the other sectors.

To all these activities we can add a further dimension of the farming challenge: Support by Free State farmers for agricultural innovation and development in Lesotho (ideally with some international aid to make it more attractive as a business venture) could help to re-absorb retrenched mine workers who had been employed as

migrant workers on the Goldfields mines in the past, thereby reducing work-seeker pressures inside the Free State.

Support and facilitation required

Bearing in mind that more detailed reports about specific agricultural products or niches and how they can be supported through public-private partnership action will be released later, and that Section 6 brings together a range of generic support actions covering all the sectors, we can conclude here by merely listing important areas of intervention to promote and facilitate such an evolving, diversifying range of agricultural products and niches.

/// Firstly, supplying and spreading user-friendly (easily understandable) *information* about these products and niches, their strengths, opportunities, demands and obstacles, their relevance in different parts of the province, the different risk factors associated with them, and the range of supportive steps available from different public-sector stakeholders can be seen as critical support requirements. This is a huge task, in particular for a region as widely spread and thinly populated as the Free State, with often sharp differences in the information absorption capacity of local communities (not least with language).

Naturally, the provincial Department of Agriculture is one supplier of such information. Also relevant are other national government departments and national parastatals in this sector, organised business in the agricultural sphere, NGOs and education, training and research bodies as well as private business-service suppliers active in the sector.

While awareness about the need for such information is wide-spread, there is far less success so far in the actual production of such material, or its effective dissemination, let alone the monitoring of its “absorption” by relevant grassroots operators (or potential entrepreneurs in the respective fields). Aginfo and the Agricultural Research Council (ARC) are currently involved in the development of comprehensive agricultural development plans for municipalities in the different Free State regions, providing all the “sector intelligence” needed for focused development efforts and support action.

- /// Secondly, there is a need for ongoing *research* on progress in the different niches and how existing or expected obstacles (e.g. increased competition from other parts of the country) could be countered – for example, through more effective branding or marketing or through higher value-adding. Once again, it is a question of co-funding (i.e. public-sector support) as well as the actual execution of such needed services.

- /// Thirdly, each of the product niches has its own *capital and/or operational funding* requirements, which have to be reconciled with the financial capacity of local farmers. The development of “tailored” financing packages is, thus, a major challenge in this type of agriculture – as it is in most other segments of small enterprise. Success will depend critically on the co-operation of different stakeholders, including financial institutions and specialised agricultural support agencies.

- /// Fourthly, and of equal importance to the first three factors, is the provision of appropriate and affordable *training and mentoring* facilities in the different product-niche areas. These can be linked to the evolving pattern of FET learnerships, to private training suppliers or to universities, technikons and other players in this field (e.g. NGOs and community initiatives). The crux is that such opportunities have to be created, they have to be affordable and accessible (in particular to emerging farmers), and their output should be monitored objectively. As the past ten years of South African grassroots development have shown, these training and mentoring needs are vast, and existing supply patterns are not always sustainable or very effective. Yet, their role in any development strategy is critical. Naturally, these challenges also include steps to increase basic literacy among farm workers likely to “move off the land” during their economically active life-span.

- /// Fifthly, in addition to these four areas, there are *several other needs*, related to the agricultural infrastructure, the development and dissemination of appropriate (labour-absorbing) technologies, the spread and control of franchises in the sector (not very prominent in the past, but possibly of future relevance), export

promotion and quality control. In all of these areas the main thrust of the support should be via private business-like services, but viability considerations often make public-sector support (or, at least, active co-operation) vital for success.

As a further example we can cite Mangaung Local Municipality which, with funding from USAID/SA, is currently working on a series of projects focusing on black farmers in the municipal area, communal veld-management schemes for livestock production and urban vegetable schemes as well as an agri-village.

/// Finally, enough attention has to be given to the facilitation of *industry or niche bodies or associations* as conduits for intra-sector communication, to stimulate self-help, actively lobby for needed support, explore business-linkage opportunities and generally represent the interests of those active in that field. This will not always be easy, but any bottom-up strategy has to give attention to that dimension as a precondition for success. With 200 farmer associations and 70 district associations in the Free State, there is already a fertile base for such efforts.

4.3 Mining

Given the large share of its contribution to the Free State's mining output and employment, the decline in gold production of the Free State mines overshadows all the other processes in the sector, whose share in the GDP declined from 22 per cent in 1996 to 13,5 per cent in 2003, and whose employment contribution in the Free State decreased from 19,5 per cent in 1996 to about eight per cent at present. In looking at the future and, in particular, at strategy challenges we have to take a full picture of the sector into account.

/// **Gold-mining**

Expert opinion suggests that the further decline in the output of Free State gold-mines cannot really be prevented, even if the strength of the Rand were to tail off. It is also unlikely that technological factors, or even large mergers or other ameliorating interventions, will significantly alter the process over the next 15

years. The main challenge, thus, is the technically proper and socially responsible management of the decline of the industry in the Free State, with much of the focus on the retraining and redeployment of existing staff, the decommissioning of mining gear and equipment, as well as the re-orientation of mining towns.

/// **Diamonds**

It has been indicated that the volume of diamond extraction will level off too, even though not as rapidly and macro-economically far-reaching as in the case of gold.

/// **Coal**

The coal deposits in the Northern Free State have a relatively high ash content and are not as cost-efficient as the deposits in Mpumalanga. This accounts for the relative decrease of this core mining sub-sector as well.

/// **Industrial minerals and others**

Although there are significant deposits of other minerals (clay, limestone, gypsum, salt, granite, sand and stone aggregates) these are only feasible for small-scale mining operations, and even then profitable output is sometimes erratic or only possible on a modest scale. In any event, all of these in combination cannot significantly compensate for the three core minerals, let alone create meaningful numbers of new jobs.

Given this situation, and the likelihood of a further decline in the employment capacity of the mining sector, the emphasis now has to shift towards:

- /// expanding mineral processing efforts, with gold-jewellery production the main effort (coal is already processed at Sasolburg and diamond cutting is unlikely to take root in the Free State, given its small share in national output as well as current operations in the Kimberley area),
- /// further supporting small-scale mining operations in the industrial minerals fields, primarily in the context of local economic-development efforts in small towns

proximate to these deposits (see Section 5.8 as well as the report prepared on small mines for the PEAC),

- /// some re-use of mining tails, although the scope is relatively limited, given environmental and other restrictions,
- /// re-use of unutilised mining infrastructure, such as buildings and shafts (the planned re-use of Sasolburg's coal-fired power-station as a large film studio is another example of creative re-use of facilities),
- /// utilising the urban infrastructure in the Goldfields district for a broader spread of secondary- and tertiary-sector SMEs and other innovative projects (e.g. linked to the transport infrastructure - like the race-track project),
- /// assisting surplus mining employees in their retraining and redeployment, including the stimulation of employment opportunities *inside* Lesotho, the home-base of many gold miners.

Box 5 summarises the results of a separate study on the re-use of the gold-mining infrastructure, suggesting a whole range of opportunities for the private sector, if sufficiently propagated and supported through private-public partnerships. None of these structural adjustment steps are easy, nor can we be assured of their success in terms of retrenched labour being re-absorbed or new value being added to the GDP of the province. Some projects may demand substantial public funds, which would compete with the more focused support of new “growth sectors”. Notwithstanding this, efforts are ongoing in each of the above areas, with some amelioration of the job-loss impact already visible.

4.4 Manufacturing

With the exception of the Sasolburg petrochemical complex the manufacturing sector of the provincial economy is weak – and it has been declining in relative significance over the past 15 years. Available statistics suggest a decreasing GDP contribution (from 18,7% in 1990 to 15,6% in 2002) and an absolute decline in jobs from 47 000 in 1996 to 36 000 in 2002. Besides, as much as 70 per cent of the 2002 manufacturing value-added was generated in the Northern Free State, which is mostly the Sasolburg complex.

Box 6 summarises the results of a comprehensive study into the manufacturing sector and its potential, both in the larger enterprises and the SMME segment. The report places major emphasis on the contrasting path of manufacturing development between the Free State and Lesotho, where employment in industry (mostly clothing) increased from 10 000 in 1994 to 42 800 in 2004. Lesotho based its growth on low-cost labour, highly flexible labour relations, a beneficial tax regime, generous government and local-authority support, and special preferences obtained through the Agoa duty-waiver agreement with the USA. While some of the industrial establishments in Qwaqwa also benefited from a range of incentives, the Free State basically “missed the boat” of proactive industrial growth, at a time when the decline of gold-mining made the region more dependent on new sector growth. On the other hand, Lesotho’s migrant-labour employment in the South African mines declined from 100 000 in 1990 to only 50 000 in 2002, which is still more than all the industrial jobs created in Lesotho. Thus, Lesotho’s industrialisation drive actually cushioned the job displacement impact of the declining gold-mining sector.

If we look at the list of manufacturing sub-sectors or niches relevant for the Free State, which are included in Box 4 and elaborated on in the sector study, the range of feasible products is quite broad, with all the segments justifiable in terms of primary or secondary activities actually occurring in the region. In order to gauge the potential for future developments and the likely momentum of each segment, the following four categories can be distinguished:

/// **Mature sub-sectors**

This category includes established and new industries in the processing of agricultural products; the processing of petro-chemicals (Sasol) and chemical waste; local market-driven printing and publishing; the production of building materials; industrial activities and services related to road, dam and commercial/industrial as well as residential construction and building repairs; and mining-related metal works. Several of these segments suffered from the decline in conventional agricultural crops and in gold-mining, and others suffered from the relative decline in transport costs (which made Gauteng suppliers of such industrial products and services more competitive) as well as

the rationalisation of national operators in some of these industries (i.e. the decision to close smaller regional branches).

/// The clothing and textile industries constitute a special category within this sub-sector. Up to 70 per cent of the FSDC's industrial premises (mainly in the Qwaqwa region) have accommodated these firms in the past, with a range of incentives ensuring their profitability. The strong Rand and low-cost imports are now threatening them, calling for a rethink in feasible support policies.

/// **New niches with known competitive advantages**

Here we can include industry niches linked to established sector activities. Thus, some capacity has been developed for agricultural machinery and equipment, exceeding the needs of local markets. Similarly, it is intended to further expand leather tanning and finishing, linked to livestock farming and as an input into (potential) local leather processing. The same could be said about efforts to expand timber processing and furniture manufacturing, and a range of other industries that could evolve out of past industrial activities in Qwaqwa, Botshabelo and around the gold-mines. A further variant might be the establishment of industrial activities which use Lesotho low-cost firms as suppliers of outsourced inputs.

