



THE C ENTRE FOR D EVELOPMENT AND E NTERPRISE

## CDE IN DEPTH

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# Growth and development in South Africa's heartland

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Silence, exit, and voice in the Free State

CDE IN DEPTH NO 2

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**GROWTH AND DEVELOPMENT  
IN SOUTH AFRICA'S HEARTLAND:**

*Silence, exit, and voice in the Free State*

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Main report

July 2005

THE CENTRE FOR DEVELOPMENT AND ENTERPRISE

CDE IN DEPTH provides South African decision-makers with detailed analyses, based on original research, of key national policy issues.

**SERIES EDITOR**

**Ann Bernstein**

This report has been written and edited by Dr Jeff McCarthy, Dr Sandy Johnston, and Ann Bernstein.

The following research papers and reports were commissioned for this study:

Free State baseline study (J J McCarthy and P Robinson)

Case Study: Business, government, and development in Bloemfontein (J J McCarthy)

Case Study: Business, government, and development in Welkom (J J McCarthy)

The international literature on growth coalitions (E Nel, L Marais and M Gibb)

Coping with the life cycle of extractive industries (M Limpitlaw and M Hoadley)

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## INTRODUCTION

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Located midway on the axis between Gauteng and Cape Town, which is traversed daily by national political and business leaders, Free State is 'halfway to everywhere'. For much of the 20th century – under very different political and economic conditions – the Free State could claim to be the national 'heartland'. This status had now faded and, as they fly over the province, national elites lack the visual reminders of it, which their predecessors enjoyed as they travelled through it by rail or road.

Like Ohio, Iowa, or the other 'flyover' states of the United States, the Free State cannot continue to rely on traditional rural values in order to lay claim to national support or attention. Rather (as in Iowa or Ohio), its future now hinges on advantages in knowledge industry leadership, astute regional marketing, and whatever political leverage can be mustered in ruling party dynamics.

This report is about how places that used to be nationally important can easily lose this status, and about how being 'halfway to everywhere' is no help at all if most influential people are leaving, fewer are passing through, and fewer still are coming to stay. The report is also, in a wider national context, about the 'missing links' in development strategy in South Africa, namely genuine trust between the public and private sectors, and a collaborative mind-set.

Private sector leaders have recently hailed South Africa's metropolitan-based economic growth rate in the last two quarters of 2004, and have predicted that this could be sustained and increased.<sup>1</sup> If such prognoses need to be qualified, it is that growth will depend upon 'confidence', and that this is a fragile commodity.

As Brian Bruce, chief executive officer of the construction company Murray & Roberts puts it:<sup>2</sup> 'But do government and business trust each other, I wonder? That must be the most important precondition for sustainable growth and development.'

Certainly the chart of mutual trust between business and government has been volatile in recent years. This was illustrated again in September 2004 when President Thabo Mbeki publicly upbraided Tony Trahar, chief executive officer of Anglo American plc, for stating that political risk was still a factor that businesses had to consider in their South African operations. There could scarcely be a better example of apprehension and misapprehension around questions of mutual trust.<sup>3</sup>

This study suggests that these apprehensions and misapprehensions are not confined to high-level exchanges between heads of state and global corporations. Its key finding is that there is also a failure at the grass-roots level to develop a common, unambiguous, and pragmatic agenda or language of development. As we will demonstrate, this is the most obvious 'missing link' in the Free State's development prospects.

### Background

This report is based on research conducted in two Free State cities, Welkom and Bloemfontein. The main purpose of the study was to find out what key stakeholders in those places thought about the challenges faced by their cities, and how they were facing up to them. The choice of subject and location arose from discussions between CDE and the project's funder, the Open Society Foundation for South Africa (OSFSA).

CDE shared OSFSA's concern about the geographically uneven distribution of developmental research in post-apartheid South Africa. To some extent this bias is inevitable because the central dynamics of economic growth and change undeniably occur in South Africa's major metropolitan areas, and the worst effects of poverty are found in the rural areas.

However, the provincial cities and small to medium towns, sandwiched as they are between the rural areas and the metropolises, are in a particularly difficult position. They are expected to play an important part in local government and decentralised economic growth plans while facing their own formidable versions of economic, political, and social adjustment to new conditions and new challenges of transformation and globalisation. Despite this, they tend to be underrepresented, and even neglected, in policy research.

The Free State is arguably one of the most neglected areas in these respects, leading to a notable deficiency in our understanding of contemporary South Africa. Underlining this, the Human Sciences Research Council (HSRC) recently closed its office in the Free State.

The dominant influences in the province's economy are the primary or extractive industries – agriculture and mining – that have historically played a major role in the national economy, but now account for shrinking percentages of GDP and employment. It has a settlement mixture of towns, rural areas, and a provincial capital that is home to important public and private sector elites.

These things cannot make the Free State completely 'typical' of South Africa, since no one place can be typical of such a diverse country. However, this economic profile of gold and maize and this pattern of settlement have historically given Free State a 'heartland' or 'middle South Africa' quality. This may have made it worthy of national attention in the past but, as we have already observed, this is a dwindling asset today.

Concerns about the information deficit in 'middle South Africa' played their part in the initial OSFSA and CDE conceptions of the project, but it was also shaped by some preoccupations that have been central to much of CDE's work. CDE is convinced of the centrality of South Africa's urban agglomerations of all sizes to the prospects of economic growth.<sup>4</sup> As we put it in an earlier publication:

Any national growth strategy must have the role of cities as a top priority. To neglect cities is to jeopardize national development.... About 80 per cent of GDP is already

## GROWTH AND DEVELOPMENT IN THE FREE STATE

produced in our cities and towns, making their role and performance central to national development.<sup>5</sup>

While this study is rooted in the conviction that our towns and cities are crucial sites of governance and commercial leadership, it has been shaped by three other assumptions:

- We agree with Michael Porter when he wrote: ‘Each location – whether it be a nation, a region or a city – has a set of unique local conditions that underpin the ability of companies based there to compete in a particular field.’<sup>6</sup>
- We believe that public–private partnerships of interests and capacities – that is, growth coalitions (GCs) – are necessary for the vision, leadership, and lobbying that will convert these local conditions into opportunity and successful entrepreneurship
- We understand that any given situation, whether of growth, stagnation or decline, is a mixture of the unique and the familiar; thus it is important to look for elements of international best practice, and examine them closely for applicability at home.

With these things in mind, CDE commissioned the following studies:<sup>7</sup>

- A baseline study of the demography and economy of the Free State.
- Two case studies of developmental challenges in the urban areas of Bloemfontein and Welkom, focusing in particular on stakeholder interviews in order to reveal perceptions of decline and prospects of regeneration.
- A review of growth coalitions in global theory and practice.
- A review of initiatives to promote economic development in areas suffering from a decline in ‘mature’ industries such as mining and heavy manufacturing

### Structure of the report

Edited (and sometimes qualified) versions of these commissioned studies comprise sections of this report, and provide some bases for CDE’s analysis and recommendations, which link and conclude the report as a whole. Part one of the report contains the baseline study of the Free State. Part 2 contains the two city studies. Part 3 comprises a review of relevant international experience. Part 4 draws together the main findings, and makes recommendations based on them. While these recommendations follow the research focus on the specifics of the Free State and its two largest towns, they are also more generally relevant to development strategy outside of South Africa’s metropolises.





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Part 1  
THE FREE STATE

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This section provides an economic, social, and political profile of the Free State, with special reference to shifts away from the historical bases of the primary sector economies of mining and agriculture. It covers the following topics: territory and administration; demography and migration; social indicators; economy; and politics and governance.

In presenting this overview, use is often made of figures derived from Statistics SA, the Demarcation Board, and a variety of specialist agencies that refine and elaborate upon such official sources. The time periods over which trends are analysed in various parts of this report partly reflect the observation times in official sources (eg census years), and partly the periods that are more or less germane to specific issues. Wherever possible, official sources are supplemented by other data, including for instance commercial surveys.

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## KEY INDICATORS

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### Territory and administration

The national demarcation process, which was finalised in December 2000, left the outer boundaries of the Free State virtually unchanged from what had been known until 1994 as the Orange Free State. The Free State comprises 129 480 square kilometres, or about 10,6 per cent of South Africa, making it the third largest of South Africa's provinces. And about the same size as the Western Cape. It is centrally located, extending from the Vaal River and Sasolburg in the north to the Orange River in the south, and from Harrismith and Lesotho in the east towards Kimberley (which is in the Northern Cape) in the west.

For most of the 20<sup>th</sup> century the basic administrative and geographic subdivisions of the Free State were magisterial districts. There were originally 49, each with a town and magisterial seat as its centre. Today these towns remain, but many are now no more than small centres with few economic or administrative functions. During the 1970s and 1980s two further areas, Witsieshoek and Thaba Nchu, were demarcated as part of the apartheid system, and at much the same time Botshabelo was established as a dormitory town for Africans. Thus by the time of the 1980 census, data were available for 52 administrative areas. These areas were then grouped into nine 'statistical regions' reflecting regional differences in the economic base. These are helpful in determining the province's economic base in the pre-1994 period.

In the 1980 census, five of the statistical regions had lower population growth rates than the provincial average, and the populations of almost half the magisterial districts (25 out of 52) were declining. These were typically rural regions with largely agricultural economic bases, and lacking a major town. The only magisterial districts to grow faster than the norm were Hennenman, Parys, Odendaalsrus, Welkom, and Witsieshoek, while Virginia and Bloemfontein had growth rates slightly below the provin

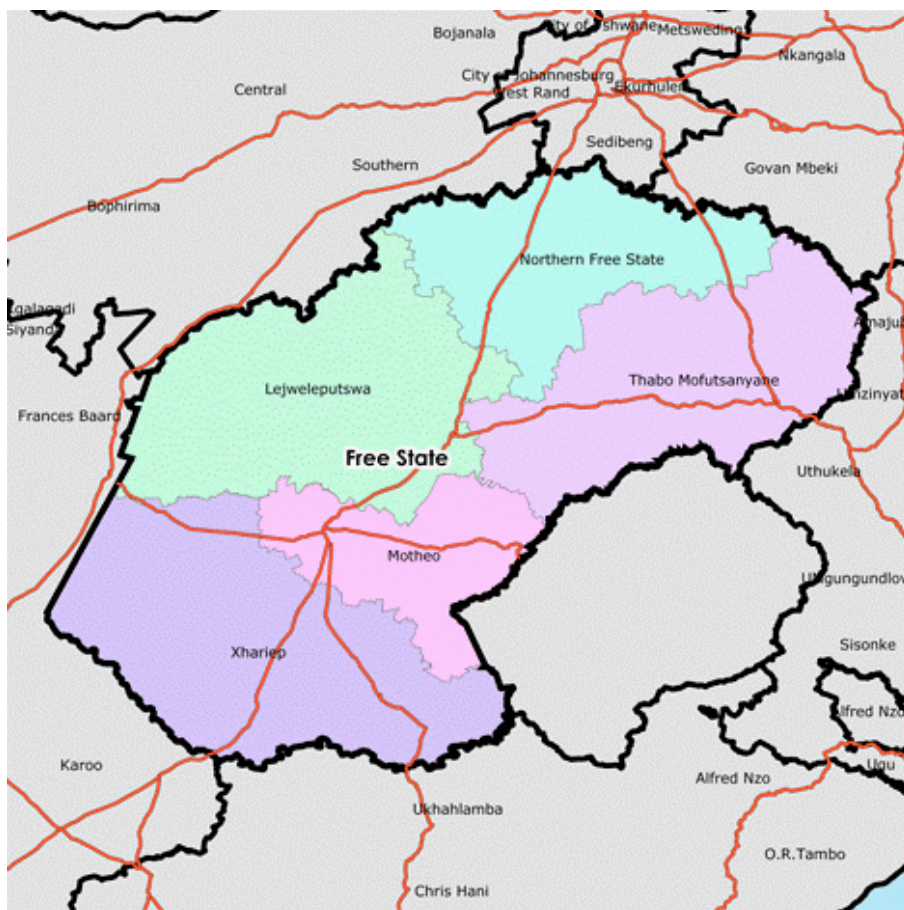
## GROWTH AND DEVELOPMENT IN THE FREE STATE

cial average. The reasons for these differential rates can be summarised as follows: Witsieshoek (a 'homeland' area), grew for political reasons; mining activity accounted for the growth of Welkom, Virginia, Odendaalsrus and Hennenman; proximity to Sasolburg and the Vaal Triangle stimulated the growth of Parys; and Bloemfontein's role as a service centre and provincial capital brought it growth just below the average.

In the late 1990s the Development Bank of Southern Africa (DBSA) identified four functional regions in the Free State: Bloemfontein, the Goldfields, and Eastern and Northern Free State. During the recent demarcation process, these were again re-grouped into five district councils, namely Xhariep (DC 16), Motheo (DC 17), Lejweleputswa (DC 18), Thabo Mofutsanyane (DC 19), and Northern Free State (DC 20).

Map 1 shows the current district municipalities, with approximations of the original magisterial district boundaries for ease of reference.

Map 1: Current district municipalities in the Free State



Source: Demarcation Board, [www.demarcation.org.za](http://www.demarcation.org.za).

## GROWTH AND DEVELOPMENT IN THE FREE STATE

### Demography and migration

Table 1 compares the Free State with other provinces in 1999 and 2003. In contrast to its large surface area, Free State ranks eighth out of nine provinces in terms of population share. In 2003 the population stood at 2 735 585, that is 5,9 per cent of the national total. This share has been dropping at a remarkably constant rate since 1951, when it stood at 9,1 per cent of the national population. With 21,1 persons per square kilometre, Free State also has the second lowest population density, behind the Northern Cape. It has a higher than average proportion of the African population, but the smallest proportion of Indians.<sup>8</sup>

**Table 1: Size and demographic patterns<sup>9</sup>**

Indicator	Free State 1999	Rank vs other provinces, 1999	Free State 2003	Rank vs other provinces, 2003	South Africa 2003
Size	129 480 km <sup>2</sup> .		129 480 km <sup>2</sup>	3	1 219 090 km <sup>2</sup>
Share of country	10.6%		10.6%	3	100.0%
Population (estimate)	2 633 504		2 735 585	8	46 384 949
Share of national population	6.5%	8	5.9%	8	100.0%
Population density	20.3/km <sup>2</sup>		21.1/km <sup>2</sup>	8	30.0/km <sup>2</sup>
Population Census	2.63m (1996)	8	2.71m (2001)	8	44.82m (2001)
- % African	84.9%	5	88.0%	4	79.0%
- % coloured	3.0%	5	3.1%	5	8.9%
- % Indian	0.1%	9	0.1%	9	2.5%
- % white	12.0%	4	8.8%	4	9.6%
Annual average population growth rate (1996 – 2001)	1.8% (1996 – 2000)	8	0.6% (1996 – 2001)	7	Circa 2%
Urban population as % of total	68.8%	4	69.2%	4	
% women	50.7%	8	...		...
Infant mortality rate 1994 – 1996	44	3	45	3	41
Total fertility rate 1994 – 1996	2.3	9	2.3	9	2.7
Life expectancy at birth (years) 1994-96	62	6	62	6	63
Age dependency ratio	56.4% (1996)	7	55.4% (2001)	6	No data
Main language	Sesotho		Sesotho		Zulu (23%)
% under 15 years	31.5% (1996)	7	30.7%	6	
% population aged 65 and over	4.6% (1996)	6	5.0% (2001)	5	
Number of households <sup>4</sup>	625 011				9 059 571 (1999)

*Note: 1 = highest; 9=lowest.*

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The most significant changes relative to 1999 are the drop in the share of national population, and the associated fall in the growth rate. Both factors indicate some migration out of the Free State, a trend evident since the 1950s (see box, *Migration patterns in the Free State*, this page). The Free State also has the lowest fertility rate of all the provinces, and a relatively high infant mortality rate.