/// **Newly promoted industries**

This involves new industrial niches which may be linked conceptually to particular local sectors or industries, but which really get established due to an explicit decision by public or private stakeholders, or some PPPs, to promote that industry. The most striking examples are the gold jewellery industry currently evolving in the Goldfields area (Virginia has 1 000 employees) and efforts to establish a pharmaceutical niche in the Sasolburg area. The same might apply to efforts towards the establishment of a local ICT software industry and the development of a local (top-quality) craft industry. More so than with the previous two categories, the existence of local entrepreneurship (at corporate, SME or micro-enterprise levels) and ongoing support from local, district, provincial or national

Box 5

Mining prospects in the Free State

The PEAC commissioned separate studies on

- /// an assessment of the mineral potential of the Free State,
- /// small-mining potential of the Free State,
- /// proposals for the utilisation of redundant mine infrastructure for the benefit of local communities.

The first two reports made it clear that the phasing-out of the gold-mines in the Goldfields-Matjhabeng area (which is by far the dominant hub of Free State mining) is inevitable. A limited potential for small-scale mining activities, mainly in smaller places scattered around the Free State, cannot compensate for the depletion of the gold-mines.

The third report goes in detail into the opportunities and challenges arising from the redundancy of a wide range of structures and other infrastructure facilities currently owned by the mines. Since the mines have to eventually leave the area in a state comparable to the start of operations, there is an interest on the side of the mines to relinquish these assets in a cost-efficient way. There is also considerable interest among local communities and entrepreneurs to utilise some of these assets in a way that may ease the economic transition due to the decline of mining activities.

Assets potentially available include

- | | |
|---------------------------|-----------------------------------|
| * shafts | * warehouses |
| * workshops | * hostels |
| * metallurgical plants | * trading stores |
| * office complexes | * training facilities |
| * boarding houses | * villages (residential clusters) |
| * recreational facilities | * tailing dams |
| * security barracks | * vacant land |

The report brings together different types of uses of these assets, some of which have already been considered by local parties and some known from other mine closures around the world. For example, shafts can generate warm air, which could be useful for flower or vegetable hot-houses, for underground mushroom farms, for a geothermal power-station or for pump-storage facilities.

Critical for this report and near-future action is the following conclusion from international experience about mining towns surviving the end of mining:

Mining-dependent communities become sustainable if they manage, *during* the life of existing mining operations, to develop economic sectors not associated with or dependent upon mining. If they fail to do this they will not be sustainable and at best continue to exist at a much reduced level.

Given roughly 15 years for the phasing-out of the Goldfields mines the Matjhabeng community (in particular Welkom, Odendaalsrus and Virginia) therefore now has less than a decade to deploy the resources required to develop an alternative economic base. If this is not achieved, Matjhabeng will move from being the economic engine of the province to being a burden to the state, from a community supporting about 400 000 people to one supporting barely 80 000 at a much lower standard of living.

The report suggests that local communities in the area are aware of the potential role that redundant mining infrastructure can play in their upliftment and in plans for new ventures. "What is lacking is a mechanism to bring them, the mining companies and the municipalities together to put ideas and plans into action."

The Free State Goldfield Development Centre (FGFC) has already done useful work in this respect, as have other stakeholders in the area, but these efforts fall far short of integrated, co-ordinated and proactive efforts. The use of "committees" to monitor or encourage efforts in this field is totally insufficient; the focus has to be on entrepreneurial talent to run new ventures and adapt redundant facilities to new uses. There has to be access to new funds, external expertise and full support of local, district and provincial as well as national authorities.

Box 6

Manufacturing prospects

A report commissioned by the PEAC on “Current Trends, spatial and sectoral Considerations and future Prospects” of manufacturing in the Free State outlined in detail the limitations of this sector and its significant, though limited, future prospects. The critical points are as follows.

- /// With the exception of the petro-chemical complex at Sasolburg and a few larger clothing and textile factories, industrial enterprises in the Free State have shifted from larger- to smaller-scale firms.
- /// The decline of mining and conventional agriculture has shifted attention from new ventures to business retention and support for existing enterprises.
- /// Industrial activities are concentrated in basically three centres, viz. Sasolburg, Bloemfontein/Botshabelo and Harrismith/Qwaqwa.
- /// The absence of concerted efforts along the lines of IDZs characterises past industrial strategising in the Free State, i.e. a lack of entrepreneurial joint action including provincial and local authorities, industrial entrepreneurs and local communities.
- /// The Free State’s industrial-development efforts have to fit in with South Africa’s changing position and role in global structures. The high level of clothing and textile industries (30% of all jobs) in the Free State creates particular challenges in this context.

Against that background and detailed sub-sector interviews the report puts forward a wide range of action proposals, including the points below.

- Local authorities have to get far more proactively involved in the forward planning and facilitation of local industrial initiatives.
- Education, training and research bodies in the Free State (complemented by external support) should also become more actively involved in tackling challenges in the sphere of data collection, skills development and applied research.
- Industrial outsourcing or subcontracting should be encouraged more effectively as a way to support local industrial small enterprises, to keep spending within the region, and to facilitate black economic empowerment.
- Information, advice and mentoring facilities related to industrial SMMEs need expansion to achieve better geographic coverage.
- Provincial and national support programmes related to manufacturing activities have to be better co-ordinated and marketed, given widespread ignorance about potentially available support.
- Industrial clusters in the former homeland areas have shown the potential to survive and to adjust to new market conditions; this transformation still justifies special efforts, especially in the clothing and textile industries.
- New industrial niche initiatives (in jewellery, down-stream chemicals, pharmaceuticals, ICT, etc.) deserve concerted support from local and provincial authorities, larger enterprises, local business associations and national-sector agencies.
- The interaction between Free State and Lesotho industries and industrial support services needs more attention, given the prominence of manufacturing in Lesotho’s economy and Agoa-linked export opportunities.

levels of government will be critical for such “new starts”. In many cases such industries will be closely linked to larger firms in the Gauteng area or elsewhere, i.e. the Free State operations will be part of the wider value chain.

/// **Informal industrial activities**

Much neglected in the study of (South) Africa’s manufacturing processes, these activities include food-processing, the preparation of beverages, repair work, the production of home-based clothing, household textiles, (household) cleaning liquids, the construction of elementary farming equipment, furniture-making, coffin-making and the assembly of custom-made equipment. These activities may add relatively little to measured GDP or full-time employment, nor are they likely to bring money into a region, but that does not make them irrelevant in terms of the earning of an income, the acquisition and transfer of skills, the entry into particular industrial niches, and relief from poverty.

While the dominance of a well structured formal economy over virtually the whole of the Free State makes the survival, let alone growth, of these informal-sector niches difficult, long distances from larger centres and low population densities often force remote communities towards more local, informal activities. This may apply in particular to the Lesotho border area in the eastern Free State.

The craft industry is a good example of the integration of informal and formal production processes as well as the interaction of the tourism and manufacturing sectors. The Free State has a lot to offer in this field, especially if a partnership approach is pursued.

Support and facilitation required

As indicated in Box 6, much of the need for support in this sector centres around conventional support for SMEs, with skills training, research on appropriate technologies, technology transfer, access to finance, and entrepreneurship activation top of the list. In fact, with the closing down or relocation of larger firms in several of these industry niches, most of the momentum for growth and the maintenance of

competitive advantages nowadays depends on the efficiency, innovativeness and viability of small(er) enterprises. This places a great responsibility on existing support agencies and implies the creation of new business-service suppliers.

The establishment of small-industry hives or incubators is often viewed as a particularly appropriate tool to activate such local initiatives, even though nationally some of the existing small-industry parks struggle to break even. There can be little doubt that, with few exceptions, such service suppliers (which should, as a rule, be privately or “competitively” run) are not adequately developed or located throughout the industrial areas of the Free State. In this context the question can be raised whether the FSDC and related support agencies are active enough in stimulating new manufacturing niches or supporting industrial entrepreneurs active outside the former homeland industrial areas.

What the PEAC study referred to in Box 6 clearly reveals is that the province plays a very defined and sector-specific role in the national economy. Whilst key sectors such as mining and sub-sectors of agriculture have experienced severe difficulties, other opportunities do present themselves. Although there does not appear to be a single, lead or dominant sub-sector which has the capacity to fundamentally transform the province’s manufacturing potential, focusing on niche markets, providing appropriate policy support and meeting local demands are options which merit serious consideration.

4.5 Tourism development

In contrast to the Western Cape, KwaZulu-Natal and Mpumalanga, the Free State is not an area which naturally attracts vast numbers of tourists. No wonder, therefore, that during the past two decades, when tourism came to be seen as an increasingly significant economic sector in South Africa, relatively little attention fell on the Free State tourism industry. This was the case notwithstanding well known attractions like the Vaal Dam, Golden Gate Highlands National Park, the Gariep Dam area along the

Orange River, and a multitude of historical monuments reflecting the region's turbulent history.

With the decline of gold-mining and the active search for new employment opportunities, more attention has lately been given to tourism attractions in this province – at a stage when tourism activities all over the country are embracing a greater diversification of focus and activity type.

Latest statistics suggest that in the Western Cape the tourism industry contributes about 9,5 per cent to provincial employment and about 10 to 12 per cent (directly and indirectly) to the regional GDP. Even if the Free State could reach only half of that level, a four to five per cent contribution to regional employment, and five to six per cent to GDP, could be a major compensation for declines in mining and conventional agriculture.

Box 4 lists a fairly wide range of tourism segments relevant for the Free State; *Box 7* summarises the findings of a comprehensive survey of tourism facilities and support needs. Without going into too much detail we can identify and briefly consider two clusters of tourism activities: those with only limited growth potential and impact, and those with promising growth potential.

Limited growth

This category includes the typical sight-seeing tours of overseas travellers which usually focus on Gauteng as arrival and departure point, the Western Cape and one or other game park as a major drawcard, but with scope for the inclusion of heritage and cultural tourism elements as the route allows. It also includes “typical” family-holiday tourists, who want to spend a few weeks at the sea or in a popular game park or other affordable destination. Furthermore, business tourism into the Free State is significant but limited in numbers, given the relatively small size of Bloemfontein and the Goldfields' struggle for survival.

Thus, the bulk of conventional formal-sector tourism is unlikely to focus on the Free State. This calls for a more differentiated approach towards tourism marketing.

Promising tourism segments

Given the central location of the Free State in South Africa, its proximity to the population agglomerations of Gauteng and transport transit routes to most of South Africa's long-distance destinations, the region has significant potential for "*transit-travel tourism*" and week-end or short excursion tourism. With Gauteng as feeder region, the latter extends through most of the year, while transit-travel tourism is particularly promising around the main holiday season.

As mentioned earlier, retirement or "second-home"-focused tourism fuelled by Gauteng's upper-income households is also a growing segment, in particular within the 350 km radius from Johannesburg. At the lower-spending level of domestic budget tourism the vast VFR (visiting friends and relatives) segment, and informal tourism, are becoming highly relevant to South Africa's black community. In terms of arrival statistics another major segment is cross-border travel and tourism from Lesotho residents who come to shop or do other business in the Free State, visit their children who attend schools in South Africa, or to seek out life-style variations not available in secluded Lesotho.

Three other broad categories are also expanding steadily, viz.

- /// "events", including conferences and (annual) festivals, sports events, religious gatherings and other one-off events that bring together large numbers of visitors,
- /// community and cultural tourism linked to local ethnic and cultural traditions,
- /// agri-tourism as an expansion of local farming combined with rural cultural or community tourism.

In all of these areas the Free State (i.e. Bloemfontein as capital and some of the more attractive local areas) has distinct attractions and competitive advantages, if marketed properly. As evidence of this, recent research by the Centre for Development Support at the Free State University shows that the sort of "events" referred to above have considerable economic benefits. According to this research an estimated R58-million flowed into the Bloemfontein economy as a result of the soccer and rugby internationals against Cape Verde and Ireland earlier in 2004. A similar estimate for the Phakisa international motorbike race (Moto GP) in the Free State Goldfields is

R65-million. Besides these events, the Mangaung Cultural and Arts Festival (MACUFE) has risen to prominence as one of the premier integrated arts festivals in South Africa.

Support and facilitation required

Probably the most important prerequisite for a broad-based (multi-segment) expansion of Free State tourism is an enhancement of local awareness about the attractions and strengths the different venues in the province exert upon local, up-country and foreign tourists. The few well established attractions (like the Golden Gate National Park area, Smithfield and Clarens) are widely known, also to potential local suppliers of tourism services. Not so well known are other places along the Lesotho–Free State border area, which might evolve into “Clarens alternatives” if local entrepreneurs and local development stakeholders would co-operate and fully utilise that potential.

Equally important and necessary seems to be a better understanding of the rapidly expanding black travelling community, which could be the basis for an evolving informal tourism sector, and the activation of new black-owned small enterprises in this industry. Similarly, steps to strengthen the linkage between local (black-owned)

Box 7

Tourism trends and prospects

A set of three reports, commissioned by the PEAC, put the Free State's limited, yet substantial and largely under-utilised, tourism potential into perspective and advance a whole range of proposals for concerted action.

Available statistics confirm that the Free State is neither on the map of South Africa's mainstream overseas tourists, nor is it comparable with the coastal provinces as a domestic tourism attraction. In terms of numbers its core activities relate to Lesotho residents travelling to or through the Free State, intra-provincial domestic tourists visiting friends and relatives or conducting business visits, short-term (including weekend) tourists from Gauteng mainly, and transit tourists using the through-routes.

Notwithstanding these and other limitations, the Free State has made good progress in the expansion and diversification of some of its areas (mostly linked to the eastern Free State–Lesotho eco-tourism edge) and there is increasing awareness about other, as yet untapped, tourism attractions, including cultural heritage sites.

Based on conventional distinctions of different tourist categories, the attention of future efforts should fall on

- /// weekend and other short-term tourist flows from Gauteng,
- /// transit tourists (e.g. Gauteng, Limpopo and Mpumalanga tourists travelling to the sea),
- /// gradually extending the spending of Lesotho residents travelling in the Free State,
- /// cross-border tourism facilities along the Vaal and Orange River,
- /// expanding nature-based tourism and focused tourism routes (incl. Lesotho Highlands and the eastern Free State),
- /// encouraging specialist activity tourism as well as sports tourism,
- /// developing Bloemfontein as a conference, cultural-festival and urban-leisure destination,
- /// strengthening the marketing of Free State tourism to overseas tourists, in order to start tapping some of that vast potential.

To actively promote such a range of tourism activities, efforts on the part of the private sector, local authorities, the provincial government, and sectoral or sub-sectoral associations have to be stepped up considerably and, in particular, public-private partnerships and joint actions have to be planned and implemented. Most importantly, co-operation between municipalities and private enterprises in this sector has to be strengthened all across the province.

Practical experience in other provinces and international best practice reveal a wide range of possible steps, many of which do not demand excessive public resources, but rather a commitment towards co-operation between stakeholders.

Report documents and data on tourism facilities in the different towns and tourism centres show that a solid basis has been laid already, from where a multi-pronged strategy could take off. The wider publicising of these data should help to activate public interest in this growing and promising sector.

suppliers of outsourced goods and services needed by larger hotel and other tourism operators could also help to change perceptions about the tourism industry being (too) “white-centred” and almost exclusively white-owned. This, again, relates to another critical factor, viz. the need for constructive local (municipal or LED) efforts to market local tourism potential and facilitate tourism growth via a *pro-tourism attitude and the boosting of the tourism-promotion capacity of small-town municipalities*. In parallel with these needs for action to “unlock” the domestic tourism potential we see a need to further expand conventional (regional and local) marketing efforts which can help to make travelling South Africans on holiday more aware of the attractions of travel in(to) the Free State. Naturally, these efforts have to be closely linked to the spatial development strategy to be discussed in Section 5.

4.6 Trade

The trade sector (which includes some tourism activities) contributes around 10 per cent to provincial employment and value-added. It is, in fact, often underrated in its significance, both in the formal and the informal sector. In a region situated close to the industrial heartland of South Africa, trade (or the effective “import” and distribution of consumer goods and other requirements) is critical for household needs and economic welfare.

The Free State’s trade infrastructure was well developed in the past, with most of the established smaller towns effectively integrated in the national wholesale and distribution network. With the economic stagnation and decline of smaller towns however, this link to the supply chains weakened with the result that poor trade supplies are currently given as one of the reasons for the exodus of people from smaller towns – making life even more difficult for those unable to move. Thus, the re-activation of effective trade-supply links with the Free State’s platteland should be high on the agenda of facilitatory interventions.

Two other areas seem relevant for the future expansion of the trade sector, viz.

- ∕ the Free State as an expanding trade-supply conduit for *Lesotho*, with its current population of 2,15 million (or 75% of the Free State's population), and
- ∕ the development of *distribution hubs* along the transport routes of the major highways running through the province. Truck stops are the most basic type of facility, compensating to some degree for the business lost to small towns through the by-passes and alternative routings of national (toll) roads. Some of these stops might profitably be expanded to include storage and re-routing facilities.

In addition to these segments of the trade sector there is also need for more attention to informal trade in the Free State's metropolitan townships, in its smaller towns and in the more remote rural areas – and also a strengthening of the link between these informal trade flows and the formal sector. We will raise this point again in Section 5 in connection with the need to re-establish small-town economies in a bottom-up way, starting with existing informal trade, rather than hoping in vain for top-down “solutions”.

4.7 Financial, property and business services

This sector is a significant contributor to the regional GDP (around 10%) and a far more modest (4,4%) job supplier. The value-added contribution has declined after a high of almost 12 per cent in 2000, which is largely the result of the negative impact of declining core-sector activities. In 2002 only 15 per cent of this sector's contribution came from the gold-mining district, compared to 50 per cent from Bloemfontein and environs, and 20 per cent from the northern Free State.

The larger Free State towns are well equipped with financial and related business services, with future growth dependent on population growth, the expansion of other sectors (e.g. tourism) and gradual increases in average household income. The real challenge, once again, relates to the maintenance of at least minimum services in the smaller (stagnant or declining) towns, where normal business-viability criteria might suggest the need for a curtailment of service points. This would seem to be an area where provincial- or local-authority incentive schemes (ideally with some DTI co-

funding) should be a strategic leverage for the maintenance of at least minimum standards at LED level.

Once again, we can mention business with nearby Lesotho towns and settlements as a further potentially significant opportunity for the sector.

4.8 Transport, storage and communications

This sector contributes about seven per cent to regional value added and just below four per cent to regional employment, with a slight downward trend over the most recent years – most probably as a consequence of the declining dominant sectors. Given the strategic geographic position of the Free State, and the importance of transport, storage and communication for the future utilisation of the region's diverse opportunities and resources, this sector should at least maintain its relevant position. In this context much will depend on the quality and initiatives of the regional offices of national transport parastatals and how they interpret future opportunities and challenges – with the Gauteng–Bloemfontein–Maseru transport channel one of the critical (potential) growth factors. To give effect to these opportunities, some proactive support from national as well as provincial authorities seems essential.

4.9 Education, training and research

Three distinct segments are relevant here. First, the school/FET and adult basic-education sector will have to expand in line with the population increase and with attempts to raise standards and improve facilities (or, at the very least, prevent further deterioration of facilities). Provision of sufficient funds from national government and donor agencies are the most critical factors in this respect – together with the maintenance of proper local management of the processes. The HIV/AIDS pandemic is, unfortunately, a major impediment since it influences both the demand and the supply sides thereby necessitating continual strategy adjustments.

Second, tertiary-level education in Free State institutions is also expanding, fuelled by increasing numbers of local students as well as students from Lesotho and other African countries. This includes not only the two local universities but also private training bodies. In addition, the new Seta-supported system of learnerships could

offer many opportunities for skills upgrading for Free State firms – as long as the opportunities are actively utilised.

Third, we find the two tertiary-education bodies and linked research facilities constituting a significant base capacity for skills training and applied development-focused research in the Free State. Naturally, there is scope for much greater involvement in the regional and local development scenes of the province (and nearby Lesotho), but that will only happen if sufficient funds are made available and focused tasks are set. In this context close co-operation between local (and national) industries and corporates as well as researchers is vital.

For the approach propagated in this report, a dynamic expansion of these education, training and research segments is critical, since bottom-up, people-centred development stands and falls with the quality of entrepreneurship and available skills, the ability of people to adapt to changing economic circumstances and the confidence with which black and white business people (and civil servants) can interact and work together.

4.10 Other sectors

If we were to ignore the remaining sectors or niches listed in Box 4, a significant potential for labour absorption would be forfeited. In fact, it is the essence of the strategy propounded in this report that attention *has* to be given to the *full spectrum* of sub-sectoral or niche activities and their growth potentials. We will consider just a few of these remaining sectors, below.

4.10.1 Community services

A major part of this sector relates to public-sector administration at provincial, district and local levels. It is an important employer but, given fiscal constraints and rationalisation pressures, it seems unlikely that the segment will increase significantly in numbers.

This caution also applies to parastatals in the sphere of electricity and water supplies. Yet, while there may not be many large projects in this sphere in the pipeline (leaving aside the vast Highlands Project and Eskom's national grid), there seems to be scope for innovative approaches towards rural electricity and water links based on appropriate (alternative) technologies. These include wind and solar energy for remote settlements, but also new ways to improve sanitation and water supply in rural (informal) settlements.

4.10.2 Health, welfare and personal services

Once again we have segments, viz. health and other social-welfare services, which are largely subsidised by the public sector (i.e. dependent on transfers from national government), and an accompanying wide range of personal, professional and other services, including, for example, hairdressers, lawyers, medical doctors, cleaning services and many others. The latter are also influenced (negatively) by the decline in core-sector activities (e.g. in the Goldfields area) and the stagnation of small platteland towns, but their potential for expansion is nevertheless considerable, pending successful SME-support policies.