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### Migration patterns in the Free State<sup>10</sup>

- Farm worker migration to the nearest town, due to retrenchments and legislation
- Large growth in major small and middle order towns
- Large growth in Bloemfontein and Sasolburg
- Low growth in Free State Goldfields due to retrenchments
- No or negative growth in former 'homeland' areas (Botshabelo, Thaba Nchu, and Witsieshoek)
- Limited growth in the southern Free State
- Growth in the towns close to Lesotho (Ficksburg, Ladybrand)

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### Social indicators

CDE's review of social indicators for the Free State yielded the following salient characteristics:<sup>11</sup>

- *Education*: In 2003 the Free State scored better than most provinces. In terms of the eight indicators for which comparative statistics are available, it was in the top half of the rankings, and better than the national average, for no fewer than six, namely adult literacy, proportion of adults with no schooling, pupil to teacher ratios, matric and university entrance pass rates, and pupils per computer. The indicators in terms of which it fared worse than the norm were under qualified teachers, and adults with higher education. Its ranking in terms of matric passes improved from second lowest in 1999 to 4<sup>th</sup> in 2003 (80 per cent). Although the pass rate dropped to 78,7 per cent in 2004, Free State's ranking actually improved to third. However this encouraging development is countered by the findings of a 2004 survey which noted that Free State came a close second (to Gauteng) in the number of discouraged matriculants who had given up looking for work. Eight per cent of Free State matriculants are in this position, compared with a national average of 5 per cent.<sup>12</sup>
- *Health (all quoted figures are for 2003 unless otherwise stated)*: Free State fared slightly better than most provinces on immunisation cover (fourth) and on the proportion of people without medical aid (fourth). However, in both cases the figure compares unfavourably with the national average, and to have 80 per cent of the provincial population without medical aid is arguably far more significant than the fact that five other provinces are worse off. Free State had a significantly better ranking for residents per nurse (32,5 in 1998, ranked third among provinces) and

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per public sector doctor (2,4 doctors to 10 000 population in 1998, ranked fourth). On the other hand, the province displayed very high rates of HIV infection among women attending antenatal clinics (30,1 per cent, against a national average of 24,8 per cent) and people suffering from TB (61,4 per cent, against a national average of 57,3 per cent).

- *Living conditions:* While most living condition indicators improved in absolute terms between 1999 and 2003, serious backlogs remain in basic infrastructure as the following 2003 figures make clear: 49 per cent of rural households have no electricity; 77 per cent of households do not have a tap in their dwelling; and 53 per cent are without a flush or chemical toilet. Although the province rates poorly in terms of the number of 'subsidy' houses built or under construction since April 1994, its performance has been about average when comparing the number of houses to total population. On most other indicators, the province fell into the middle third of rankings.
- *Poverty:* The incidence and extent of poverty seems to be increasing in the Free State relative to other provinces. Household income is third lowest among the provinces (unchanged since 1996), and per capita income is sixth lowest. Its position on the Human Development Index (HDI) worsened from third to fifth between 1999 and 2003, and its Gini coefficient – a measurement of income inequality in – from fourth to fifth. However, the most telling statistic is the proportion of individuals living in poverty. In 1996 the Free State had the third lowest percentage in South Africa, lower than the national average; by 2003, it had slipped to sixth place, with 51,9 per cent of its people living in poverty as against a national average of 46,2 per cent.

### Economy

In 2003 the Free State had a lower than average GGP per capita, a smaller manufacturing sector, and lower annual household incomes. On the positive side, it had a higher than average proportion of working age people who were economically active, and, while the absolute figures were high, it had fewer unemployed people than the national average (both on the strict and extended definitions). Relative to 1999, however, GGP per capita has dropped below the national average, and the Free State has slipped down the rankings. Table 2 portrays the Free State's economy in terms of national rankings:



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**Table 2: The Free State's economy<sup>13</sup>**

Indicator	Free State 1999	Rank vs other provinces, 1999	Free State 2003	Rank vs other provinces, 2003	South Africa 2003
% contribution to GDP	5.3% (1998)	6	5.5% (2001)	8	100.0%
GGP/head	R 8 615 (1994)	5	R 15 196 (2001)	6	R 6854 (1994) R 19508 (2001)
Manufacturing as % of GGP (2001)	n.d.		13.2%	6	18.6%
% of working age population economically active (strict definition)			60.4%	3	56.7%
Unemployment rate (strict)	20.8% (1998)	7	29.2%	7	30.5%
Unemployment rate (expanded definition)	30.0%	6	38.1%	6	33.9% (1999) 41.8% (2003)
% earning R 500/month or less	37.2		n.d.		25.05 (1999)
% earning R 4500/month or more	6.7%		n.d.		10.3% (1999)

*Source: SAIRR, 2003: 3-12; DBSA 1998, Table A.4 and DBSA, 2003, Table 2.1.*

### Changes in the economic structure, 1980–2001

Historically, the economy of the Free State has been based on mining and agriculture. Other sectors have developed largely to support these two primary activities. Both pillars of the provincial economy have declined since at least the early 1990s. The decline of subsidiary contributors to the provincial economy – electricity, water, and construction, for instance – is associated with the decreased mining and agricultural activities. Meanwhile, manufacturing, finance, and services (community and government) have been growing, reflecting a national and international trend.

The contribution of *agriculture* to the Free State's economy (measured in terms of GGP<sup>14</sup>) has declined steadily between 1981 and 2001; the sector showed negative growth rates between 1991 and 1996, and again between 1996 and 2001. This decline is reflected in a net loss of some 55 000 jobs in agriculture between 1980 and 2001. However, these trends may recently have been arrested, and there is no doubt that agriculture remains an important employer. The sector has a high location quotient,<sup>15</sup> which suggests that the Free State is still maintaining some national comparative advantages in agriculture, particularly in certain growing niche areas such as game farming and horticulture; but another interpretation is that the high location quotient for agriculture also reflects a weakness in virtually all other economic sectors in the region.

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In 1981 *mining* was by far the largest contributor to the Free State's GGP (37,4 per cent). This dropped dramatically to 20,6 per cent in 1991, and yet further to 14,3 per cent in 2001. This sector recorded negative annual growth rates of -1,25 per cent between 1991 and 1996, but a startling -7,6 per cent between 1996 and 2001. Mining was one of the province's three main employers in 1980, providing 163 000 (or 27,3 per cent) of formal sector jobs. Employment in mining had increased to 236 000 by 1991. However, the next 10 years saw a massive loss of mining jobs (around 191 700), with the result that by 2001 it provided no more than 8,1 per cent of employment. Despite these trends, mining remains a significant sector of the Free State's economy. A high location quotient in 2001 indicates that mining in the province has had a strong, though now weakening comparative advantage in this sector, while mining in the Free State is declining faster than it is nationally.

*Manufacturing* grew slightly during the 1980s to contribute around 15 per cent of the provincial GGP. This share remained fairly constant up to 2001, yet the sector recorded negative growth rates (-0,7 per cent from 1991 to 1996, and -1,2 per cent from 1996 to 2001). Manufacturing contributes far less to employment than it does to output. However the sector's share of formal employment has increased from 6,3 per cent in 1980 to 8,9 per cent in 2001. The low location quotient figures indicate a weak sector that is growing off a low base at a time when it is declining nationally.

*Finance, insurance, real estate, and business services* contributed 7,2 per cent to GGP in 1981; this increased to 11 per cent in 1991 but declined in the 1990s. However, this sector showed an interesting turnaround from negative growth (-0,6 per cent) between 1991 and 1996 to positive growth (+1,6 per cent) over the next five years. Employment in this sector again makes far less of a contribution than its output value, but this has increased from a lowly 0,4 per cent in 1980 to 6,0 per cent in 2001. This increase is reflected in the location quotient figures (although the Free State does not have any comparative advantage in the sector). Like manufacturing in the Free State, this sector is growing faster than the national average, albeit off a very low base.

The *services* sector, which includes general government, community, social, personal, and private household services, has grown according to all indicators. In terms of GGP, its contribution has increased strongly from 8 per cent in 1981 to 28,4 per cent in 2001. During the past decade, it has recorded positive annual growth rates. In contrast to finance and manufacturing, the services sector is labour-intensive, and contributes more to employment than to GGP. Furthermore, this share has been rising from almost 25 per cent in 1981 to 36 per cent in 2001. Over the same period, location quotient figures show that it has become one of the province's strong sectors, but growth in services in the Free State has been lower than national growth.

### Labour and employment

An analysis of the labour and employment situation in a region needs to focus attention on the size of the labour force and characteristics of the labour market, as well as the spatial distribution of the economically active population (see box, *Labour market terms*, page 15). The Free State has experienced a low rate of growth of its labour force

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over the past 20 years; its figure of 1,7 per cent for the period 1980–1996 was far lower than the national average of 2,9 per cent. However, its labour absorption capacity (60,2 per cent) is fourth highest among the provinces, and higher than national average (55,2 per cent).<sup>16</sup>

Between 1996 and 2001 the total number of people employed increased faster than the unemployed (using the strict definition, which excludes those no longer seeking work). The positive indicators were a decrease in the female unemployment rate, and a related drop in female unemployment as a percentage of total unemployment. On the other hand, unemployment in the rural areas increased markedly.

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### Labour market terms

According to the DBSA, the economically active population 'includes the formally employed, the unemployed, and those persons active in the informal sector'.<sup>17</sup> The terms 'supply of labour' and 'labour force' are used as synonyms for the economically active population. Statistics South Africa (Stats SA) defines the economically active population (EAP) as all persons between the ages of 15 and 65 years who were working, or were unemployed.<sup>18</sup> The demand for labour, however, relates to employment opportunities, which are determined by a region's economic structure and growth patterns. The labour participation rate indicates the economically active population as a percentage of the population in the 15-64 year age group.<sup>19</sup> The number of persons each economically active person has to support is measured by the dependency ratio. The labour absorption capacity indicates the ability of the formal sector of the economy to absorb the supply of labour in a region.<sup>20</sup>

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### Fundamental elements of politics and governance

The Free State's origins as an 'ideal state' in Voortrekker ideology is an important starting point for understanding both its settlement and governance characteristics today. So too is its geographical character, expressed as a set of physical attributes with soils and climate suited to agriculture.

The Free State's current boundaries are quite similar to those of the original Boer Republic. These in turn were largely shaped by the agricultural interests of the Voortrekkers in their quest for arable land on the one hand, and the military conflicts between trekkers and Sotho-speaking people on the other.

The boundaries also reflect the area's historical isolation. It was cut off to its south and west by the semi-desert conditions of the Karoo, by the hostilities with the Basotho to the east, and by a degree of rivalry with the Transvaal Republic to its north.

However, it would be a mistake to regard this historical experience of isolation as purely imposed by geography and the limitations of communications and transport. Indeed, accounts of the ideology of early Orange Free State political leadership evoke one of the most famous of all classical works in location economics – *The isolated state* (or *Der Isolierte Staat*), written by Heinrich von Thunen in 1826.

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The approach of Sir John Henry Brand (1823-88), who was President of the Orange Free State from 1863 to 1888 was, according to the historical account of T B Barlow, consistent with such an isolated state conception, since Brand's followers had deliberately left the Cape to escape British influences, and had fought off Basotho challenges from the east, in order to pursue the idea of rural, Calvinist isolationism.<sup>21</sup>

On closer inspection, it becomes apparent that understanding the Free State's origins as an agriculturally based 'isolated state' in the classical location economics sense is helpful in understanding its present-day urban hierarchy, with its historically endowed constellation of service centres and agricultural hinterlands and the more recent anomaly of the goldfields centres.

In the contemporary Free State, Bloemfontein is the first-order service centre in the south-centre, with Bethlehem and Kroonstad serving as second-order service centres (regional towns) in the north-west and north-east respectively.

Prior to the discovery of significant deposits of gold in the Free State (much later than in the former Transvaal), Kroonstad and Bethlehem were the primary service centres for the northern Free State, with their respective trade areas being roughly the north-west and north-east quadrants of the Free State respectively. Of course, during the 19<sup>th</sup> century travel was far slower than it is today, and so smaller centres would also have had their own relatively autonomous trade areas, approximately circular in shape and with a radius of some 30 kilometres.

Yet, despite the fact that the Free State corresponds in this respect to the location theorists' (and perhaps President Brand's) 'ideal world' of an isolated state, there are also aspects of the settlement system that correspond to the principal political cleavage there – that between blacks and whites, and/or the most recently versus the least recently urbanised populations.

Notwithstanding the Arcadian myths aimed at mobilising Afrikaner ethnicity during the 20<sup>th</sup> century, from the mid-1950s onwards most Afrikaners (and whites in general) did not live on farms or in small towns. Instead, they congregated in the larger towns where they sought out (often state-protected) employment in the services sector – as school teachers, office clerks or managers in government departments, and so on. This public service character of most Free State towns continues to shape the politics of the region.