Since the welfare sector includes the channelling of public-sector, social-welfare payments to households (including social pensions, child-welfare grants, disability grants, etc.) this may be the appropriate place to raise the broader, macro-economic impact of these payments. Given the long history of migrant labour in the Free State and the very low income levels of most rural (and many urban) households, these social-welfare grants or payments are critical for poverty relief and for local consumer demand. The efficiency and regularity of such payments is as important as the extent of the grants and the number of people reached. The challenge arising out of this for local authorities, provincial departments, and co-operation between all three levels of government, is equally important and warrants attention at the highest level.

4.10.3 Construction

Given the decline of gold-mining, the stagnation of many Free State towns and less than buoyant growth in even the larger centres, it is only natural that construction firms in the region are less than optimistic about present and future opportunities. At

the same time the very challenges arising out of envisaged structural changes, and the need (and scope) for additional national-government funds to create new development impulses, are also likely to create opportunities in the construction sector.

Projects seem likely in the road construction and rail-upgrading spheres, in dam building and repair as well as irrigation schemes, in middle- and lower-income housing, the transformation of the Goldfields infrastructure, and in social-infrastructure upgrading or expansion projects. Also of relevance are projects linked to Lesotho's development.

4.10.4 Domestic and informal-sector employment

This may be viewed as a marginal sector in terms of contribution to GDP and dynamic growth potential, but it remains a significant “absorber” of unskilled and semi-skilled labour, both in the urban and rural areas. In the platteland the decline of small towns and the rationalisation of modern farming activities has significantly reduced this absorptive capacity (in particular for domestic workers), whereas the community-services sector is still small in the Free State. Here as well, the transition from informal township or community “engagement” (often without pecuniary remuneration) to paid employment is the real challenge.

Taken as a whole the “informal” sector absorbs more than a quarter of the labour force. Even with only moderate growth this share is likely to remain fairly stable, with formal-sector job redundancies more or less balanced out by informal-sector advancements and the rise of new employment niches. The direct facilitation of these processes is often difficult for the public sector (other than perhaps for LED efforts at municipal level although these have unfortunately been rather ineffective, if not positively counterproductive, of late). This is especially so if we expect more than conventional SME-support policies. //

SECTION 5

Activating Spatial-Development Opportunities

Having considered the Free State's sector-development potential and challenges in Section 4, we now come to the other core dimension of regional development, viz. how development and job creation is spread spatially, and how more balanced spatial growth, employment and income generation can be facilitated. We have already touched upon the interaction between these two dimensions (sector growth and spatial development) and will now focus on the potential of different spatial development clusters and how to activate the development potential of these clusters. A more detailed consideration of the tools for this will be provided in Section 6.

With a low overall population density, economic activity in the Free State is largely concentrated around three urban clusters (Mangaung, the Goldfields area and Sasolburg) and two development corridors, viz. Bloemfontein–Maseru and Qwaqwa–Ficksburg. Outside of these the spatial pattern of development is determined by just a few tourism spots, and a range of medium-sized, regional towns and transport routes. This section will briefly highlight development opportunities and constraints in each of these.

Three other development dimensions also deserve attention in the context of spatial development in the Free State, viz. water supply (via the major dams, other dams and private water storage); the electricity grid; and the interaction between rural livelihoods and rural-urban migration. All three of these are complex issues which impinge upon the sector- and spatial-development approach proposed here. As separate reports will be released on each of these issues in due course, this section will not elaborate on these challenges, other than to make three brief points:

- /// The water-supply study, commissioned by the PEAC, indicates a sufficient supply over the next decade at least, which is the horizon for this report; in fact, except for climatic fluctuations, the Free State seems less constrained by water-supply issues than some of South Africa's other provinces.

- /// Given low population densities in major parts of the province, the cost of electricity distribution along conventional grids is expensive on a “per household” basis; this makes the Free State an ideal area for experimentation with other sources of renewable energy – but that, again, can only be afforded if undertaken in co-operation with players in other provinces as well.

- /// The migration of rural families from commercial farms and from the former homeland areas in search of new livelihoods is a huge challenge for the Free State. As indicated earlier, it links up with the agricultural sector’s search for new products and income sources, just as it links up with the search of small rural towns and settlements for new income and employment sources. This search also relates closely to the gradual fading of the distinction between rural and urban areas, given the expansion of municipal responsibilities and the closer interaction of urban and rural business and economic activities(e.g. the rise of “market gardens” and rural tourism). Finally, land-reform presents a third dimension to this challenge.

5.1 The Bloemfontein–Mangaung area

With a population in excess of 400 000 Bloemfontein is by far the largest city in the Free State, but is relatively small compared to South Africa’s other metropolitan areas, which include multi-million cities like Johannesburg, Cape Town and Durban as well as “million-plus” cities such as Port Elizabeth and Pretoria. By comparison the municipal area of Mangaung lacks the metropolitan demographic, the economic size and thrust, which often plays a critical role in urban-development dynamics. Its proximity to Johannesburg further reduces the local production and services potential of Mangaung, given the competitive cost and quality advantages of the bigger centre.

The Free State’s capital city has as its economic base the provincial-government sector, the municipality, as well as the trade, finance and service functions inherent to a central town and capital city of a 2,8 million people province. It also has a very modest manufacturing sector (badly affected in the past due to the decentralisation of industries to Botshabelo and Qwaqwa) and a sizeable social-services sector,

including education, health and welfare services as well as a small higher-education sector.

Given the decline in the mining sector (which although it affects the Goldfields much more than Mangaung nonetheless has a dampening effect on the regional capital) and stagnation in some of the other sectors, Mangaung struggles to expand, let alone become a regional growth force of its own. In fact, the public-sector share of the urban economy is already high and little further employment growth can be expected from that quarter.

A number of less striking factors are likely to shape future growth in this city, and affect its momentum within the context of the province (cf. Mangaung's Economic Development Strategy, "Mangaung on the Move", 2004), viz.

- /// the expansion of the *retail and wholesale trade sector*, given the decline of trade and distribution activities in the smaller Free State towns and increasing dependence on direct purchasing in the capital,
- /// the expansion and further diversification of *financial, property* and other business as well as professional services, i.e. all those that no other (smaller) town in the Free State can accommodate, but which are needed in increasingly sophisticated sectors and business clusters; in this context the proximity of Lesotho, with its 2,15 million population and the absence of most of these services in Maseru or other towns constitutes a significant potential for Mangaung (if properly catered for),
- /// the expansion of *tourism activities* in the city, with the eventual destination often being some other attraction in the Free State, but with Bloemfontein serving as a convenient and interesting stop-over,
- /// the attraction (often only after protracted efforts) of a critical number of *larger corporates*, to establish at least a regional or branch office in the city; this also includes efforts to keep the Supreme Court in the town and possibly get other

national or international Africa-focused offices located in Mangaung and

- /// the expansion of *higher-education, training and research facilities* sufficient to constitute an attraction in their own right for highly skilled people drawn from far and wide and looking for a pleasant town to settle in.

It is helpful that Bloemfontein has over time generated a positive settlement environment, a good urban infrastructure, diverse recreational facilities and other competitive strengths. These positive facts also include the centrality of the city vis-à-vis neighbouring provinces and highways to the coastal centres. In addition, there are noteworthy annual events, even though none has quite the reputation of the prominent arts festivals hosted by Grahamstown, Oudtshoorn and Potchefstroom.

In line with the strategy proposed for the Free State there are no “magic solutions” for the activation of development in Mangaung. Much will depend on the interaction of the private sector and municipal as well as provincial stakeholders and parastatals like the FSDC, who together should focus on the full spectrum of relatively modest opportunities related to the different sectors identified earlier as exhibiting growth potential. In this context the following are particularly promising:

- /// the Lesotho–Free State development connection, assuming that issues of political stability and democratic modernisation in Lesotho unfold positively, and that Bloemfontein can increasingly fulfil the role of “nearest metropolitan area with a wide cross-section of specialised service suppliers” (also see Section 6.6),
- /// the Mangaung–Botshabelo–ThabaNchu–Ladybrand–Maseru activity axis, with particular emphasis on the regeneration of industrial activities,
- /// the indirect benefit Mangaung receives from the Free State’s role as transport-transit region (with the Kimberley-Mangaung-Maseru corridor a possible example).

As is the case in other large cities and metropolitan areas all over the world, much of the success achieved in attempts to activate metropolitan economic development depends on the calibre of municipal professionals; the business and development orientation of the city council and its leaders; the attitude of the (executive) mayor and, in general, the presence of a close partnership between city administration and local business associations. There are signs that the importance of these factors is recognised by those currently in leadership positions in Mangaung.

5.2 The Goldfields area

The sharp decline in gold-mining and employment on the Goldfields is the main factor shaping development dynamics in that area. The Goldfields district is responsible for about a quarter of the Free State's GDP and employment. While the sub-region has a broader economic base, including agriculture, limited tourism and equally limited agri-processing, the Goldfields area has been critically dependent on the gold-mining industry ever since its development in the 1950s. In fact, Welkom was a model "new generation" mining town, with modern urban design and extended residential areas.

In line with developments in other mining districts in the country and internationally, the Goldfields area now faces the challenge to:

- /// extend the life of its gold-mines as long as possible through radical cost cutting and the consolidation and merger of mining companies - as has been happening already,
- /// rework some of the mining dumps,
- /// explore the scope for new mines in the area (however, as shown in expert reports, this possibility seems remote),
- /// increase gold beneficiation via the "jewellery-manufacturing hub" envisaged by the provincial government and the FSDC,
- /// re-use the un(der)utilised infrastructure of the gold-mining industry (which is also currently being explored and in some cases already materialising) (see Box 5),

- /// expand and broaden the skills base of the area, so that investors active in other industries find the Goldfields area competitive and thus contribute to broadening the economic base of the region; this could be effected via the Free State Technikon and other training institutions, with the jewellery initiative as a further contributor,
- /// strengthen rural-urban links in this subregion, for example through new agricultural niche products and agri-processing projects, like the Matjhabeng paprika project,
- /// stimulate tourism in the sub-region through, *inter alia*, an emphasis on the local gold-mining history,
- /// take steps (mainly through the municipality and the Free State Goldfields Development Centre) to maintain retail and services-sector standards in the Goldfields towns, thereby preventing an acceleration of the human exodus,
- /// ensure, in co-operation with provincial and other public-sector bodies, that health care and education standards in the urban complex do not deteriorate, since this might also exacerbate the emigration of families,
- /// help foreign (Lesotho) mine-workers get retrained in fields relevant for development in Lesotho.

This list is far from exhaustive, but it indicates quite clearly that a lot of steps *can* be taken by stakeholders or agencies in both the private and the public sector or (preferably) jointly. The effectiveness of some intervention areas may be debatable and the time factor may be critical in others, yet there is scope for a multitude of proactive steps.

In this context the Free State Goldfields Development Centre in particular, and the Free State Development Corporation, should play an important role as facilitators. As PPPs they should be viewed as critical actors and co-ordinators of these restructuring efforts – always in close co-operation with the other players. At the same time the gold-mining industry should itself be a most important player and project initiator in this difficult process of urban down-scaling and reorientation, just as national government cannot deny some responsibility to help with the difficult restructuring process.

5.3 The Sasolburg petro-chemical complex

Sasol's oil-from-coal petrochemical complex was founded in the early 1950s and expanded during South Africa's decades of aggressive energy-self-sufficiency, has not only opened the Northern Free State to industrial and related developments, but has put South Africa's chemical-processing industry on the world map. This fame (symbolised by Sasol's listing on the London Stock Exchange and the conglomerate's subsidiaries and partners throughout the world) has also rubbed off on the Free State, even though Sasol's reach nowadays extends far beyond its provincial roots. The Sasol plant at Secunda is now a larger producer than the Sasolburg plant, with Sasolburg also no longer dependent on local deposits of coal.

Over the past thirty years Sasol and Sasolburg have illustrated how the fluctuations and resource limitations of a major industry and an industry-based town can be handled. Three dimensions are significant here:

- /// The Sasolburg plant has had to continuously adapt to the changing mix of outputs at Sasol I and Sasol II (Secunda) as well as broader fluctuations in market forces and prices. This continues as Sasol evolves into more and more of a global player.
- /// The petro-chemical industry at Sasolburg started to diversify in the 1960s and has maintained that momentum ever since, with the ambitious "Chemcity" project the latest phase. Essentially, it is diversification in a bottom-up way, utilising existing strengths and partners. Given Sasolburg's close proximity to the powerhouse of southern Gauteng and Johannesburg, such diversification makes good business sense, even though it proves more difficult as the scope and goals widen.
- /// In order to further broaden its industrial base, Sasolburg is now targeting the pharmaceutical industry, as a further offshoot of its chemical industry. It is an ambitious endeavour, given the tough international competition in this industry, but the location seems appropriate, the market exists, in southern Africa and

beyond, and the proximity of the Sasol giant, along with other established corporates in the area, should further help to make this feasible.

This impressive progress, and the opportunities outlined here should always be viewed in the context of the region as a whole and the provincial economy. Right from its beginnings, Sasolburg (located just seven km south of the Vaal boundary with Gauteng) has been the smaller industrial partner of the Vanderbijlpark–Vereeniging–Sasolburg “Vaal Triangle”, with most of the “regional” retailing and service activities taking place in the two larger centres in Gauteng with close business links to Johannesburg. What is more, notwithstanding all the diversification of Sasolburg’s industrial growth, its direct impact on the Free State’s overall economy is relatively limited. As mentioned earlier, the developments at Sasolburg are a good example of the Free State’s peculiar pattern of development, where much of the development momentum is either beyond or around its external borders.

Having stressed some of the limitations of developments at the northern edge of the region, we should nevertheless stress its significance as a bottom-up force in local development. Whether we look at training facilities established in Sasolburg, at the tourism potential along the Vaal river, at the spin-offs for Kroonstad or at the “retirement/second-home” type of farming developments in the sparsely populated northern Free State, the positive impact has been diverse and still prevails. What may be even more important is that Sasolburg has a five-decade history of close public-private co-operation at municipal and sub-regional level, something sorely lacking in many of the Free State’s platteland towns. Given this positive approach towards PPPs it is all the more disconcerting that Sasol detects a lack of support from the provincial government in its attempts to further expand the industrial base of the northern Free State.

5.4 The Mangaung–Maseru corridor

In the apartheid era Botshabelo was developed as a typical “industrial decentralisation city” located beyond the residential reach of Bloemfontein, but with close economic interaction expected between the two urban areas. On the basis of an even more bizarre link between ThabaNchu and Bophuthatswana, the latter was “upgraded” to the point of having a casino and some other subsidised developments. From ThabaNchu the distance to Ladybrand and Maseru is quite short (Mangaung–Maseru is only 157 km), with both these places offering further opportunities for economic activities along the axis.

Thus, notwithstanding the sometimes capricious origins of specific settlements, the Mangaung–Maseru (N 8) “axis” meets some important preconditions for industrial, retailing and related economic activities – or, to be more specific, a development corridor (or IDZ). In the short run, the challenge may just be to compensate for the negative developments at Botshabelo, following the lapse of apartheid decentralisation incentives and subsidies (comparable to Qwaqwa), but over the longer run this “activity axis” seems worth exploring in a PPP initiative (as an IDZ). In this process the stimulatory effects of increased demand for consumer and capital goods needed in Lesotho should not be underrated, just as the mushrooming of labour-intensive industries in Lesotho should stimulate the link with Bloemfontein as a city with relatively sophisticated industrial, repair and maintenance facilities.

We can build on this relationship with Lesotho even further. Ideally, entrepreneurs in the Mangaung area, working together with the SADC, Nepad and other Africa-development-support stakeholders in South Africa and elsewhere, should interact with Lesotho’s development stakeholders such that the Free State business community can play a significant facilitatory role in the implementation of development aid and related processes. The opportunities may not be all that immediately obvious, but there are enough international precedents to at least keep the option open. Research and higher-education institutions in Bloemfontein might ideally play a facilitatory role in this respect.

Taking the Free State's central location one step further, the Mangaung-Maseru axis could also be viewed as the eastern leg of a Kimberley-Mangaung-Maseru corridor, linking up with Botswana and Namibia in the west. While there is need for caution against the unrealistic expectations occasioned by such corridors (many disappointments have been created around impressive sounding southern African "corridors" over the past decade), the routes between Bloemfontein, Maseru and Kimberley undoubtedly have some potential for business activities along the axes.

5.5 Harrismith–Phuthaditjhaba–Qwaqwa

Ironically, a rather sad episode of apartheid engineering in the Free State (the removal of tens of thousands of Free State blacks into the remote corner of the Lesotho–Free State–Natal border, to create the Qwaqwa "homeland") has turned into one of the more successful manufacturing locations of the province.

While there can be no question about the callousness of this form of social engineering (including the hardships caused by the eventual phasing out of decentralisation benefits), it is a fact that, due to the proactive involvement of the Free State Development Corporation and other players, a fair number of industrial enterprises is still active in the Harrismith–Qwaqwa area. The availability of relatively low-cost labour, the proximity of good transport access to both Durban and Johannesburg, as well as to the Newcastle area of KwaZulu-Natal, and the pleasant natural environment contributed to maintain certain competitive and comparative advantages.

Whatever its roots, the challenge now is to maintain and gradually adjust and broaden that competitive edge, with the emphasis increasingly on smaller local enterprises rather than the bigger firms lured by large incentives and subsidised industrial premises. In these efforts the continued proactive support of the Free State Development Corporation is as critical as is the interaction between Free State and Lesotho workers, as well as the spin-offs from the Lesotho Highlands Water Project and nearby tourism developments. As mentioned in so many other examples, we find here a diversity of opportunities waiting for bottom-up entrepreneurship rather than

dependence on just one or two major top-down projects. At the same time the smooth and proactive co-operation of local authorities, the TMF District Authority and the provincial government is crucial for continued success and future expansion.

5.6 National parks, rivers and tourism icons

Compared to some of South Africa's other provinces the Free State has but few national parks and top-class nature attractions. Nevertheless, the Golden Gate Highlands National Park and the dams along the Orange and Vaal Rivers afford several attractions and have become a magnet for tourists from all over the country. A few venues (Clarens close to Golden Gate, Bethulie near the Gariep Dam, the Sandvlei Nature Reserve, Parys on the Vaal River, and the Vaal Dam area) have gained recognition beyond narrow provincial boundaries, and several more have the potential to attract tourists in significant numbers.

With few exceptions these attractions do not fall into the category of "major tourism centres" but, adding up the sum total of their absorptive capacity, they reveal a significant tourism potential, in particular for week-ends and shorter stays. Taking the example of Clarens, much of such development could be private-sector-driven, as long as basic services are provided and maintained by the public sector, and the places are incorporated in the provincial tourism-marketing thrust. The same applies to the incorporation of dozens of tourism-focused farms or private lodges, spread across the region, into the provincial tourism programme.

5.7 Small towns and transport routes

Relative to its small population, the Free State boasts of a large number of small towns (*dorpe*), evenly dispersed throughout the province. Many of these have a colourful history, with an amazing number of "well known" South Africans tracing their youth to various of these small towns.

Box 8 summarises key findings about local economic development in the Free State's 60-odd towns and villages, revealing some of the dilemmas of stagnating villages and the inability of the local authorities to reactivate them.

In the discussion so far we have already covered a whole range of these towns which, upon closer scrutiny, reveal a potential for re-activation. Some have distinct tourism potential, some are “central” to agri-processing areas or in respect of regional administration or social-service supplies, some have obtained momentum by virtue of their proximity to Mangaung or Sasolburg and their spill-over effects, some are merely close to transport axes, and a few in the Goldfields area still have fully operational mines.

Bearing in mind the centrality of the Free State and the significance of its national through-roads (the N1, N3, N5, N6, N8 and nearby N12) we can postulate a further important competitive factor for several towns, viz. their proximity to one of these through-roads. This could (if circumstances are favourable) create demand for the usual travel services (filling stations, restaurants, take-aways, accommodation, etc.), with further scope for the sale of crafts and local memorabilia. Experience shows that entrepreneurial creativity can expand the range of these services, especially if regular events are introduced (the annual film festival of Victoria West being a good example from another province) and if the transit-route factor is combined with other factors like a regional resource base, some historical inheritance or particular services for transit travellers.

Free State towns host a large number of “annual festivals”, many of which only draw limited numbers of visitors. Whether some of these will grow into nationally significant tourism events will largely depend on local development entrepreneurship and provincial as well as national support. Best practice reveals again and again that every village differs in its strengths and opportunities, and that the majority of small towns will find some competitive strength, *if* local entrepreneurship is focused enough, and if it succeeds in drawing support from the authorities. The study of success stories teaches us more about the “How to?” of small-town development than does adherence to any collection of prescriptive strategies or guidelines.

In the past, the “potential” of small towns was judged almost entirely on the size and economic strength of the (predominantly white) town centres and modern business establishments. Where they were shrinking, the town was seen to lose its “economic

potential”, even though the townships might increase in residents, either formally or informally accommodated. Statistics show that the population of many of the smaller Free State towns has increased over the past decade, largely as a consequence of the shift of families from the commercial farms and the movement of people from the former homeland areas.

Box 8

LED efforts in small towns

In the light of the serious challenges faced by Free State towns, the PEAC commissioned an in-depth study into LED approaches, the effectiveness of LED efforts in the Free State during recent years and possible steps to increase the success of future efforts.