By comparison, Africans in the Free State tended to be 'on the outside looking in' as far as the Free State urban system was concerned. Even today, racial or 'population group' maps of the district council areas of the Free State strongly underline this contrast between the towns and rural areas.<sup>22</sup>

The African population of the Free State is more complex than it might seem at first sight. For example, while some provincial government documents – notably the Free State Development Plan – bring the Sotho character of the Free State to the fore,<sup>23</sup> an examination of Demarcation Board figures underlines its ethnic and regional complexity. In the centre and south-east, Sotho-speakers predominate, while in the north east it

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is the turn of Zulu-speakers; in the south west, Afrikaans predominates, and in the north west Setswana is the majority language in certain regions. Also, there are significant regional variations in quality of life between poorer and less well-educated inhabitants of small towns and rural areas compared to their counterparts in the large towns and cities.

Overall, today, the 'white' interest in the Free State is increasingly an urban interest in material terms, although land and farms retain potent symbolic significance for most. It follows that, for most whites, the public services in these towns have been the historic basis for both their political allegiances and material support through employment. The latter is now under strong pressure from affirmative action in the public services. Before discussing such racial/political divisions further, however, it is useful to reflect more deeply on the services aspect of Free State employment that appear to relate to some important internal variations in its politics.

### Services and the Free State urban system

Commercial and social services provide most of the current employment in the Free State's urban centres. The comparative bias of Free State towns towards private and social services employment becomes clear when Bloemfontein's employment profile is compared with those of the largest urban centres in the other eight provinces.

In Bloemfontein private and social services account for 44,39 per cent of employment, and manufacturing for only 5,25 per cent. This employment profile compares most closely with that of Pietersburg or Potchefstroom, towns which are largely service centres to their agricultural hinterlands. It differs radically from the profiles of Johannesburg, Durban or Cape Town, industrial and post-industrial regions that are quite independent of their agricultural hinterlands.

Having made this point, however, within the Free State the contrast between Bloemfontein and Welkom's employment profiles could hardly be more striking. This difference, in turn, underscores the remarkable impact of mining on the northern part of the province during the mid-20<sup>th</sup> century. It also underscores just how much of a farming service centre Bloemfontein had become, in addition to having been a centre for the employment of (largely Afrikaans) civil servants and educators.

The political transition in South Africa, bringing with it redress measures such as affirmative action, has impacted profoundly on Bloemfontein, as the 'changing of the guard' of civil servants and educators from Afrikaans to African has been a major factor in this city. By contrast, this aspect has barely affected Welkom, where the key employment issue has been (mainly working-class African) job losses associated with its heavy dependence upon mining.

The economic split between the agricultural and social and private services-based southern Free State and the mining-based north is thus paralleled by the second major political split in the Free State: that between the northern-based, COSATU-oriented

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ANC local branches, and the southern-based, nationalist/civil-service-oriented ANC branches.

Another aspect of this political differentiation is the different structure of local government finance in Bloemfontein and Welkom. According to the Demarcation Board,<sup>24</sup> Welkom has a stronger per capita rates base than Bloemfontein, and the latter is more dependent upon intergovernmental grants. Arguably this factor reinforces Welkom's clearly signalled political independence – and sense of alienation – from the provincial political centre.

According to most informed accounts of Free State politics over the past ten years, it is this divide – between north and south – that is the central political dynamic of the province today.<sup>25</sup> In some respects this parallels an even longer-standing conflict within 'white politics' between north and south in the old Orange Free State (one example sometimes cited is how the Technikon Free State was originally planned for Welkom, but superior southern National Party (NP) strength led to its being located in Bloemfontein). The more recent accommodation between the New National Party (NNP) and the more moderate southern ANC, despite lingering black/white suspicions overall, appears to be a lower-order dynamic, subsidiary to the internal and regionally based tensions within the ruling party itself, but has nevertheless tended to consolidate the north/south divide.

### Politics in the Free State

As a result of these underlying tensions, the Free State political landscape has been more unsettled and uncertain than is good for a province with such pressing and formidable developmental needs. The Free State has a history of political monopoly. Under the apartheid parliament, no opposition party – whether of the liberal opposition or the extreme right – could win a constituency there and dent the NP's supremacy. Since the advent of democracy, the ANC has won massive majorities in the Free State; 77,4 per cent in 1994, 80,79 per cent in 1999, and 82,05 per cent in 2004. Thanks to proportional representation, these victories have not been turned into a literal monopoly in the legislature, but they reflect an overwhelming (and growing) preponderance of executive power. One factor in producing these results has no doubt been the thinness of the urban constituencies that elsewhere have supported the Democratic Alliance (DA) and its various liberal predecessors. Another possibility is the relative absence of 'post-bantustan' and 'traditional' politics that have contributed to more diverse and competitive politics in other provinces such as KwaZulu-Natal and Eastern Province. Clearly the incorporation of Qwa-Qwa left a less problematic legacy in politics and administration than other 'bantustans'. Indeed, as we have already noted, of all the 'old' provinces, Free State is the least changed in terms of boundaries and size.

However, the ruling ANC has not been able to capitalise on this near-monopoly of political power to provide consistent leadership and stable, credible government and administration. The story of provincial and municipal government and administration in the Free State has been one of a rapid turnover of leaders, the regular eruption of per

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sonality clashes in the press, and, more recently, popular discontent that has led to protest action.

- Free State has had four premiers in a little more than ten years, and there have been clear indications of friction between the national and local leadership of the party over who should hold the post.<sup>26</sup> This friction is frequently interpreted in terms of the two competing centres of power – ‘north’ and ‘south’ in the provincial ANC.<sup>27</sup>
- The second half of 2004 brought numerous press reports of clashes among top bureaucrats and elected representatives, which threatened effective governance and once again caused the intervention of the national ANC.<sup>28</sup>
- Tensions continued into 2005 and escalated with the assassination of the head of the premier’s policy unit, Noby Ngombane, who had been central to many of the clashes in the bureaucracy.<sup>29</sup>
- In September 2004, 4500 protesters closed the N3 highway between Johannesburg and Durban at Harrismith in the Free State in order to vent their anger at poor service delivery as well as corruption and nepotism in the local council. One protester died of wounds inflicted by a rubber bullet. This protest was followed by similar ones at Vrede, Memel, and Warden in the eastern Free State three weeks later, and sporadic outbreaks of violent protest continued into 2005.<sup>30</sup>
- Partly in response to these demonstrations, the Free State provincial government announced in October 2004 that it was taking over four municipalities (among them Motheo, which includes the provincial capital, Bloemfontein, and which is the site of ongoing factionalism<sup>31</sup>), on the grounds of mismanagement, corruption, and a lack of financial management skills;<sup>32</sup> however, reports in January 2005 seemed to indicate that residents were unimpressed by the results of this intervention.<sup>33</sup> This was confirmed by the ongoing outbreaks of violence.<sup>34</sup>

This sketch of politics in the Free State is not an encouraging one. Factionalism seems to be endemic at all levels and in all linkages between municipal, provincial and national government. Rivalries unrelated to any substantive political issue and allied to lack of capacity – or in plainer terms, incompetence – are all too prevalent. They provide an ominous backdrop to an investigation of the conditions for economic growth in the Free State’s two main municipal areas.

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Part 2

**A TALE OF TWO CITIES**

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The choice of Welkom and Bloemfontein as case studies for this research report reflects an awareness of three things: the economic importance of South Africa's urban areas; the development challenges they face; and the fact that secondary cities are somewhat underrepresented in research. Secondary cities are significant urban areas below the size (one million) and functional complexity that qualify conurbations for metropolitan status.

In some respects the Free State, as a geographical construct, is a figment of historical political imaginations (eg that of President Brand). From a national developmental perspective, the challenges faced by its urban areas are more relevant. One study that has focused on South Africa's secondary cities comes to a somewhat downbeat verdict on their situation: '... issues of chronic poverty and unemployment, job creation, infrastructure provision, small business development, and education and skills development are probably true for the majority if not all of secondary cities and towns in South Africa'.<sup>35</sup> While the overall verdict is doubtlessly sound, there is considerable variation in the situations and performance indicators of different urban areas, as the following profiles of Welkom and Bloemfontein should make clear. Tables 3 and 4 summarise key economic data on 19 major urban areas in South Africa, including Bloemfontein and the Free State Goldfields, which includes Welkom as its major component.

**Table 3: Economic growth (GVA)\* in 19 major urban areas<sup>36</sup>**

	1996-2002 annual compound	2001-02	2002-03
Cape Town	2.1%	1.6%	1.5%
Port Elizabeth	3.6%	2.2%	1.7%
Durban	2.6%	4.4%	1.5%
Pretoria	5.1%	5.0%	2.9%
Johannesburg	4.2%	2.3%	2.4%
East Rand	1.0%	2.9%	0.7%
Garden Route/Klein Karoo	3.5%	8.0%	2.8%
<b>Free State Goldfields</b>	<b>-4.3%</b>	<b>-2.8%</b>	<b>-1.3%</b>
Vaal Triangle	0.8%	9.4%	0.7%
West Rand	0.0%	7.1%	-0.4%
East London	-0.6%	-2.2%	0.0%
Kimberley	4.8%	2.1%	2.9%
<b>Bloemfontein</b>	<b>1.0%</b>	<b>0.4%</b>	<b>1.1%</b>
Pietermaritzburg	0.3%	3.1%	0.8%
Rustenburg	6.0%	5.9%	4.8%
Vereeniging	2.2%	8.6%	1.4%
Vanderbijlpark	-0.3%	12.1%	-0.3%
Nelspruit	3.0%	2.3%	1.9%
Polokwane	3.9%	2.8%	2.6%

\* Gross geographic value added (GVA) excludes taxes and subsidies for a specific regional area.

Source: SAIRR, South Africa Survey 2002/3, Johannesburg, p 60.

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Table 4: Other economic indicators for 19 major urban areas<sup>37</sup>

	Formal employment growth			Proportion of people living in poverty *	Annual income per capita	
	2001	2002	2003		2002	2003
Cape Town	-3.2%	0.4%	-2.0%	21.7%	27 436	28 081
Port Elizabeth	-1.9%	0.7%	0.0%	36.5%	20 162	20 845
Durban	0.5%	2.9%	1.5%	29.2%	24 269	25 942
Pretoria	1.4%	4.7%	1.2%	27.6%	35 969	37 412
Johannesburg	2.5%	2.3%	4.7%	23.0%	42 433	46 879
East Rand	2.3%	2.7%	4.0%	26.5%	24 933	44 007
Garden Route/Klein Karoo	-2.7%	7.7%	5.8%	21.8%	22 574	24 618
<b>Free State Goldfields</b>	<b>-8.2%</b>	<b>-1.4%</b>	<b>-2.1%</b>	<b>52.8%</b>	<b>9 565</b>	<b>9 619</b>
Vaal Triangle	2.2%	9.7%	3.7%	38.7%	15 846	17 393
West Rand	-1.7%	7.7%	6.4%	25.0%	17 581	19 860
East London	-8.7%	-1.9%	2.8%	45.5%	1 965	20 970
Kimberley	-1.6%	3.5%	1.0%	38.1%	20 261	21 144
<b>Bloemfontein</b>	<b>-5.1%</b>	<b>0.5%</b>	<b>3.6%</b>	<b>25.2%</b>	<b>25 146</b>	<b>26 975</b>
Pietermaritzburg	-1.7%	3.4%	2.5%	42.4%	16 956	17 982
Rustenburg	1.5%	8.6%	5.3%	27.4%	18 209	19 651
Vereeniging	3.0%	9.8%	5.7%	35.3%	20 479	22 041
Vanderbijlpark	2.4%	10.3%	5.2%	39.6%	12 954	14 610
Nelspruit	1.9%	2.5%	2.2%	25.5%	45 823	48 748
Polokwane	-5.4%	-5.5%	-2.1%	19.1%	37 464	37 240

\* Defined as the number of people living in households with an income less than the poverty income, which for 2002 ranged from R640 a month for a single person to R2 729 for a household of eight or more.

The stark effects of decline in the mining industry and the vulnerability of urban areas that depend on single, non-renewable sources of development and wealth creation are graphically illustrated in the case of the Goldfields:

- In all three measured periods from 1996 to 2003, the Goldfields experienced negative economic growth and was the worst performer of the 19 featured urban areas.
- In terms of formal employment growth, performance was again negative and at or near the bottom of the range (18<sup>th</sup> out of 19 in 2001, 17<sup>th</sup> in 2002, and 18<sup>th</sup> equal in 2003).
- Not only did the Goldfields have the highest proportion of people living in poverty in 2003 of the 19 areas, but that proportion was over 10 per cent greater than the next poorest performer (Pietermaritzburg).
- In terms of annual per capita income, the Goldfields was not only last, but was also the only one of the 19 cities and towns with an annual per capita income of less than R10 000; the 2003 figure of R9619 was only 66 per cent of the next lowest (Vanderbijlpark).

By contrast, the main features of Bloemfontein's performance were:

- Positive but sluggish economic growth, averaging about 0,8 per cent between 1996 and 2003; for the three measured periods, Bloemfontein was 11<sup>th</sup>, 17<sup>th</sup>, and 12<sup>th</sup> respectively out of 19.

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- Fluctuating formal employment growth, from a low of –5,1 per cent in 2001, through 0,5 per cent in 2002 to 3,6 per cent in 2003: these corresponded to 16<sup>th</sup>, 15<sup>th</sup>, and 9<sup>th</sup> places.
- Only five other urban areas had smaller proportions of people living in poverty than Bloemfontein's 25,2 per cent in 2003.
- Only six of the other 18 urban areas had higher annual per capita incomes in 2003.

It is clear from these figures that Bloemfontein has fared better than Welkom in a time of challenging economic change. Moreover, compared with all the smaller towns surrounding it, the northern suburbs of Bloemfontein in particular seem a veritable centre of glitz and glamour. Doubtless its position as services, educational, and administrative centre for the province, and legal centre for the whole country, has allowed it to build a relatively secure endowment of skills and social capital, not to mention access to public spending. However Bloemfontein's relatively sluggish performance in terms of economic growth and employment creation plants the suspicion that the city may be no more than holding its own in an era when cities have to compete and do more than live on their accumulated assets. This and other possibilities will be explored in the case study reports which follow (see box: *Case study data*, this page).

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### Case study data

In each of the case studies, CDE researchers collected and analysed:

- Primary and secondary data derived from the census, the Demarcation Board, and other sources, which is analysed to place Bloemfontein and Welkom in the context of other South African cities.
- Data derived from primary research into business trends in the cities.
- Perspectives on economic trends and governance issues, based on stakeholder interviews with a large sample of civic leaders.
- Perspectives on local development strategies for the city also based on the local leadership interviews, as well as key policy documents.
- Views of business leaders on governance and development issues, based on stakeholder interviews.