Accepting the development-stimulating and poverty-alleviating role that LED initiatives and projects have played all over South Africa, the study finds that the outcome of such initiatives in the Free State has been most disappointing. In fact, clear successes, of which the study briefly documents two (Clarens and Smithfield) have been the exception: "Few, if any projects have become sustainable; few if any permanent jobs have been created; there are concerns over project mismanagement; there is a lack of adequate business planning and the lack of training inhibits success. In addition, projects seldom involve the private sector and poverty is not really being addressed."

Factors accounting for this dilemma include the following.

- /// Municipalities are seldom fully committed towards LED, with their actions often actually deterring or impeding investments.
- /// There is no clear distinction between LED as economic development facilitation and LED as poverty alleviation; both are necessary, but each demands a different approach.
- /// Municipalities not only lack business and management skills to plan or implement projects, but many suffer from acute financial constraints, while most of them have in the past few years faced a politicisation of development efforts (which often led to the exclusion of important partners, like the private sector).

The analysis of these issues on the basis of general principles and the broader South African LED literature, as well as a range of Free State case studies, needs to be disseminated widely among provincial, district and municipal executives in the Free State. In fact, an appropriate report, adapted for a non-academic readership and leadership, will have to be prepared, distributed and widely discussed.


Based on these findings, and bearing in mind the fact that every town will need a locally adapted LED approach, the following recommendations have been put forward.

- 1 A radical *rethink of the entire concept* and application of LED in the Free State is an urgent necessity.
- 2 In order to establish, as soon as possible, the critical capacity for the analysis, planning and preparation of LED efforts there is a need for a permanent *provincial LED facilitation and support unit*. Through its own capacity or in co-operation with some academic centre/unit, it needs to be able to undertake relevant research and provide advisory support.
- 3 LED efforts in small towns have to be *aligned with provincial policies* and, most importantly, with *business principles* and local economic realities.
- 4 Serious LED efforts can only succeed if all local leaders, forums and *partnerships* are involved and actually co-operate.
- 5 The implementation of economically viable and sustainable projects may necessitate the establishment of local development agencies or other adapted *implementation vehicles*.
- 6 LED projects should be sensitive to poverty alleviation, SMME growth and economic-development goals.
- 7 Notwithstanding close links between local political processes and LED initiatives, project implementation should be fully accountable and a-political.
- 8 To help local capacity building in the LED planning and management process, ample scope should be created for study tours, workshops on success and failure case studies, learning centres, project mentoring and other practical training provided by experienced, grassroots-orientated facilitators.

Closer observation, for example, of informal-settlement communities may reveal an amazing spread of activities, earnings, assets and skills. Few of these might be in demand in the conventional, formal business sector, but they may be vital for survival and wealth creation in the informal sector. In fact, a significant part of the 40 per cent of “unemployment” registered for the Free State represents people and households who are forced, and often succeed, to make a living on informal activities in small rural towns.

The townships or suburbs are full of “entrepreneurs” who innovate and compete with each other and with external operators, who “invest”, transfer skills, take (reasonable) risks and otherwise behave like “rational” business people. It is one of the current challenges of development facilitation that we have to better understand those segments of our society in order to be able to (cost-)effectively assist them and/or facilitate their transition to more formal activity patterns.

In efforts to reactivate Free State towns, all their segments and economic activities should harness any impetus that these segments might be possessed of. In fact, with national poverty relief, rural development, job creation and LED programmes increasing in significance purposive efforts to activate local development may well centre around the relief made available to township communities from provincial or national authorities.

The most critical point revealed by these examples is the need for municipal and civic leadership, district authorities, and provincial government to co-operate in a partnership approach towards the activation of small towns. National government support is equally critical in this respect. 

SECTION 6

Cross-cutting Issues in Development Facilitation

Against the background of the strategy propagated in Section 3 the last two sections have covered a wide range of sectors and geographic areas in the Free State which together constitute the potential for future growth, development and job creation.

Underlying these brief reviews is the question *how* that potential can be activated and mobilised, given the province's recent history of economic stagnation and dependency. This section will address a number of "cross-cutting issues" which in their interaction should greatly enhance the revitalisation of growth and development in the region.

6.1 Propagating development opportunities and marketing the region

Having tried to show that the Free State economy offers a wide range of investment, employment, income generation and profit-making opportunities (if only entrepreneurs and community leaders were to become cognisant of them and the dynamic processes in which they are rooted) we must also acknowledge that many of these potentials are not immediately obvious. Awareness of them is therefore somewhat constrained. In sharp contrast to the dominant growth factors of the past, the present set of opportunities derives its potency from the successful co-mingling of a whole range of more modest ventures and initiatives. Outcomes may be less predictable, or more risky, than is the norm and consequently these opportunities may have less overt allure – at least in the early phases of adjustment and transformation. Yet that does not make them any the less real or deserving of public-sector support.

One of the more obvious, but nevertheless crucial, interventions needed in this context is a *comprehensive, multi-dimensional information and sensitising process*, reaching all the corners of the province, all the strata of society and all sectors of the economy. After the debilitating bout of pessimism linked to the decline of the gold

mines, the rationalisation of the agricultural sector, and the stagnation (if not collapse) of the small-towns in the Free State, it is time to get a new perspective across. Its central message has to be that:

growth is possible, that the province is not that poorly endowed with resources, that those in power are willing and able to enter partnership agreements with business and NGO leaders, and that there are profitable business opportunities in many sectors and subregions of the province.

We are not talking about a glib marketing campaign, minimising problems or conjuring up pipe-dreams about new growth sectors. We propose the systematic spreading of information about economic realities and opportunities, using effective channels of communication. Realism, straight talk and an admission of shortcomings to date are as important in such a process as is the making known of profitable opportunities and success stories, and the encouragement of new action.

In line with the discussions in Sections 4 and 5, and following the underlying strategy of bottom-up people-centred development, these sensitising initiatives have to stress the role of private enterprise, community self-help, entrepreneurship and personal leadership in the tackling of opportunities. Such an approach does not deny the need to address poverty and inequality, but it lays stress on the positive impacts to be made by those who have the requisite potential, and who could be proactive in the development process.

Who should undertake this information-sharing and sensitisation thrust? Who should take the lead? Most importantly, we should not expect “the government” (one or other department or state agency) to do it all. It has to be *a joint effort* by a wide (in fact, ever widening) range of players, from the media to organised business, to (higher) education institutions, to public-sector bodies or parastatals, community and political leaders and individual business leaders or groups. There may be merit in establishing a “Free State Development Forum” to loosely link different initiatives,

but even that should perhaps be a later step, once significant bottom-up momentum has been achieved.

The practical measures involved in giving effect to this sea-change are of equal importance. Steps would include:

- /// media presentations
- /// dissemination of information through local channels, such as libraries and local-business information centres
- /// general reference material released through publications
- /// communications via organised businesses
- /// regularly released statistics on new projects
- /// releases via sector associations or corporates
- /// public debates and decentralised workshops
- /// presentations of case studies and “success stories”
- /// dissemination through academic research (publications)
- /// briefings by provincial-government departments and by district municipalities
- /// municipal brain-storming sessions

The multiplicity of channels and “actors” involved in this process suggests that these inputs cannot be pre-programmed or tightly orchestrated. It is loose co-operation and co-ordination that will determine the effectiveness of the overall thrust.

The task outlined here can be seen as consisting of two elements: an *internal* communication task and an *external* marketing task. The internal task is more complex, continuous and open-ended, aimed as it is at all stakeholders in both the public and the private sector. Its primary goal is to achieve consensus about the province’s growth potential and development commitment – which should then activate inputs by all the players.

Handled by Trade and Investment South Africa (Tisa) and the Free State authorities, the external marketing will have to be more focused and conventional, telling the outside world (in South Africa and beyond) what development resources and

opportunities the Free State has and how its development process is unfolding, aimed at inward investors, business partners, public-sector bodies and the media.

Although communications should be flexible enough to suit a variety of audiences, the underlying understanding must remain an integrated one.

6.2 Utilising national development support

In our discussion of the different sector or niche opportunities, as well as the spatial development potentials, it became clear that rapid progress requires supportive action in many different ways. For example, tourism growth in certain areas calls for an improvement in the roads; industrial investments demand improved electricity supply, better security and upgraded transport facilities; successful exporting of new agricultural niche products presupposes an export support network, and so forth.

In Section 3 we indicated that a responsive partnership approach needs the combination of endogenous and exogenous development support. Subsequent sections, detailing sector and spatial development opportunities and challenges have shown what this implies in practice. As far as the exogenous support is concerned, the government of the Free State should first of all strengthen its ability and effectiveness to utilise national support programmes in all the different areas where they exist. It is well known that the DTI and a number of other departments (Labour, Environment and Tourism, Transport, etc.) have a wide range of incentives, support systems, special programmes, etc. addressing many of these needs – and that they often make funds available for locally designed and implemented support programmes. It is also a fact that many firms at grassroots level are not aware of these support schemes. Many municipalities seem to be unaware of them as well, or, when not, they struggle to fulfil the pre-conditions tied to the support programmes.

The challenge arising out of these considerations should be clear: Public-sector bodies in the Free State, assisted by and closely co-operating with private-sector bodies or leaders, have to develop and strengthen the local capacity to access (“milk”) potentially available national resources. The fact that the Free State is a

relatively small region should be a distinct “plus factor”, since its claims or requests should not strain national budgets unduly.

It has been argued in this context, that the Free State should also have applied for IDZ or development-corridor status for the Mangaung–Botshabelo–ThabaNchu–Ladybrand–Maseru corridor, linking their motivation to the export potential of Bloemfontein and Botshabelo industries, the proximity of Lesotho and the benefits available via Agoa. Preliminary steps in this direction were, in fact, taken but apparently met with a lukewarm response from national government. It is known that the mere incorporation of a national development programme (such as an IDZ) does not guarantee that local obstacles or shortcomings will be addressed in the most appropriate way. The critical factor is clarity within the province about needs and opportunities, followed by negotiations with national authorities to get the best “deal”.

As far as the Free State’s future economic development promotion is concerned, increased use of national support should focus in particular on

- /// the utilisation of SMME support via the DTI, Khula, Ntsika/Namac and other bodies,
- /// the utilisation of national tourism support, like TEP (for SMEs),
- /// the use of funds and support under the Integrated Spatial Rural-Development Programme (ISRDP),
- /// the use of special job-creation funds, including those targeting the youth, women and the disabled,
- /// the use of special poverty-relief funds.

All of these programmes can channel significant resources from the national government to a broad cross-section of local enterprises or households, i.e. they result in nett inflows to the region. A greater focus on drawing down national funds and tackling new programmes will require a re-allocation of responsibilities and staff in different provincial government departments. There is also a need for far more private–public sector co-operation in efforts to tap these financial sources and effectively use the programme assistance on offer.