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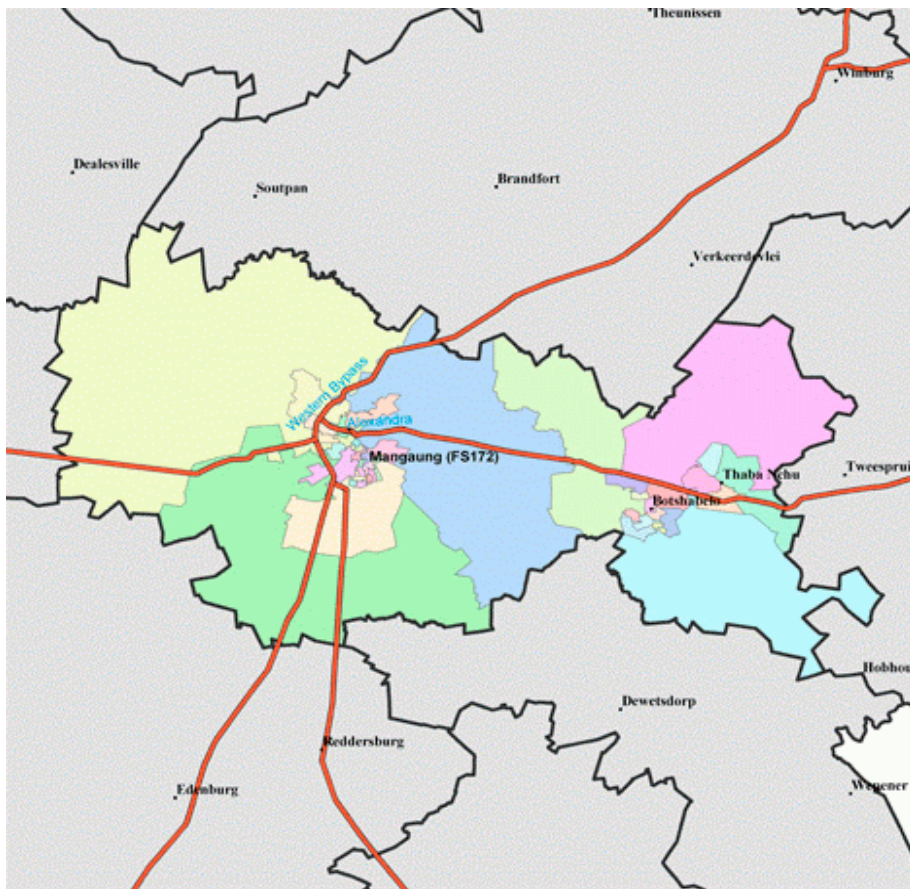
BLOEMFONTEIN

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Socio-economic context

Bloemfontein was, from inception, the administrative and commercial centre of the agricultural ‘isolated state’ that we described earlier. Today it remains the major first-order service centre in the south-centre of the region, and the first-order administrative centre for the province as a whole. It is the leading commercial centre for the central and southern Free State, while in the north this role has been assumed by Welkom and Kroonstad. Today the population of Greater Bloemfontein approaches half a million. The addition of Thaba Nchu and Botshabelo to form the Mangaung municipality gives a total of two thirds of a million. Greater Bloemfontein alone is 50 per cent bigger than Welkom, and roughly as big as Pietermaritzburg, Port Elizabeth, and East London. It claims to be ‘South Africa’s sixth city’, and it is reasonable to place Bloemfontein at the head of Free State’s urban hierarchy.

Map 2: Bloemfontein and Mangaung



Source: Demarcation Board, [www.demarcation.org.za](http://www.demarcation.org.za).

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Prior to the extensive mining of gold in the Free State (which came much later than it did in the former Transvaal), all towns and cities in the Free State were essentially service centres to the surrounding rural areas. As noted previously, Bloemfontein was the most centrally located leader amongst these, and Kroonstad and Bethlehem were the primary service centres for the northern Free State, with their respective trade areas being roughly the north-west and north-east quadrants of the Free State respectively.

Bloemfontein has been and continues to be central to middle- and upper-class interests in the Free State, both black and white, a legacy based largely on its traditional public service character. As public and social services provision are increasingly dominated by Africans in Bloemfontein, the city is especially relevant to emerging African middle-class interests.

Bloemfontein's employment profile compares most closely with that of Pietersburg/Polokwane or Potchefstroom, which have traditionally performed similar service functions. This differs radically from the historical and contemporary profiles of metropolitan areas such as Johannesburg, Durban, or Cape Town. Bloemfontein and its peers have largely been service centres to their agricultural hinterlands, whereas the larger metropolitan centres have become industrial and post-industrial regions that are quite autonomous from their agricultural hinterlands. Bloemfontein's historical role as a centre for the employment of (largely Afrikaans-speaking) civil servants and educators is added to that of farming area service centre, which it also has in common with towns such as Pietersburg/Polokwane and Potchefstroom.

But, in many respects, Bloemfontein has moved ahead. Naturally enough, it can no longer be understood solely in its historical terms, and the city's socio-economic profile is changing rapidly. A comparison of 2001 and 1996 census results shows that:

- Its total population is rising.
- The African proportion of its population is rising.
- Other population groups are static.
- Whites are leaving.
- Overall unemployment continues to rise.

South Africa's census is not very accurate, and it is generally accepted that census 2001 under-enumerated certain constituencies, including whites, for which corrections were later made. Despite the statistical uncertainties created by this, the relative and absolute decline in white numbers is striking: In five years between censuses, the white population declined by almost 5 per cent a year. If the adjusted census data are accurate (which is debatable), and this trend continued, by 2016 there will be no whites left in Bloemfontein. This is unlikely to happen because there are significant institutions (especially legal and educational) as well as investments (especially property) in Bloemfontein relevant to whites. However, the point is worth making simply to underline the decline in white numbers in recent years. The decline in the white population appears partly attributable to intra-national relocation (particularly retirees moving to the coast), and partly international migration (particularly younger whites moving to metropolitan areas or abroad).

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Table 4: 1996 and 2001 census results compared

Population	1996	2001
African	467 193	534 453
White	100 978	78 049
Other	32 430	32 039
TOTAL	603 704	645 441

However, the decline in the white population has been more than made up for by increases in the African population, effectively triple those of whites lost. In consequence, the Bloemfontein property market is booming, and the retail sector is active. This is in marked contrast to Welkom, as we shall see.

Considerable internal spatial restructuring is associated with the change and growth in Bloemfontein. As in most other South African cities, large and small, growth is 'not where it used to be'. The Mangaung Local Municipality's *Integrated Development Plan 2003/2004* (IDP) recognises this point by prioritising the rehabilitation of the CBD, while interviews with key informants reflect the reality that enterprise formation, private development, and investment are now almost exclusively concentrated in the western and northern suburbs.

The IDP reveals that, by contrast, public investment now tends to be largely in the formerly neglected former black townships in the south east. This reflects variations in services needs, as well as the constituency priorities of the majority party in the council. Moreover, the social, economic and political integration of the Botshabelo and Thaba Nchu areas into the former Bloemfontein system to form the Mangaung municipality is perceived as the primary contemporary local public sector challenge. This forms much of the focus of the IDP.

However understandable these trends are, they reflect a tendency to disassociate public investment from areas of economic growth, probably at the expense of synergy between the two. We will return to and elaborate upon this point towards the end of this report.

Bloemfontein/Mangaung has had to grapple with being increasingly relegated to the periphery of the national economy. Many businesses there are branches of firms owned and controlled elsewhere, and there is very little truly local capital formation except in relation to new property development in the western and northern suburbs. The airport is being used less and less, and while Boeings used to regularly fly into Bloemfontein airport, this is now very rarely the case. One senior civic leader pointed out that residents now have to suffer the indignity of having to book their flights via SAA's Durban office.

Some pockets of growth and excellence contradict this sense of marginality. The city remains the seat of the Supreme Court, which ensures that the city's elites retain a prominent legal component. The Free State University and Central University of Technology (Technikon Free State) enjoy strong growth rates in student numbers and finan

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cial viability. Today UFS has some 24 000 students, triple the numbers it had in the 1980s, with most of the increase in numbers coming from African students. The Central University of Technology has doubled its numbers over the same period. These are above national average growth rates.

Interviews with leading private and public sector figures also reveal that UFS in particular enjoys a level of respect and prominence in the life of the city typical of smaller university towns, and the envy of institutions in the larger metropolitan centres.

### Contemporary economic trends

Bloemfontein's enduring public sector and professional opportunities help to underpin the city's relative prosperity, but overall unemployment continues to rise. There were 30 000 more unemployed people in the city in 2001 than there were in 1996. Population growth and in-migration have outpaced jobs growth, and there have been net declines in certain job categories. Without any doubt, in common with the rest of the country, Bloemfontein's primary socio-economic challenge is now rising unemployment.

In line with global trends, the vast majority of sustainable jobs will come from the private sector, with specific exceptions such as the provision of temporary jobs through public works programmes. What can we learn from recent trends in Bloemfontein in this regard? A nuanced perspective on what has been happening to the Bloemfontein economy recently can be gained through a review of the entries in the Bloemfontein sections of the Free State telephone directory and yellow pages.

As part of the primary fieldwork for this study, the listings for all businesses in the white and yellow pages for Bloemfontein in the 2001/2 directory were compared to the equivalents in the 2003/4 directory. The rich data derived from these comparisons reflect a number of broad patterns:

- Overall, more businesses opened than closed in Bloemfontein in the two-year period, although only by a fairly modest margin (11 per cent).
- The number of new businesses being opened in Bloemfontein is still more than three times higher than in Welkom.
- As in many other South African cities, more enterprises are being formed in the suburbs.
- In broad terms the pattern of closures compared to openings in Bloemfontein is fairly similar across sectors; this suggests that the economic base may be reorganising in terms of the names of enterprises and where they are located, but not in terms of the kinds of firms (or even for that matter who their staff and owners are).
- The information, communication, and technology (ICT) share of all enterprises formed is rising in line with national and international trends, without being different or specialised enough to warrant description as a niche.



## GROWTH AND DEVELOPMENT IN THE FREE STATE

- Over 80 per cent of all business openings and closures are in the fields of retail and personal and commercial services, underscoring the persistence of the city's historical role as the primary commercial service centre of the southern and central parts of the province.

While there are healthy aspects to these contemporary patterns, the most obvious gaps lie in both the primary and secondary sectors.

Bloemfontein is almost entirely a tertiary but not yet a quaternary<sup>38</sup> economy. Primary sector (eg mining) jobs can hardly be expected here, but manufacturing (secondary) appears to be either absent or in decline. Research revealed a serious deficit in manufacturing openings. This is in marked contrast to the situation in coastal cities such as Durban, East London, Port Elizabeth and Cape Town, which are well placed for importing and exporting manufactured goods.

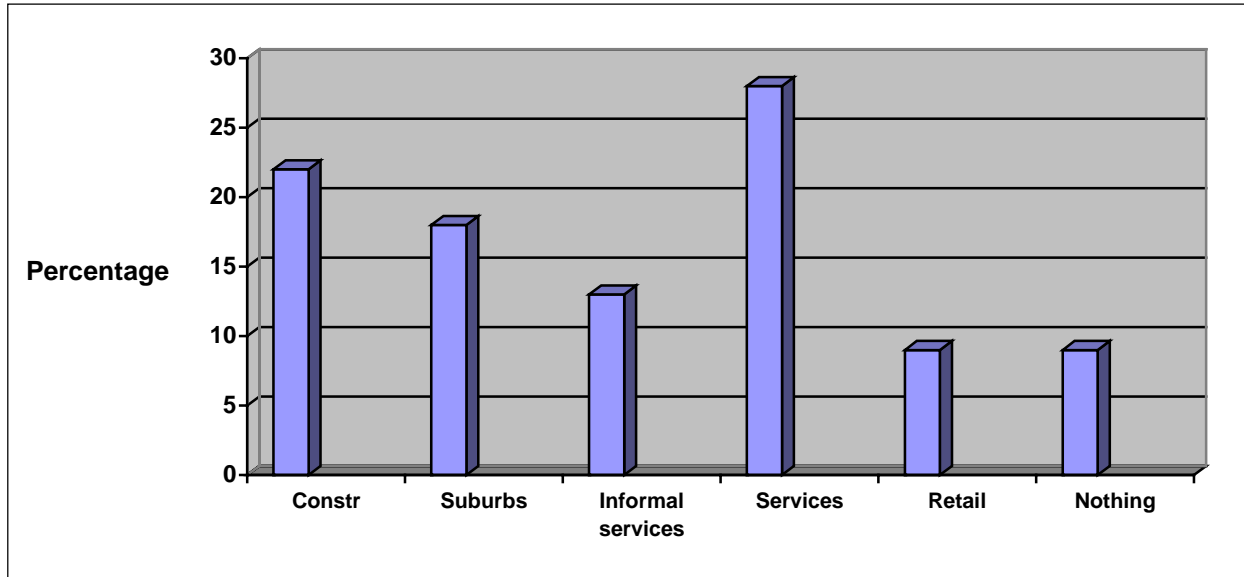
At one time there was significant foreign investment in manufacturing in the Bloemfontein/Mangaung region, particularly to the east. But most low-wage manufacturing enterprises to the east of the city (such as in textiles) have recently relocated to nearby Lesotho, whose labour regime is less regulated, and where other South African policy requirements such as BEE do not apply. Moreover, manufacturing skills in the city have also been substantially eroded over the past decade, with the biggest job losses in any category recorded between the 1996 and 2001 censuses being 6 000 in the 'crafts and tradesman' group of employees. In context, this figure is very substantial.

Beyond this, follow-up telephone calls and general evaluations of the new enterprises in Bloemfontein show that most are virtually one-person bands, and create very few additional jobs.

### Local leadership perspectives

A sample of 50 local leaders – drawn principally from among councillors and civil society leaders – was interviewed to assess leadership perspectives on economic and governance trends. (The interviews were conducted in mid-2004.) Many local civic leaders appear to be keenly aware of most of the economic trends referred to above, but their views on what causes them vary markedly. What local civic leadership is very clear on is that by far the two most important areas of local economic decline are manufacturing, and the CBD. Two thirds of all local civic leadership perceptions of decline in the city were on these aspects.

Figure 1: Patterns in civic leadership responses - areas of perceived growth



CDE 2005

Areas of growth were primarily perceived to be in private services (the historical basis for the Bloemfontein economy) and construction, particularly in the western and to a lesser extent the northern suburbs. No clear pattern emerged with regard to the perceived reasons for these trends, with a large variety of responses being offered. Much clearer in the responses were patterns of hopes and fears:

- hopes were heavily centered on the potential for local, provincial, and national government intervention (in terms of some or other special allocation or programme);
- fears centered on the perceived brain drain ('we are losing our best'), the lack of business confidence, and seemingly intractable problems of poverty and crime.

Respondents were asked to indicate how they conceived the relative roles of government and business. Despite the hopes for government intervention that were clearly expressed, no pattern emerged in terms of role definitions for government. One response was by far the most common in terms of leaders' role expectations of business: 'to create jobs'.

These responses are cause for concern. Civic leaders believe in government, but do not understand how government might make a difference in practical terms. The expectation that business should create jobs is a welcome advance on the belief that government should create jobs, but does not take account of actual trends in business formation – which is in smaller enterprises, operating in areas of low labour- but high skill-intensity. On the positive side, at least in subjective terms, respondents reported that relationships between local government and the local business community are good.

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But clearly a gap in understanding exists. If current objective trends continue – for instance, jobless growth in the private sector, and affirmative action and bias towards township spending in the public sector – this subjective goodwill could decline. Some possible early symptoms of this emerge in the discussion of business leaders' perspectives below.

In terms of strategic priorities for local economic development most civic leaders interviewed for the study referred to either the Mangaung Council's IDP, or its 'business plan/s'. Further reflection on these is offered below.

When civic leaders were asked whether they had one top priority, by far the most common response was around the theme of local communication and collaboration, presumably among elements of the formerly racially divided society. In practice, this consists of continuing efforts at building local policy consensus, and minimising the coverage of disputes (for example in the media) among local interest groups.

The pattern of civic leaders' fears, compared with their insistence on the need for leadership consensus, also perhaps reflects the widespread current South African predilection for putting process ahead of outcome – that is, insisting upon inclusiveness and consensus even if these mean effectively sidelining the 'hard' issues of local economic growth. We will return to this consideration in the conclusion, but in the interim we need to consider the strategies that have been prioritised in development planning for the city.

### Strategic priorities

When asked about priorities, many local civic leaders referred to the Mangaung Council's IDP. The IDP is well-researched and professionally presented, one of the more impressive examples of its type. It is worth recording some of its key elements *verbatim* before proceeding to a wider assessment of constraints and prospects for the future.

According to Mangaung's IDP for 2003/4, the following are the top two development objectives and strategies:

**By 2006 economic growth will have improved to 45 per cent, and 6 000 new jobs will have been created.**

#### STRATEGIES

The key strategies we are proposing are the following:

1. By 2006 to attract 20 major national and international investors, creating 3000 new jobs
2. To promote purchasing of local products and services to the value of R50m per annum by 2006
3. To assist key sectors in Mangaung to develop (health, education, agriculture, tourism, sport and recreation, legal, manufacturing)

## GROWTH AND DEVELOPMENT IN THE FREE STATE

4. To support development of a well established SMME sector....creating 1 000 new jobs
5. To ensure a skilled and well trained workforce in the Mangaung area, with literacy rates of 90 per cent
6. To ensure access to finance for 90 per cent of PDIs (previously disadvantaged individuals)
7. To improve people's livelihoods through participating in a range of community based services....
8. To develop and establish a Mangaung Economic Development Partnership by December 2002 involving 80 per cent of the business sector and all key stakeholders ...

By 2006 Mangaung CBDs are in demand by offices and retail, their GGP is growing at a rate of 4,5 per cent p.a., at least 100 new businesses have been established, vacant office space has been reduced by 50 per cent and more people are permanently residing within the CBDs, which are vibrant, both during the day and at night.

*(Authors' note: The plural 'CBDs' seems to be used to avoid the impression that the emphasis should fall only on the largest CBD - we have retained the original wording of the IDP source document.)*

### STRATEGIES

1. To ensure that 70 per cent of visitors in the CBD find it a clean, safe attractive and pedestrian friendly environment, thus enhancing a positive image of the CBDs
2. To develop and implement a plan by 2003/4 that integrates the Bloemfontein CBD (with other areas) ...
3. To increase and provide an effective, efficient, convenient, reliable and integrated public transport system to service the CBDs
4. To improve the accessibility of CBDs ...
5. To establish an effective and efficient CBD business support system
6. To increase the residential density within the CBDs
7. To establish Business Improvement Districts within the CBDs.

Although in a popular sense they may be appropriate, what is worrying about these civic-supported economic priorities is how retrospective they are. They look back to the way cities were 50 years ago and seem disconnected from the actual pockets of economic and business buoyancy as identified earlier in this report. In addition, a concern must be registered at the relative disconnection of such priorities from international experience. We reflect on this with a view to suggesting alternative policy approaches in the conclusion.

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### *Business perspectives*

Besides the interviews with community leaders summarised above, a sample of senior business people was interviewed, using a similar set of questions to those put to community leaders. Negative local economic trends noted by the majority of respondents included:

- the decline in the numbers of business headquarters or branch offices in Bloemfontein;
- the decline in manufacturing and the railways;
- the deterioration of the CBD; and
- crime as a major constraint on investor confidence.

Positive trends noted by most business respondents included:

- tourism has grown around conferences, other events and business niches, stimulating growth in the guest house sector of the hospitality industry – all show potential for future growth;
- the construction industry is active, particularly in suburban development; and
- the university, education, and related activities have grown with potential for further spin-off growth in and from this sector.

Most business respondents were prepared to report moderately positive relationships with local and provincial government, but many expressed concerns that north/south divisions in the ANC and black/white political differences could undermine progress. Not surprisingly, therefore, when asked ‘what one thing they would prioritise’, 80 per cent of all business respondents listed building greater unity among leaders, a common development vision, or enhanced communication among leaders.

Some respondents provided lucid analyses of actual development processes in Bloemfontein. Most downplayed the role of government in development trends and prospects, stressing instead the roles of market and technological forces. For example:

Bloemfontein has always – since Republican days – been driven by governmental services: provincial government, largest municipal government in province, seat of the provincial legislature, seat of the University and Technikon, and, one of the major railheads in the country. Light service industry developed around all these services and naturally also a vibrant commercial sector, both wholesale and retail since Bloemfontein was the hub for a large rural and small town hinterland. But commerce was also heavily dependent on the consumer spending of public servants, railway and post office workers, university and school lecturing staff. Up to 1990 this was by far a white dominated sector. Bloemfontein was also for many decades known as the congress city because of its central location.

But, in this respondent’s perceptions, several factors have impacted on a changed business environment:

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**Technology change:** Information technology has impacted on numerous industries, minimizing the accounting and archival components of branch operations with less staff required in these sections at branch operations. It also minimizes the number of visits by head office staff to branches, since they can access information on-line. (This has also limited the growth rate of the hospitality sector.)

**The decline of rail transportation:** This development has devastated the main blue collar employer in Bloemfontein; what is more, the city's proximity to Gauteng means that it is unlikely to compensate by becoming a major distribution hub for road transport systems.

**Political change:** This has had a major impact in several fields: The profile of public sector employees has changed dramatically. This has had an impact on housing demand, as well as changes in demand for consumer goods. A large percentage of erstwhile inhabitants have retired at the coast and their replacements did not necessarily come to live in their previous houses, have similar spending patterns, etc.

Housing growth is largely limited to RDP houses and then a town-house boom (for security reasons on the one hand and as an investment by numerous farmers and small town dwellers who no longer want to live and shop in their own small towns, especially because of the collapse of schooling standards in many cases). The growth in town house development cannot be fuelled much longer by the same forces of demand.

The failure of the 'federal elements' of the new constitutional dispensation to develop and usher in regional growth has led to the closure of numerous provincial headquarters of national firms, several of which opened up in the early 1990s.

Affirmative procurement has also led to the demise of several small firms, e.g. two firms that for a long period had pruned the trees on pavements, had to make way for an emerging firm. That is not economic growth, but merely replacement. The question is whether the new firm is more cost-effective than the previous ones, or whether there is an affirmative burden of say 10 – 15 per cent?

**Commerce:** Yes, a boom if you compare the commercial floor area with, say that of 1980 and 1990. But factor in the change of the CBD and the returns per square metre in that area then it is not just a simple story of growth. Changes in the CBD have resulted in a flight of higher income consumer expenditure to 'safer' venues such as Mimosa, Waterfront, Bloemgate, Preller Square, etc. Many of the old firms that were for generations household names in Bloemfontein disappeared because they did not adjust to the geographic changes: Goldes Bros, Kays, etc.'

**Hospitality sector:** Guesthouses have taken over as the preferred accommodation venue for the higher income categories. Many people with retrenchment packages and no real commercial skill have taken to this sector, since it requires a not too sophisticated entrepreneurial approach.

Growth will be limited for the simple reason that Bloemfontein's economy is not a high skill-level driven economy, and is also not fuelled by a high and high-middle income consumerism. In addition, urban governance is deteriorating. Service levels have declined in erstwhile white suburbs where pavements are not maintained, underground storm water pipes are blocked and street surfaces are deteriorating. This will, if not

## GROWTH AND DEVELOPMENT IN THE FREE STATE

stemmed, start to have an impact on the rate at which property prices in some suburbs will grow. Services will not improve in general if urban governance will not succeed in broadening the tax base, e.g. water and electricity user fee collections and property tax collections. Proper urban governance could create a competitive edge.

Local Economic Development should not just be pursued through BEE to create new entities replacing existing ones. What is the potential of say, 50 existing firms, to train and employ an additional 3 – 5 people each? Not everyone can be empowered to become an entrepreneur; some will remain employees forever, whether they attend workshops and training sessions every month or not.

Light industrial growth has potential by offering a set of incentives to independent medium-sized firms (not linked to large companies) based in Gauteng to relocate here. Market the extra time for family or golf by cutting down on commuting time, lure them with cheap industrial sites, good recreation and education facilities, etc. By luring 15 firms with a potential employment of, say, 30 each, a great boost in job creation will be experienced, especially if the firms will be from one or two sub-sectors so that in supply lines there could be synergies to exploit further.

As can be determined from the above account, which is typical of business responses, the conceptual framework of business tends to differ from that of other community leadership. However, while this was a common voice, it was not a united and certainly not a *mobilised* one. Few business respondents felt that the local chamber was anything but a ‘talk-shop’, and most did not know what its wider developmental programmes were. Overall, therefore, business people emerge as well-informed, critical, and insightful, but a relatively disorganised community on the margins of wider developmental initiatives.

### Bloemfontein today

Compared with Welkom, Bloemfontein is relatively fortunate insofar as its economic trajectory is concerned. Unfortunately, however, it seems unable to deliver on people’s aspirations and hopes, largely because of the lack of synergy between the public and private sectors.

Yet in this respect Bloemfontein is not unique. In many respects this lack of synergy derives from a wider collective despondency about the nature of the challenges. Unfortunately, the challenges of Bloemfontein are also the wider challenges of ‘middle South Africa’, including:

- geographical isolation;
- slow, jobless economic growth;
- very little external or local fixed investment;
- incomplete racial reconciliation; and
- emigration or internal migration to metro areas of the youngest and brightest.

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Locally, this diagnosis of Bloemfontein does not portend well for the province it leads (or nationally, for the country the province more widely reflects). If the Bloemfontein environment – in its widest sense – becomes sufficiently beleaguered, then so too does the centre of the provincial economy.

However, if economic growth provides cause for concern, the crucial issues for Bloemfontein cannot simply be those of coping: they must be those of national and global competitiveness. In this respect it shares certain challenges in common with other South African cities and metropolises, as well as similarly sized and located cities worldwide.<sup>39</sup>

There are some important lessons that Bloemfontein's leaders could learn from studies of such places. The more general lessons from international experience relevant here are:

- The economic roles of cities have been globally redefined, and successful cities now depend economically much less on their rural hinterlands than they do on their global competitiveness in producing information, goods, and services of value in world terms
- The public sector cannot 'drive' local economic growth, but it can facilitate and enable the business competitiveness that results in such growth.
- Entrepreneurship in the public management of cities can be achieved, but only in partnership with private sector players in collaborative 'growth coalition' strategies.

As the CDE research report *Cities and the global economy*<sup>40</sup> reveals, these lessons are now just as valid in Monterrey, Mexico, or Mumbai, India as they are in Indianapolis or Atlanta in the United States. It should not be surprising, therefore, that there are also lessons that can be derived from parallel South African experiences. CDE's research suggests that unless Bloemfontein can measure up to the standards of other South African cities in at least two key dimensions – those of network (both social and IT) connectivity, and of urban environmental quality – the Free State will probably fall behind in the national and global race for economic advancement and change.

Besides network connectivity and urban environmental quality, there is a third aspect of Bloemfontein's likely future that deserves specific further consideration: a shift from a focus on consumer services to one on producer services excellence. CDE's research on international urban experience reveals that richness in this area is a common feature of rapidly growing local economies. Producer services are those service enterprises that supply inputs into larger enterprises, which in turn supply finished products (manufactured products, financial products, etc). Among such inputs by producer services would be accountancy, legal, advertising/marketing, and information technology services

Clearly Bloemfontein has potential national strength in the second of these categories, and if it could develop a significant strength in any of the other three – perhaps basing a speciality in ICT on its flourishing university – it would be well situated with regard to national and international economic growth trends. But this will require attention to



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certain city fundamentals which are quite different to those enunciated in the IDP. It requires looking forward, and not backwards.

By now there is a substantial body of research analysing the common characteristics of economically successful cities. While it is true that every city is unique, in CDE's assessment at least three themes of city success are worthy of Bloemfontein's consideration:

**Successful cities are enviable places to live in:** World cities noted for their economic success have high property prices, and these prices basically reflect the fact that there is a huge demand to live in them. The reason that people want to live in them, in turn, has to do with both the number and quality of economic opportunities that they provide (jobs, trading, and investment opportunities), and the extraordinary array of public and private services on offer for everyday life.

**Successful cities are rich in producer services:** This point has already been mentioned, but is worth elaborating here. Any multinational company, national company, or major bank requires a multitude of high-quality support services, especially in an era of corporate outsourcing. Smaller specialised enterprises focused upon the supply of services to the larger business corporations have become the fastest growing areas of economic activity. The range and quality of such support enterprises is crucial to the operations of multinational companies.