6.3 Strengthening provincial and local development-support agencies

In considering steps to increase the effectiveness of provincial- and local-authority development efforts, we have to start with the range of strategy initiatives already in force. As indicated earlier, these include

- /// the *Free State Development Plan*, of which the 2002–05 edition is currently applicable, with a revision scheduled,
- /// the *Provincial Growth and Development Agreement* of October 2003, which includes feed-back and progress-reporting mechanisms,
- /// departmental “strategic plans”, eg. the *Strategic Plan for 2003/04 to 2005/06* of the Provincial Economic Development and Tourism Department, which is annually updated in line with three-year planning horizons,
- /// provincial budgets and annual reports of parastatals (e.g. the FSDC).

All of these plans and reports fulfil an important role and there is no suggestion here that current reporting and planning mechanisms should not be continued with. This report is not intended to supplant these strategies but seeks rather to put their utility into sharper focus – to influence the way in which the economic-development process *per se* is tackled. Ideally, if the recommendations suggested here and the proactive partnership processes begin to bear fruit, these feed-back reports should reflect such performance and pave the way for even more decisive steps to be taken. Naturally, this may well lead to the adjustment of certain goals and, more importantly, to the roles expected from public institutions, the private sector, NGOs and parastatals – but the reporting and strategising mechanisms should remain.

Public-sector support for faster development could be generated along the following lines:

- /// regular or new functions for *provincial-government* departments,

- /// existing or new roles for developmental *parastatals* (FSDC, Goldfields Economic Development Centre, etc.),
- /// a reappraisal of the functions of the *district municipalities* and
- /// a similar revisiting of the optimal roles for *local authorities*.

The expert reports prepared for the PEAC, and other objective evaluations of Free State public-sector institutions, have clearly shown that the capacity of several of these bodies is extremely limited. Thus, we cannot simply assume that the most appropriate interventions or support actions will be undertaken as a matter of course, or that they will be implemented effectively. In fact:

the strengthening of these capacities is probably the single most important challenge in the Free State's attempt to accelerate its development momentum.

Efforts to strengthen these capacities and expand roles and functions will have to focus on each of the four segments of the public sector in the Free State.

- /// All of the *provincial-government departments* should reconsider their role in support of the proposed strategy. This could result in internal restructuring and changes to specific functions. With the staffing and implementation capacity of the provincial government and its relevant departments distinctly limited, a partnership approach should be followed wherever possible. This implies close co-operation with existing development agencies like the FSDC and the FGDC, but also partnerships with private enterprises (BEE firms as well as others, who might bring scarce expertise, external funding or valuable contacts to the table) and NGOs. The opportunities are diverse, but so are the risks and the necessary learning processes. Yet, given the great variety of business opportunities mooted and the need to tailor support to match sectoral or local needs, such a partnership approach seems essential.
- /// The *Free State Development Corporation* (FSDC), which did not figure directly in any of the commissioned reports of the PEAC, also needs to critically review its role and function, in order to strengthen its development support. The PEAC

suggests that the provincial government commission an independent review of its activities to pave the way for a transformation of the institution into a potentially powerful initiator, funder and facilitator of development programmes and projects in the Free State. It should, in fact, evolve into one of the pillars of the proposed new strategic approach.

- /// All over South Africa the newly demarcated *district municipalities* have yet to clarify their roles in the strengthening of bottom-up development, and in assisting local authorities in their development tasks. This clarificatory process is also needed in the Free State, since these bodies could play a central role in overcoming the structural weaknesses of municipalities.

- /// As indicated earlier, the situation at *local-authority level* is even more challenging, since capacities are often extremely limited. Ideally, a major (provincial) initiative harnessing national, provincial, district, corporate and NGO inputs should tackle the most critical issues. Since progress will inevitably differ between towns it also seems important to document successes and help municipalities to learn from each other and from external best practices. In such a multi-dimensional approach, academic and training institutions (in the Free State and elsewhere in the country), organised business and labour as well as specialist local-government institutions should co-operate to create a new class of professionals, but also to help sensitise local businesses, NGOs and civic leadership about the potential of smaller towns, and how this might be activated.

The development success already achieved in a few Free State towns has shown that concerted efforts can be fruitful; it is now a question of designing practical approaches and creating incentives for their implementation and for the dissemination of such experience.

6.4 Supporting small enterprises

Earlier sections of this report revealed the significance of small, medium and micro-enterprises (SMMEs) as the private-sector base for economic development and job creation in the Free State. The decline of the gold-mining sector and the paucity of large corporations based in the province are two important reasons for the critical role of the SMME sector, together with the wide spread of development opportunities and the low population density of the province.

Small enterprises ought to play an important role in all of the following actual or potential growth areas:

- /// new agricultural niches with high-value products
- /// small-scale mines
- /// aqua-culture and (river/dam) fishing
- /// construction
- /// manufacturing
- /// renewable (solar/wind) electricity generation
- /// rural water supply
- /// most categories of trade (excluding only the national retail chains)
- /// tourism
- /// business, property and (some) financial services
- /// major segments of the transport industry
- /// professional and personal services

Informal-sector activities, subsistence agriculture and survivalist activities are included in the respective segments.

Awareness of the pivotal role of small-enterprises in economic-development has increased in South Africa during the past decade. The Free State's high dependence on gold-mining, Sasol, the provincial public sector, and large (white-owned) farms may however have had a dampening effect on this awareness in the past.

South Africa has developed a comprehensive SMME-support strategy, consisting of diverse programmes initiated or funded at national, provincial and local level, and complemented by private initiatives. The 1995 *White Paper on Small-Enterprise Promotion in South Africa* triggered a whole range of institutional developments, including the establishment of Ntsika, Khula Enterprise Finance, the National Small-Business Council, Local Business-Services Centres and provincial SMME desks. Their implementation did not result in the outcomes generally hoped for and this led to a phase of strategy reconsideration and the preparation of a revised framework (to be released by the DTI later in 2004).

For the Free State the national SMME-support system is but one (important) element of an integrated approach towards the promotion and support of small enterprises. We can briefly summarise the elements of a provincial SMME strategy via recourse to an upcoming PEAC report: *Opportunities, Obstacles and Action Steps for the Development and Strengthening of SMMEs in the Free State* which is to be released separately in due course.

/// *Utilising national SMME-support programmes for the benefit of local small enterprises*

This requires thorough understanding of the different national institutions and the conditions and procedures under which such assistance can be obtained.

Action is needed both in the public sector and in the private sector (among firms, business associations, etc.) to better utilise such support.

/// *Offering sector-focused SMME-support programmes through the provincial government*

This should happen through the good offices of the different departments and provincial development agencies, like the FSDC and a Free State Manufacturing Advisory Centre.

/// *Getting local authorities to develop and maintain a consistent pro-SMME approach in their interactions with the business sector*

This has to become a regular part of LED agendas at municipal level.

/// *Providing the business infrastructure needed for dynamic small-enterprise development*

This should include crime control, business premises, hives or incubators, township infrastructure facilities (water, electricity, sewage, roads, street lighting, etc.) and transport linkages (e.g. train/bus stops in some of the more remote locations).

/// *Maintain a fair and flexible system of business regulations*

This should include registration, zoning and health controls. Regulations should not unduly stifle micro-enterprise initiatives but should nonetheless maintain an orderly business environment. Sympathetic treatment of small enterprises in local rates-and-taxes systems could be tabled for consideration.

/// *Expanding the education and training facilities for SMMEs*

SMMEs should have ample opportunities to train-up their staff in the full spectrum of skills needed for effective operations. This presupposes partnerships between the public, parastatal and private sectors.

On the private-sector front, effective SMME support should include concerted action in the following spheres:

- /// an active network of business associations covering sectors, areas (towns) and interest groups
- /// the dissemination of information and opportunities related to franchises
- /// a more active involvement of small-business consultants and mentors (ideally “encouraged” through publicly-funded incentive or voucher schemes)
- /// proactive media attention on successful SMMEs and sectors with dynamic SMMEs or creative self-help programmes

In two further important spheres co-operation is needed between SMMEs, larger enterprises and the public sector, viz.

- /// increasing market access for small enterprises, in particular through outsourcing or subcontracting from corporates, state departments and municipalities, and
- /// improving access to finance for SMMEs, primarily through better co-operation between financial institutions, national SMME-finance facilitators (Khula and

more specific finance programmes of national government departments) and small-business-support agencies.

These points cover a wide range of support programmes and initiatives, each warranting critical scrutiny for possible improvement and more comprehensive coverage at provincial level. The fact that all of these support areas still have shortcomings, and that few of them entirely satisfy entrepreneurs at grassroots level, is not that material for the Free State at this stage. Of far greater importance is the need for provincial government, local authorities and private stakeholders to get proactively involved in the utilisation, improvement and spread of currently available support.

Finally, it is equally important for SMME support in the Free State to take into account reasonable goals and expectations with respect to black economic empowerment and the advancement of PDIs in the small business scene. Most of all, this requires creative steps to overcome the racial compartmentalisation that has been characteristic in the Free State for so long. In this context, national programmes can help and should be utilised, but the real challenge lies at the grassroots level in local towns, cities and business sectors.

6.5 Strengthen human development

It is common knowledge that deficiencies in education, training and skills are at the root of many of South Africa's development problems. This also applies to the Free State, a region that has always had difficulties attracting and retaining highly skilled or professionally competent people.

The education and training challenge encompasses all levels of education, from basic literacy training and adult education to primary/secondary education as well as FET and higher education. In most of these areas the critical issue is funding from national government and the development of efficiently managed schools and colleges as well as allied support services. The decline of platteland towns has made this task infinitely more difficult in the Free State and calls for well co-ordinated

special initiatives to maintain and improve standards. At high-school level the provision of adequate dormitory facilities is equally crucial; the same applies to FET colleges, which have to play a central role in the transfer of practical skills in the platteland.

The approach advocated in this report places particular emphasis on the seizing of opportunities, in different sectors or niches, and in different centres of the province. Unfortunately the capacity to realise these opportunities is often lacking. Put differently, increased attention has to be given to the transfer of the requisite skills in a spatially and institutionally flexible way. For example, if there are tourism opportunities near Clarens in the eastern Free State and in Hoopstad (near the Sandveld Nature Reserve) in the west, the challenge is to supply appropriate courses as close to these centres as possible, and in a way that local entrepreneurs can absorb the training.

Given the sectorally decentralised pattern of economic development in the Free State, FET colleges and higher-education institutions will have to liaise very closely with the private-business sector as well as with national skills suppliers (i.e. the newly created Setas) to focus on the skills most relevant and most in need. This calls for enterprising leadership, flexibility and ongoing interaction.

Apart from training, the development path contemplated for the Free State also calls for the active involvement of local academic institutions in applied research focusing on actual and potential growth niches and the practical issues faced by SMMEs, larger firms and the public sector. With two universities, and a number of FET colleges, the Free State has the basic infrastructure needed to tackle these diverse demands. While institutions like the University of the Free State have already shown their ability to deliver top-quality research, the real issue now lies in the diversity of sectors/industries and sub-regions all of which need *some* applied research to be done in order to adapt more general expertise to particular local needs. Once again, there are no easy answers, but the problems are far from being unique to the Free State.