**Successful cities are well-connected:** Both the internal and external travel and communications systems of effective or prosperous cities are of the highest standards. The best rapid transit systems, telecommunications systems, office districts, and desirable meeting places are to be found in thriving cities. Also, there are outstanding airports, freeways, and other transport infrastructure linking these cities to their national and international environments.<sup>41</sup>

We are not suggesting that Bloemfontein can aspire to be a world city in the sense that Johannesburg can. Moreover, no city can be entirely problem-free. Indeed, the global literature on cities frequently emphasises the high levels of unemployment and social problems within even the most successful of their number. These problems do not right themselves, so strategies and resources need to be devoted to making cities more enviable places to live in, as New York successfully did in dealing with high crime levels.

However, even allowing for the differences in scale and context, if Bloemfontein is losing businesses to Johannesburg (which many local voices say is the case), it needs to consider why such cities are seen as more attractive. Moreover, Bloemfontein cannot assume that it can continue as a consumer services centre for an 'isolated state' based upon natural resources. Internationally, it is ultimately the skills base, quality of life, and internal and external connectedness of cities that are the main prerequisites for economic success. This is particularly true of the developing world, so this dimension deserves special attention in respect of Bloemfontein.

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In a recent review of globalisation and urban transformations in the Asia-Pacific region, Lo and Marcotullio identified four key factors that made cities economically successful:

- their roles in world trade and financial flows;
- their accessibility and receptiveness to foreign direct investment;
- their communications networks – especially telecommunications sophistication;
- their transport linkages, especially those relevant to commercial high-speed passenger transport.<sup>42</sup>

Bloemfontein does not perform well in terms of any of these criteria. What is more, its current public sector priorities, as enunciated in its IDP, for example, have a retrospective rather than progressive and forward-looking quality.

For instance, it is important not to overemphasise the past decline of Bloemfontein's CBD, and to allow that to preoccupy the council's priorities. Internationally, CBDs have been declining for decades. There appears to be a notion that the decline of Bloemfontein's CBD and the corresponding rise of the suburbs is a recent phenomenon, possibly linked, in opposing interpretations, to racism or mismanagement by the council. However, these misperceptions ignore the realities of long-term trends both in Bloemfontein and other cities of the world, where CBDs have long since been replaced by suburban corridors as the main centres of economic action for technical, transport, and lifestyle reasons.

Returning to the theme of connectedness, it is true that Bloemfontein is challenged by its geographical isolation, as so many of the local leadership responses reflect. However, in an ICT age there are ways to counteract this, particularly if there is a relatively high level of professional expertise and knowledge in a city, as is the case in Bloemfontein. Moreover, it is critical to recognise that promoting a city as a knowledge-oriented, producer services city is not something that is antithetical to the interests of the so-called working class (many of whom are now unemployed).

As Manuel Castells, the leading late 20<sup>th</sup> century socialist urban scholar (and current advisor to the governments of Brazil and Spain) has observed:

It can be empirically demonstrated that new technologies are not the inducers of unemployment. If anything, all other conditions being equal, firms of countries which do not use advanced technology are less able to generate employment than those who are better technologically equipped.<sup>43</sup>

Moreover, if Bloemfontein is to retain and attract a country's brainpower so that others can be employed, one thing is certain: one has to prioritise quality of life. Realistically, in the context of the Free State and indeed South Africa generally, the northern and western suburbs of Bloemfontein can offer this. The private sector has already recognised this by its patterns of investment in recent years. However there is also considerable developmental logic in playing to this strength.

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Internationally, a key aspect of a city's economic success relates to the conditions yielding urban economic growth, and the related theme of the city as a place of corporate activity. Research in the United States has shown that most of the factors traditionally associated with urban economic growth no longer correlate well with actual patterns of growth. Rather, just one factor – the 'lifestyle', or aesthetic, qualities of an urban place – now accounts for more variance in urban economic growth rates than all other factors combined.<sup>44</sup> For example, of the 25 fastest growing urban places in the United States during the 1980s, more than half were in California, and more than 90 per cent were places with high tourism/lifestyle appeal. Some of these top 25 economic growth places were central city areas in moderately sized resort cities, but most (over two thirds) were suburbs of major metropolises with distinguished aesthetic attributes.<sup>45</sup>

What, we might ask, does this mean for Bloemfontein/Mangaung's priorities for its economic future? Is it reflected in local leadership perspectives and/or the IDP? If not, how might such considerations be situated in a new, 21<sup>st</sup> century vision for Mangaung? The city has to reinvent itself in a post-industrial, globalised age around some of its significant comparative advantages – for instance, in the higher educational, technological, and related fields. There can be no easy return to a past rooted in outmoded transport systems such as railways, or industries that have since relocated to Lesotho. Mangaung has to look forward to the main currents of the century ahead, or face the prospects of even higher unemployment. In addition, it will need to overcome the divide in public and private leadership perceptions.

- Among public sector leaders, hopes centre on the prospects for central government assistance, and strategies largely centre on services delivery and CBDs.
- Among private sector leaders, hopes centre on emerging market trends, and strategies are individualised in small economic unit responses to such trends

To achieve impact in a competitive world, these differences in hopes and strategy need to be linked in some pattern of synergy, instead of the current stalemate. In order to do this, Mangaung has to address the challenge faced by all South Africa's cities: *To become a place of entrepreneurs to which the youngest and brightest will be attracted rather than a place they will leave once they are sufficiently educated.*

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## WELKOM

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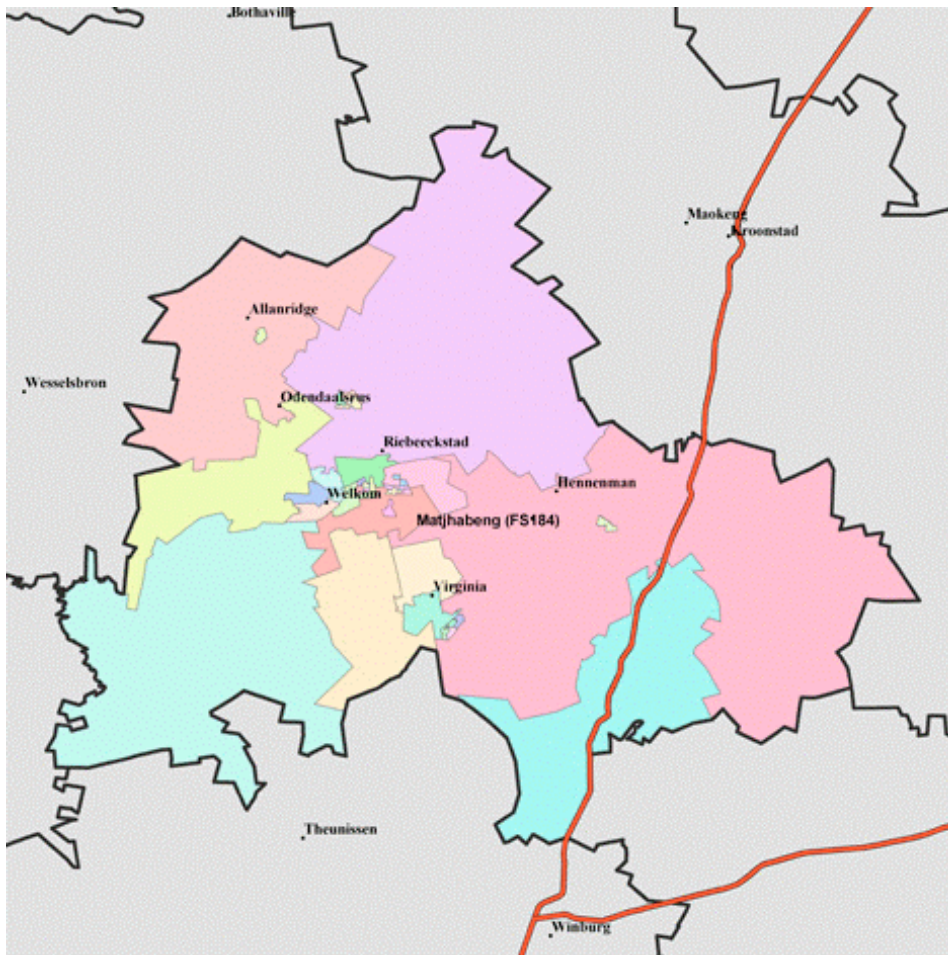
### Socio-economic structure

Welkom has recently lost a large measure of the original economic base upon which it was founded: that is, cost-effective gold mining. Tens of thousands of local jobs have been lost in this process of economic decline in recent years. The city is now seeking to rebuild itself around new bases of comparative and competitive advantage, in the face of what local stakeholders often see as neglect by central and provincial government.

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Welkom is a secondary city of more than 400 000 people, in the same league as places such as Kimberley, Klerksdorp, Newcastle, and Benoni. Like these towns, its origins lie in mining. However, unlike the others, its dependence on mining for employment has been sustained. Apart from Westonaria and Carletonville there are no South African towns or cities of this size – or larger – that have had such pronounced and enduring exposure to a single economic sector. By the mid-1990s, more than half of Welkom's population was still employed in mining, while in Kimberley, Newcastle, and Benoni the proportion had fallen to a quarter or less of all employed. Klerksdorp is closer in experience to Welkom, but smaller in overall size.

Map 3: Welkom and Matjhabeng



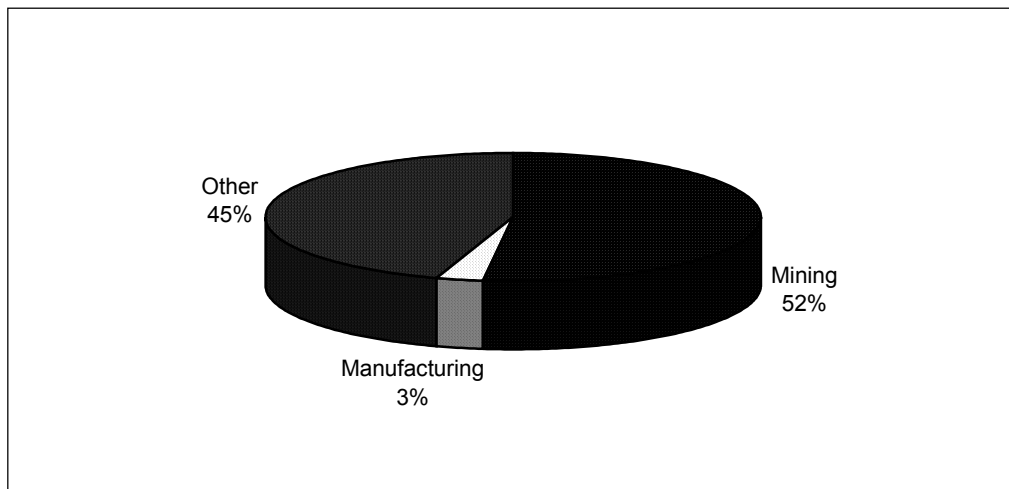
Source: Demarcation Board, [www.demarcation.org.za](http://www.demarcation.org.za).

Figure 2 shows the sectoral distribution of employment in Welkom as determined by Statistics SA for 1996, before the collapse in mining employment, which is discussed in greater depth below. The 52 per cent employment in mining indicated here is more than ten times higher than the national average.

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As the employment figures graphically demonstrate, Welkom's emergence as an economic centre can be almost entirely attributed to the gold deposits in its vicinity. These deposits were discovered relatively recently. It is easy to forget today just how spectacular the growth of Welkom and the rest of the Free State goldfields was, following the discovery of gold there in the late 1940s through the 1950s and 1960s. Welkom was *the* South African boom town of the 1960s.<sup>46</sup> For example, it once had the largest Porsche Club in South Africa, reflecting a 'new money' character where fortunes were made by some.

Figure 2: Sectoral distribution of employment in Welkom, 1996



CDE 2005

This new town literally rose out of the maize fields on the gold beneath. However, with the decline in the viability of several mines and decreasing labour intensity in mining generally during the 1980s and 1990s, Welkom's fortunes declined. Estimates of job losses vary in detail and are based on different periods, but the figure quoted by Pillay – 120 000 between 1990 and 1997 – appears credible.<sup>47</sup> These jobs have not been replaced by equivalent numbers in other sectors. The result has been that unemployment has increased to over 45 per cent (males 35 per cent and females 61 per cent),<sup>48</sup> and people have migrated out of the area. This has had predictable knock-on effects, including house prices which have remained stagnant while they continued to rise in cities in the rest of the country. Some comparisons between the 1996 and 2001 census results help to throw the situation into relief:

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Table 5: Employment in Welkom in 1996 and 2001

	1996	2001
Number employed	178 096	95 687
Number employed in mining	98 787	30 581
Number unemployed	60 333	83 181
Total population	479 270	408 170

As always, inter-census comparisons need to be treated with caution. It is nevertheless noticeable that not only have the numbers employed in mining declined dramatically, and the numbers of unemployed risen, but total enumerated population has also declined (refer to table 5, above). This is a product of out-migration, and is almost unique for a large South African town. Indeed, Welkom is in some respects an anomaly in terms of its origins, current demographic trends, and the extent and rapidity of its decline.

However, town leaders point out that the official figures of population decline may be misleading. According to them, in many newer informal settlements there is a sizeable proportion of residents from neighbouring countries (many former miners) who for obvious reasons tend to avoid official enumeration.

In the shack areas and former black townships, the economic realities are particularly harsh. A recent *Mail & Guardian* article puts this into perspective:

His fingers, as big as Russian sausages, once moved deftly mining gold. Now they clumsily unfold a yellowed pile of pay slips that he has kept in the plastic fold of his identity book since 1989, the year he retired from Anglo American after 30 years' service.

Outside Jim Nomyama's house in Thabong township in (Welkom in) the Free State police Hippos cruise the streets.

'They'll come. They'll stop at my front gate and they'll tell me that I don't own my house any more,' he says.

The police are monitoring Thabong, which has been simmering since evictions of defaulting bond holders started last year. In December three people were shot and one woman died during a skirmish with police.

'I fear people are losing it. I am battling to contain them,' says Dan Mofokeng, the president of the Bond Victims Association, a community movement that represents about 2 000 residents facing eviction, most of whom are retrenched miners.

Nomyama represents their collective fate. Since the late 1980s, 230 000 miners have been retrenched around the country as the industry, once the bedrock of the economy, tottered under the weakening gold price. They have been left fighting for survival.<sup>49</sup>

This evocative account of tensions in Welkom's townships sounds an even clearer note of foreboding in the aftermath of the disturbances that broke out in Harrismith town

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ships in September 2004, spreading to other townships and continuing sporadically into 2005. In Harrismith local residents clashed with police during protests over poor service delivery – a pattern which was repeated elsewhere.

It should be recalled that Welkom is the centre of the COSATU-influenced, northern Free State ANC. Its view of relationships between business, investment, and the quality of ordinary people's lives is conditioned by the realities of the goldfields, especially at a time of substantial job losses. The northern leadership has twice (1999, 2004) topped the ANC provincial lists, yet also twice been denied the provincial premiership, allegedly by President Thabo Mbeki, in favour of more 'moderate' southern Free State candidates. Whether this pattern will hold into the future remains to be seen, because if Welkom reflects an early instance of general discontent over a provincial economy rooted in the primary sector, Free State politics could in time more closely resemble the Welkom pattern.

Even white leaders in Welkom interviewed for this study mentioned, sometimes resentfully, that for some time not one member of the provincial executive council (MEC) has been drawn from that region. This, it is argued, is part of a historical pattern of political neglect of the region, which extends back to NP times when – it is alleged – the town was also neglected because it was seen as 'Harry Oppenheimer's turf'.

### Micro dimensions of economic trends

The basic socio-economic profile of Welkom as outlined above hides a fair amount of important detail. No city of 400 000-plus people ever 'evaporates' in economic terms, not least because of the considerable historic investment in that town, and the inevitable local rootedness of many of its people and their assets.

Indeed, when business changes are examined more closely, Welkom appears to be undergoing a process of economic restructuring whose features are often quite similar to those of many other South African cities. This more nuanced perspective on what has been happening to the Welkom economy was the result of research in the Welkom sections of the Free State telephone directory and yellow pages. As part of the primary fieldwork for this study, researchers noted all businesses listed in the white and yellow pages for Welkom in the 2001/2 directory, and compared this to the 2003/4 directory.

Overall, more businesses closed than opened over his period, and the distributions of which types of businesses had closed and opened were revealing. Based upon inferences on the types of firms from their names, and some follow-up telephone calls, it can be inferred that:

- There has been a particularly high level of turnover in retail enterprises, suggesting tight margins and trial and error by new entrants to a static or declining market.
- Most businesses opening (or closing) are small, averaging some five employees.

## GROWTH AND DEVELOPMENT IN THE FREE STATE

- Closures have been particularly high among retail and producer services enterprises.
- Openings have been most noticeable in the transport and ICT areas.

The pattern of openings and closures in Welkom enterprises is summarised in figure 3. It may seem disconcerting that closures exceeded openings by some 10 per cent, but it should be recognised that even in relatively successful South African metropolises, business closure and opening rates are high. For example, research in metropolitan Durban<sup>50</sup> revealed that among a representative sample of 6 000 enterprises during a ten-year period, twice as many were liquidated as survived the full period. In addition, more than twice the number of firms liquidated in ten years emerged entirely anew in the same period. In other words, business in South Africa conforms to worldwide patterns of dynamism. Only comparatively few (usually large) firms exist for ten years or more. This is something that is not necessarily well known in the comparatively stable and comfortable 'corporate world', but is a fact of life for the hundreds of thousands of South African entrepreneurs.

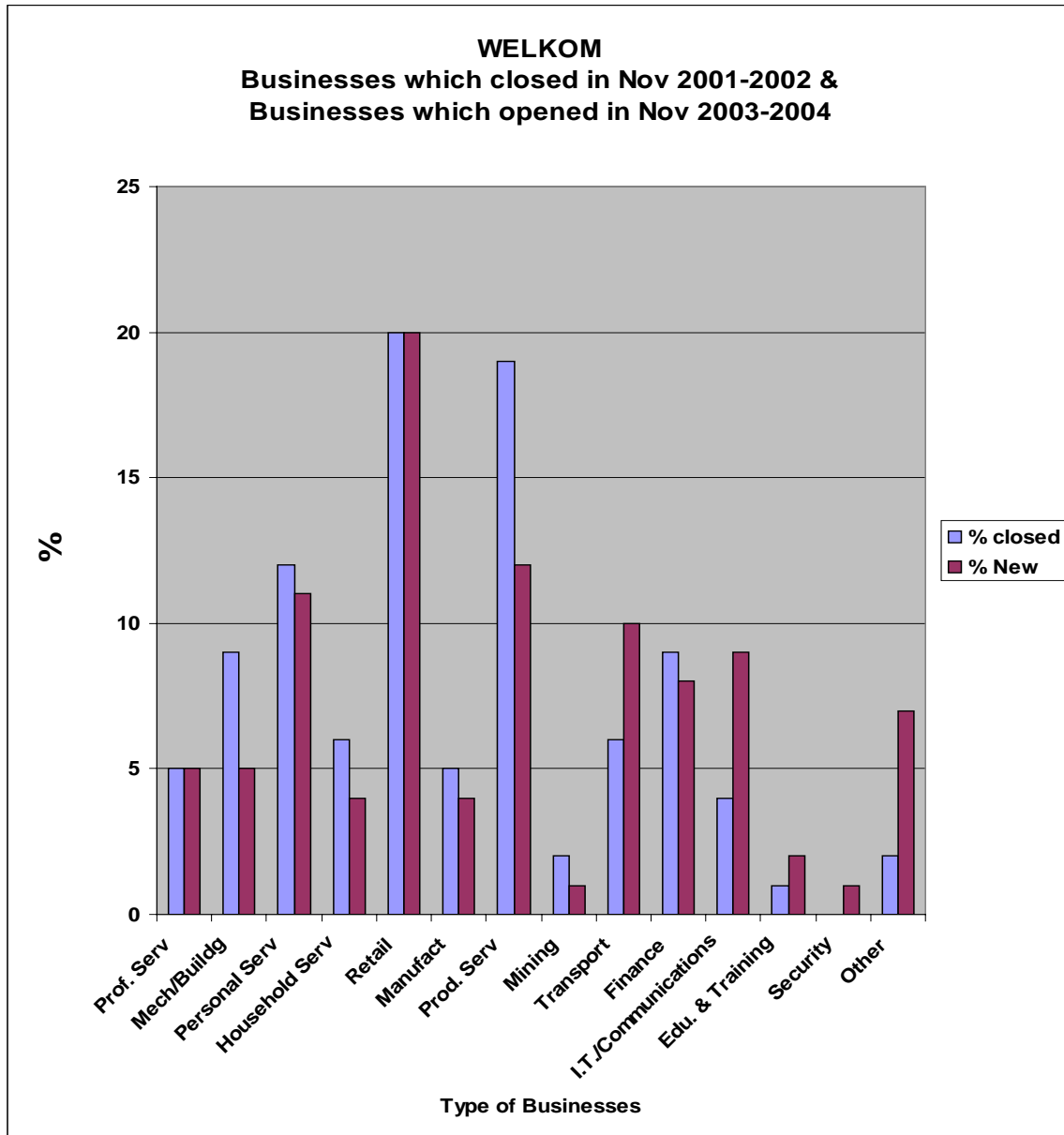
**Table 6: Patterns of enterprise openings/closures in Durban, 1989-99**  
(sample = 6000)<sup>51</sup>

Sector	Survived		Liquidated		New	
	Count	Percentage	Count	Percentage	Count	Percentage
Manufacturing	104	13.5%	177	12.6%	372	9.7%
Commerce and Trade	263	34%	280	20%	731	19.1%
Services	337	44%	702	50%	2402	62.7%
Mining & Agriculture			6	0.4%		
Utilities			4	0.3%		
Finance	7	0.9%	19	1.4%	54	1.4%
Construction	14	1.8%	56	4%	63	1.6%
Unspecified	16	2.1%	118	8.4%	90	2.3%
Transport	27	3.5%	42	3%	119	3.2%
Total	768	100%	1404	100%	3831	100%

Table 6 illustrates for purposes of comparison that almost two thirds of Durban firms in 1999 had opened during the previous ten years. Especially prominent was a significant category of smaller, services-oriented enterprises. This turnover effect is also evident in Welkom. If the various categories of new service enterprises shown in figure 3 (page 48) are aggregated, they amount to more than one third.



Figure 3: Pattern of enterprise openings and closures in Welkom



CDE 2005

Seen in this light, Welkom’s micro patterns of business cycles are not unique. Indeed, the overall impression of South African cities generally is one of remarkable volatility in the configuration of enterprises.<sup>52</sup> To some extent this reflects a pattern of ‘re-labelling’ amongst a fraction of enterprises that, for marketing or other reasons, may have decided to ‘reposition’ a long-standing business. However, in the majority of cases – in Welkom and elsewhere – the newness of enterprises appears to be real rather than a result of re-imaging. Moreover, it also seems to be a product of *in situ* firm births arising out of local entrepreneurship efforts as opposed to importation from other regions or countries.

## GROWTH AND DEVELOPMENT IN THE FREE STATE

This proliferation of smaller businesses in Welkom and elsewhere appears to be driven by a number of forces:

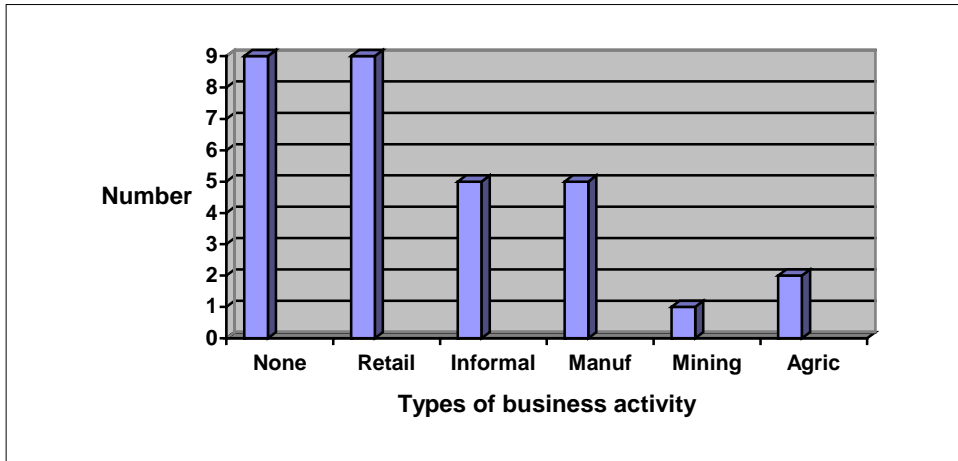
- Firstly, some growth, especially in the numbers of service-oriented enterprises, appears to be driven by elements of the policy environment. Affirmative action, labour legislation, and lower marginal small business tax rates as opposed to income tax rates fall into this category. These pressures have led to some of the more entrepreneurial of former corporate managers (especially whites) choosing to 'set up shop' as smaller concerns, in return for higher material rewards (and of course higher risks). The continued growth of producer services enterprises in Welkom, despite the contraction of the mines, tends to reflect this pattern.
- Secondly, some of the growth in numbers of smaller enterprises is partly a result of 'push factors' – forced retrenchments by corporate businesses and/or the lack of significant hiring by either government or business. This is consistent with worldwide trends, though it may be considered by some as 'enforced' enterprise formation as opposed to genuine innovation or entrepreneurship. This tendency is likely to be especially strong in the Welkom case, and is probably reflected particularly in the continued growth of new, small retail stores (where costs of entry are low), and in the growth of the informal sector.
- Thirdly, some of the new firm formation is a product neither of retrenchment, nor of a former corporate management response to a changing policy environment. Instead, it is an extension of a fairly long-standing culture of entrepreneurship, particularly among younger people with family backgrounds linked to small business. In the Welkom case, this is unfortunately probably the minority of cases of new business formation, but appears evident especially in the transportation and ICT sectors, which seem to be particularly favoured by Afrikaner youths.

All of the above, however, also needs to be situated against the fundamental economic trauma of Welkom, which is undoubtedly the impact of retrenchments on the mines.

### Perspectives of local civic leadership

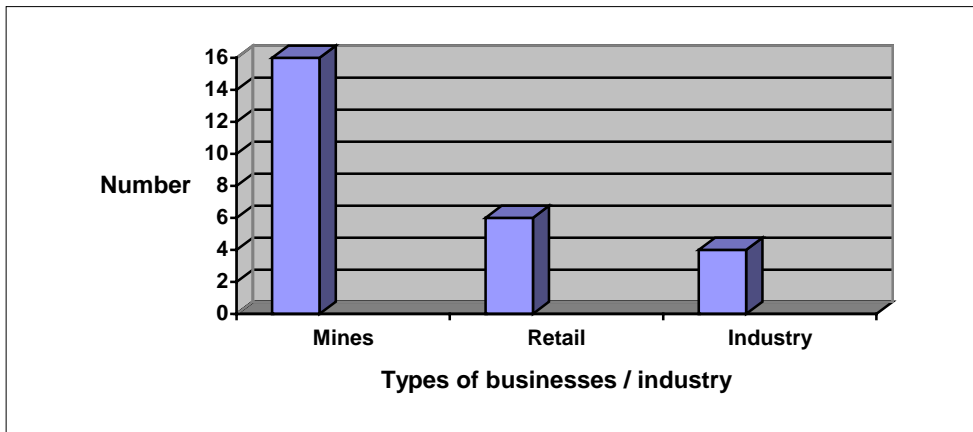
This trauma clearly informs the perceptions of most local leaders. Fifty local leaders were interviewed, some 30 of whom might be described as civic leaders – many of them councillors. (The interviews were conducted in mid-2004.) They were questioned on their perceptions of changes in the local economy, and what should be done to advance the city. The graphs below summarise and analyse key patterns in the responses of local civic leaders (business perspectives are offered later).

Figure 4: Civic leaders' perspectives on Welkom's growth sectors



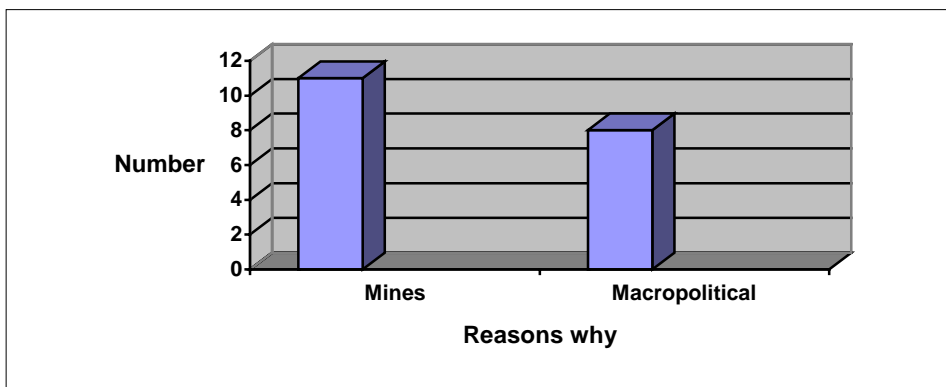
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Figure 5: Civic leadership perspectives on declining sectors



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Figure 6: Civic leadership views of main reasons for economic change



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In terms of perceived decline, most respondents cited the decline of mines as lying at the centre of the generalised local economic decline. Many respondents did not perceive any areas of economic growth in the town at all, and to the extent that some growth was perceived, this was seen as occurring largely in the retail and informal sectors.