In one of the reports prepared for the PEAC, the focus is on efforts to bring the Free State into the “knowledge economy of the 21st century”, given that an increase in

knowledge-based value-added production is the greatest challenge for the transformation of the Free State economy and the creation of new jobs. Box 9 summarises five recommendations to strengthen this process.

Finally, a sensitive issue in the process of know-how and technology transfer must be broached. Lack of extensive, relaxed interaction between whites and blacks in the Free State (in particular in the business, civil-service and policy-implementation fields) seems to be one of the impediments to skills transfer. These bottlenecks make the development process more difficult and may imperil many business opportunities. Education, training and well publicised practical research outcomes could play at least some role in breaking down these communication barriers, especially if better education is supplemented by other transformation-support efforts.

6.6 Lesotho–Free State interaction

Throughout this report reference has been made to ways in which the geographic proximity of Lesotho to the Free State affects economic activities and prospects for future growth. By way of a summary we can distinguish a number of such influences:

- /// Relatively “cheap” labour from Lesotho may compete for jobs inside the Free State. This can be viewed as a negative effect in as far as local labourers may feel threatened by the competition, and the possible increase in local unemployment. It could also be viewed positively however in that lower labour costs may make some industrial processes (e.g. in the clothing and craft sectors) viable in the sub-region and thereby create additional local employment. The employment of Lesotho citizens could also be viewed in a positive light in view of the fact that much of their spending is channelled through the Free State.

Box 9

Supporting knowledge-based economic development

One of the commissioned reports covered current and possible future efforts to bring the Free State into the “emerging knowledge economy of the 21st century” and align it with South Africa’s science, technology and innovation environment. Five key recommendations are summarised here.

1 Work towards a Free State growth and development agreement 2014

Building on the PGDA 2003, the provincial government should bring together industry partners, education institutions, science councils and government players from all five districts to help shift the Free State’s economic base more strongly towards higher value-added manufacturing and local innovation. Being the Free State’s contribution to the National System of Innovation (NSI), such a growth agreement could also help to attract funding flows for provincial projects.

2 Establish collaborative networks to strengthen the science, engineering, technology and innovation focus in the Free State

Efforts, supported by the provincial government, should encourage higher student output in these disciplines, stimulate multi-disciplinary academic programmes that produce science and technology researchers, promote research and development in support of innovation initiatives and encourage higher-degree studies on innovation-focused themes, including those co-funded via Thrip and the Innovation Fund.

3 Help spread ICT and e-government

In order to promote the benefits of ICT for the Free State population, provincial government and local authorities should co-operate to establish a grid of ICT facilities across all towns, together with e-government access to all strata of the population. Such infrastructure should, over a decade, make citizens, government and business fully ICT interactive, thereby supporting learning, communication, entrepreneurship, trade and innovation.

4 Establishing a “knowledge-economy research and investment unit”

Such a unit should monitor progress in the areas indicated above (points 1 to 3), guide efforts to further facilitate the process and help mobilise funds for investment opportunities in the knowledge-economy field.

5 Establishing a “small-towns research project”

Such a project or centre should conduct appropriate research into the problems and opportunities of Free State (small) towns as well as feasible LED-support strategies. This could also lead to joint efforts with the DBSA, the Land Bank, the IDC and other bodies to mobilise funds for innovative LED projects.

/// For many Lesotho residents, shopping in the Free State (Ficksburg, Ladybrand, Mangaung, etc.) is the norm when it comes to the acquisition of consumer goods. Thus, out of the 2,1 million Lesotho inhabitants (or about 450 000 households) at least about a third regularly shop in the Free State. Compared to the Free State's 700 000 households this is a significant addition to total consumer demand for Free State establishments.

The reverse of this relationship also holds: Where Lesotho households have less spending power, because migrants' remittances declined due to shrinking mining employment, this has now affected the Free State retailers that traditionally catered for Lesotho-based clients. While this has contributed to the Free State's economic woes, the rapid increase in industrial activities has partially compensated for the loss.

/// With respect to products in strong demand by Lesotho households there may be scope to produce at least some of these in the Free State, thus stimulating "manufacturing exports".

/// In the construction, repair and maintenance sectors Free State firms are able to strike "service export" deals with Lesotho firms.

/// Some Free Staters own franchise establishments in Lesotho. Even if it is only subsidiaries that are located in Lesotho, some employment and profit spill-over occurs for the Free State.

/// In the fields of education, training, financial and insurance services, professional services, IT, transport and communication services the links are particularly close, with benefits on both sides. In the Free State these demands directly boost local business turnover and may often be what keeps local firms afloat. At higher-education institutions Lesotho students have boosted enrolment figures over recent years, and this trend could easily escalate.

- /// Free State industrialists also benefit from the ability to outsource labour-intensive production processes to Lesotho, in particular where free-trade agreements allow these low-priced goods to be exported duty-exempt to the USA (due to Agoa) and the EU.
- /// Finally, Lesotho offers opportunities for South African NGOs to get actively involved in Lesotho, with offices often based in the Free State itself.

For a proper perspective on the foregoing it should be remembered that the 2,15-million inhabitants of Lesotho are the equivalent of 75 per cent of the Free State's population. Even if we take into account absent migrants and those living closer to KwaZulu-Natal or the Eastern Cape, probably about half the Lesotho population channel their economic needs through the Free State. It is, of course, logical that such "dependency" also creates problems, just as socio-political stability inside the country influences the way in which interaction can be conducted. These are issues that should be handled in a pragmatic bottom-up way, with the public and private sectors in both countries co-operating.

To maximise the development pay-off for the Free State, effective communication and co-operation with development partners in Lesotho's neighbouring regions is important. Such co-operation need not be limited to the public sector; parastatals or private groups can also play constructive roles. Most important is the willingness to enter partnerships and to make available competent people to facilitate progress.

Research commissioned by the PEAC in this context will focus in greater depth on the following aspects:

- /// the need for, and desirability of, a "special development zone" in the Mohokare-Caledon valley, incorporating complementary agriculture, land reform and tourism strategies,
- /// complementary industrialisation strategies and the identification of certain towns as hubs with the potential for corridor-type investments,
- /// scope for the more effective harnessing of cross-border trade links,

- /// scope for cross-border infrastructure schemes (incl. bulk-water supply and labour-based road works),
- /// co-operation in the cross-border utilisation of social infrastructure facilities. ///

SECTION 7

Implementation Challenges

In producing this document the PEAC is concerned to broaden the public and private-sectors' perspective on economic growth and development in the Free State. From an extraordinarily high dependence on gold-mining, plantation agriculture, subsidised manufacturing, and white middle-class-focused trade, the region now has to move towards a multi-sector, demand-driven, globally competitive economy, where momentum originates in a widely dispersed range of growth impulses.

This broadening of the development base, combined with pressures to create more jobs, address widespread poverty, and increase black economic empowerment, calls for close partnerships between a large number of economic and business players and stakeholders. In particular, this report has shown that the private sector has to play a more significant role in the sectors destined to drive the development, growth and job-creation processes.

The precise nature of these partnerships cannot be determined in advance or prescribed from a distance. It has to be worked out jointly in the particular context of each sector or development area, with developments (or the lack thereof) during recent years functioning as important determinants of future actions.

Such a process of interactive partnerships will however be insufficient of itself to extricate the Free State from its current economic malaise. There is an urgent need to transform the “vicious circle of stagnation” into an innovative “growth spiral”.

To achieve this, the public sector will have to play a proactive role, with the following elements as key factors.

- 7.1** The provincial government has to fully accept and acknowledge the Free State's current growth and development impasse. It should also encourage other stakeholders to assent to the facts regarding the province's economic challenges.

7.2 The provincial government and all major stakeholders must concur that a significant and sustained revitalisation of the regional economy is only possible if all stakeholders co-operate and pursue partnership strategies.

This important principle may be easy to accept at the level of lip-service, but it is far more difficult to actually give effect to it at the level of detailed sector and area development. It may take time (and some visible successes) to secure broad acceptance.

7.3 Since organised business and NGOs are critical within the partnership ethos, the provincial government should be willing to do whatever is necessary to support and nurture business and sector associations, development-focused NGOs, and other community initiatives. In particular, such support should aim at strengthening the leadership capacity of these groups.

7.4 The provincial government will have to show the way in adopting reform measures, in fostering projects, and in the “unblocking” of critical development obstacles. Passive reliance on market forces, or the productive dynamism of private initiatives, will not be sufficient to break the impasse. In this report we have highlighted many spheres where private- and public-sector players need to co-operate, leaving open the question of who is to lead the way or drive the initiative. The provincial government must to be willing and prepared to assume this responsibility, albeit in close co-operation with other players.

7.5 This report also urges that the rejuvenation of economic growth in the Free State be actively supported by *national government*. This entails more than mere access to national support mechanisms; it also implies that national government should proactively, and purposively, support the province in its newfound developmental directions and resolve. A few apposite areas are:

∕∕ the Free State’s efforts to attract Africa-focused institutions (e.g. the Pan-African Parliament), or the headquarters of national institutions, deserve far more than token acknowledgement,

- ∥ efforts to forge new, mutually beneficial relations between the Free State and Lesotho call for concrete support and co-operation from national government,
- ∥ the transformation of the Free State Goldfields warrants special support programmes which cannot afford to be held hostage by constrained provincial budgets.

7.6 The provincial government has to help local authorities to strengthen their leadership and implementation capacities. This will be difficult and will necessitate a thorough understanding of current weaknesses. Visible, resolute efforts in this respect will show that the province means business, and will send out the right signals. This will also help with any painful restructuring processes that might be called for.

7.7 Without duplicating the processes initiated by accords like the Free State Development Plan, and the Provincial Growth and Development Agreement, the provincial government must continuously monitor progress using the approach advocated in this report. Such monitoring should therefore also take place on a partnership basis. We urge for regular, frank presentations about incentives, policies and other action implemented to facilitate development. These have to be conducted in a spirit that empowers all the participants to gauge the effectiveness of interventions, the need for more (or less) of the same, or the need for drastic revisions of strategies if circumstances so warrant.

As far as possible, these critical reviews should be kept out of the political limelight, since “failure” of some efforts need not imply incompetence or the need to abandon such policies, but rather an adjustment of the support mix, a revision of goals, or a search for alternatives.

It is quite possible that an “annual development review” could find acceptance as a formal monitoring instrument. This should, however, only eventuate after extensive consultations and experience within the ambit of a more informal process. The advice and assessments advanced by the PEAC could be construed as the progenitor of such a process, without this body wishing to assume a more comprehensive role over the longer term. A locally based academic institution might be better suited to pursue such a mandate.

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