The decline of the mines also loomed large among the reasons mentioned for economic decline and restructuring. Without the incomes and service sector orders provided by mines, it was reasoned, everything else wilted. However, coming a close second to mine closures as a perceived reason for economic decline was the assessment that macro-political factors underpinned poor economic performance. There were both 'left' and 'right' interpretations of this. Although second in order of frequency mention, they merit specific consideration here since they reflect directly on the issue of governance.

Welkom's reputation for being a centre of left-wing loyalties within the provincial ANC is partly confirmed by a sizeable minority of respondents' comments on the reasons for economic growth and decline. For example, respondents suggested that:

- Decline occurs because of a negative attitude towards black government. Some members of the community are negative about their place.
- Low gold grade and negative attitude towards black government causes mines to close down.
- It is because power is still in the oppressors' hands – i.e. economic power. We are only holding political power.
- Resistance towards the present government.
- I am not happy due to the fact that, it seems as if we are following neo-colonialism whereby when the bourgeoisie leave the country the whole thing gets into a drain. Instead economic instability grows drastically and everything gets slack because the economy is still in the hands of the oppressors; we are only holding political power.

It is important to bear in mind that these are comments by elected local public representatives. More 'right-wing' political interpretations of reasons for decline were also offered by a minority of councillors:

- Labour legislation is major problem (minimum wages)
- Bad debt, unemployment, high municipal rates and political influence.
- Poor business planning and no diversification of the economy.

On the other hand, these were the views of only a minority (albeit a sizeable one), and most respondents reported good relationships between local authorities and local business. Most placed their hopes in the council's 'five-point plan', a leading element of which is the development of an air cargo airport and industrial development zone (IDZ).

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These last aspects of leadership perceptions are especially important, and form the centrepiece of our next section, where local perceptions of ‘what is to be done’ are amplified. Before we do this, however, it is worth noting that almost no leaders picked up on the pattern of services sector growth (especially ICT and transport). We will return to this lacuna in the conclusion to the report, where the generally different perspectives and points of departure of the public and private sectors are highlighted.

### Strategic priorities

It is clear that most civic leaders in Welkom are only too aware of the need to move the city beyond its earlier dependence upon mining. The Phakisa race track project, which hosts international motorcycling meetings, among other events, was developed with provincial government assistance a few years ago, and does appear to have had some impact, for example in increasing B&B accommodation in Welkom, in encouraging motoring-related specialist enterprises and seasonally increasing consumer spending. However, although it has been praised in development literature,<sup>53</sup> disquieting reports in late 2004 cast doubt on the viability of the initiative, at least in its original, exclusively public sector-driven form (see box, *Phakisa’s poor track record*, this page).

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### Phakisa’s poor track record<sup>54</sup>

Phakisa race track was built in 1997 in Welkom by the Free State government. The province earmarked this as a flagship project to stimulate economic growth and job creation through sports tourism. Initially set up as a state corporation, which was wholly owned and funded by the provincial department of finance and economic development, the race track has proved to be a loss-making venture, with a return of only R7 million on the initial investment thus far. Thus far there has been an investment of R420 million of taxpayers’ money over a period of five years, which is half of the budget of the provincial department of sports, arts, culture, science and technology.

Before construction began, Judge Mervyn King,<sup>55</sup> in his capacity as the chairperson of the Automobile Association, warned the government in letters that potential losses of between R350 million to R400 million could be incurred. However, the provincial government went ahead with construction and sponsored the Africa’s MotoGP for six years, only to be forced to seek private investors to support the project a mere five years later.

Lack of financial control, poor management, and unnecessary expenditure has made it difficult to establish the extent of the losses faced by the taxpayer. The Auditor-General’s report for 2003-4 revealed that there was no audit committee for Phakisa, no internal audit unit, and disregard for the correct procurement and tender policies. In addition, there was no approved budget for Phakisa. Furthermore, there was no appointed board of directors, making it difficult to determine who performed these functions. The department is also liable for a claim of R37 million in outstanding licensing fees owed to MotoGP. The Free State legislature decided in February 2004<sup>2</sup> to investigate Phakisa’s mismanagement and financial irregularities. The outcome of the forensic investigation is still unknown. Projected changes include that the corporation will give way to a public-private partnership with the proviso that within three years a private company will take total control of Phakisa. This leaves open the question of why the public-private partnership route was not explored eight years ago

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Tourism (under which the Phakisa race track falls) is only one part of a five-point plan that was so often referred to by the respondents in our interviews. This five-point plan can be summarised as follows:

It has been concluded that Welkom should rebuild its economy around five sectors:

- Freight distribution, through an international cargo airport and new road system;
- Agriculture;
- training;
- jewelry; and
- tourism.

Typically it was the airport and IDZ initiative, linked to a spatial development initiative (SDI) that enjoyed top priority among local leadership. Using the existing airfield to the west of the city, planners envisage a national and international cargo airport which has:

- a simple layout and runway navigational aids, basic office facilities, and a high standard of warehousing;
- a cargo orientation, able to accommodate large planes, and with equipment to handle cargo; and
- 24-hour operation and a full range of services for cargo aircraft.

The analysts responsible for this plan argue that Johannesburg International Airport (JIA) has limited airfreight capacity, creating opportunities for a regional airport to capitalise on one of the fastest growing sectors in the world economy. Throughout the world, the modern logistical demands of certain types of industry and horticulture/floriculture are increasingly being satisfied by ‘purpose-built’ airport facilities similar to those being envisaged for Welkom. In effect, because of the increasing rapidity of global economic integration, these facilities are beginning to replace sea ports (in certain specialised respects) as the modern logistical bases for global trade.

Such facilities therefore pose serious challenges – and opportunities – for port-based cities or regions which may otherwise tend to rest on their historical laurels. The challenge is especially strong if the proposed site is well located to serve the geographical centre of demand in the country or region in which it is located. In this regard, Welkom is well-placed. Local experts cite international precedents such as Liege, Ostend, East Midlands, Ciudad Real, Vitoria, and others as European examples of the type of facility they have in mind.

Often the underlying political driver for such projects is the perceived need for local/regional economic growth and development. A review of the evidence on these specialized airport initiatives reveals why. Often, a ‘boom town’ emerges on the perimeter, related to new specialised global business enterprises. In order for all this to materialize, however, one needs local (public and private sector) champions to drive the process. In the Welkom case there appears to be no shortage of local political

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champions, but the problems appear to lie in their connection to provincial and national leadership. Pillay comes to the same conclusion with a succinct and damning verdict:

The municipality has a well-thought-out development strategy covering five sectors (agriculture, distribution centre comprising a freight airport, gold beneficiation, training and tourism), but it has received little support from the provincial government to commence the serious implementation of such a strategy.<sup>56</sup>

### A business perspective

The strategic priorities of business leaders in Welkom do not differ substantially from those of other community leaders outlined above, although they expressed no radical views on the reasons for local economic challenges, and saw the economic forces currently at play in different terms. No business organisation articulates a local developmental vision and, in common with the Bloemfontein respondents, many Welkom business people were quite critical of the state of local business organisation.

Typical responses of Welkom business leaders to questions on economic trends were negative, and centred on the decline of mining, but they were upbeat about the cargo airport prospect. One respondent stated that:

The future prospects are bleak, as mining in the area will reduce. Alternative business to replace mining was never pursued and now it is too late. Unemployment levels are critically high as retrenched mineworkers stay in the area adding more pressure to municipalities and the area. This in turn adds to a high level of bad debt, which discourages chain stores and financial institutions extending credit.

Future hopes are projects like the International Cargo Airport in Welkom. A project of this magnitude could save the area... The obstacle is to convince government that we need a 'Coega' initiative to support this area. Labour laws and the new mining legislation need to be relaxed.

Many business respondents diagnosed poor relationships with provincial and national government as being central reasons for the lack of such a 'Coega', but a sizeable minority of business respondents also rejected the idea that either provincial or local government should play a leadership role in development. According to one:

We must look at ourselves for initiative – there is no 'super hero' that will solve our problems, they tend to steal our ideas and hawk it all over the show.

Development funding is available at various institutions, but the right jockey for the project and even certain stages of the project is critical.

According to another, the problem is that people are focusing on constraints rooted in the past rather than current actual opportunities:

... (Despite the conventional wisdom) ...

## GROWTH AND DEVELOPMENT IN THE FREE STATE

- The town appears to be neither growing nor shrinking.
- New businesses are starting and others are closing down.
- Shops are moving from the CBD to Welkom Square and the Stateway development leaving the centre of town decaying south of Stateway.
- Lifestyle businesses are opening and mining related businesses are closing.
- Businesses located in Welkom have adjusted to trading with Southern Africa e.g. Galison manufactures mining hoppers for Zambia and Tanzania. Gretha's Décor tenders in places like Fancourt.
- We now trade across SA with work for other institutions but stay in Welkom as it is central and cheap for accommodation and staff.
- Most businesses must adapt or die and as the mining decline was long ago only those businesses that adapted remain.
- Those industries which rely on the mines have adjusted to the new conditions.
- The service industries such as cell phones, restaurants etc have created the new affluent.

This last set of observations correlates closely with what we have found on actual business trends in Welkom, and serves as a reminder of the entrepreneurial responses to change that are already occurring here.

### Welkom today

Despite the current penchant for looking at particular cities as effective units for economic and business analysis, there has also been a long-standing contrary perspective, especially among economists, which emphasises national perspectives and policies. This was often because economists believed that local instruments for economic policy intervention are relatively weak compared to national policy resources. On the other hand, because of declining barriers to international trade and information flows, the national state itself is now often seen as less important.

Ironically, however, because of this trend, we have seen the rise of so-called 'glocalisation' analysis – mainly centering on the ways in which 'growth coalitions' situated in specific localities attempt to turn global market forces to local advantage. In particular it is often observed<sup>57</sup> that locally dependent fractions of the state and business attempt to fashion strategies designed to capture increased 'market shares' of fixed investment and consumer expenditure, bringing benefits for local business turnovers, profit rates, and derived local jobs and taxes.

The extent to which the turnover and profits of business enterprises are locally dependent is partly a function of scale. In many cases, the smaller the firm is, the greater the degree of local dependence. However, local dependence is also often a function of specialisation within sectors and subsectors. A five-person enterprise can, for example, be focused almost entirely upon specialised manufacturing for export, or information



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processing for global clients. A 1 000-person firm in some types of retailing, service industry, or construction can be effectively focused on a single metropolitan market. Hence, it is a particular mix of scale and sector considerations that tends to shape the extent of localisation, nationalisation or globalisation of the firm.

What this means for studies in which the city is adopted as a unit of analysis is that one has to be alert to different directions and types of change, which often have different connections to patterns of globalisation versus localisation. Analysis of city-based business trends that is mindful of this can be helpful in unpacking real and materially relevant patterns from the standpoint both of businesses themselves and the local governments that also stand to gain.

What can we infer conceptually from Welkom in this regard? Welkom went from boom town to bust town largely upon the basis of global fluctuations in commodity prices and exchange rates which impinge upon the local economic viability of mines. To Welkom insiders this sometimes seems like a unique dilemma. But while Welkom provides an especially difficult instance of this, it is by no means the only town in the world grappling with how to come to terms with a rapidly changing set of global economic conditions underpinning its local economic base.

Not the least through the work of Michael Porter and his Monitor Company in the early 1990s, international urban research and policy communities have become increasingly aware that variable rates of local economic growth are often related to the exploitation of local comparative and competitive advantage. Moreover, they have become aware that conscious efforts can and have been made by local growth coalitions to restructure the local bases for *competitive* advantage in a global context.

While the state is not the only actor in such coalitions, the local state acting with assistance from provincial and national branches is ordinarily an important variable in influencing success rates. However, the key here is how local government becomes economically active, and with whom. International research shows that the justification for patterns of local economic intervention by both the local and national state appears increasingly to reside in how such interventions might assist in deepening and widening the town or city's access to national, regional and global markets.

Earlier, we summarised the views of an array of largely local public sector actors on challenges and ways forward in this regard in Welkom. It is noteworthy that they mainly focused on how they could restructure their relations with the national state in order to secure enhanced global economic access (through the airport/IDZ project). This initiative is consistent with the experiences of the more successful South African metros.

For example, while the export of agricultural or mining resources laid the foundations for the original growth of Cape Town and Johannesburg respectively, now their local economic fortunes depend upon entirely different bases for integration with the global economy.<sup>58</sup> It is also for this reason that the expansion of Durban's port facilities is the capital expenditure priority of local, provincial, and national government for that city.<sup>59</sup>

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Becoming a 'global competitor' in this sense means transcending the geographical constraints imposed by the original economic base, and making a city globally accessible. Once such enhanced accessibility is achieved, it is assumed that the latent comparative advantages of a locality will come to the fore, largely through a more pronounced exposure to global market signals. As we have seen, Welkom's leaders are currently reconstructing the future of the city in just such a way, with its emphasis upon an international airfreight facility and IDZ.

Perhaps less obvious to local civic leaders is the challenge of moving away from a dependence on primary and secondary sector activity and large firms. The matter of local economic modernisation in the 21<sup>st</sup> century is not as simple as ensuring enhanced access. It is also a matter of shifting from the so-called 'old economy' (primary, secondary) to the 'new economy' (tertiary, quaternary). A key element of the latter has been the increasing economic relevance of ICT. As Manuel Castells has illustrated, the 'new economy' is one that is fundamentally based upon *networks*, particularly of *information flows*.<sup>60</sup>

These flows are within the basis of highly competitive, knowledge-intensive systems of production, distribution, financing, and consumption. Often this is also associated with the rise of smaller 'producer services' enterprises supplying services to larger firms. As this report reveals, this is currently occurring now in Welkom, especially with regard to transport, IT, and communications enterprises.

This trend is not inconsistent with the trend of major national and multinational firms increasingly downsizing and right-sizing their activities, in Welkom or in any other major city. Indeed, it is partly a product of that very trend. In essence, while smaller knowledge-intensive services enterprises flourish on the basis of their abilities to provide specialised services to such major nationals or multinationals, the multinationals themselves have to increase their geographical 'reach' in order to expand turnovers and volumes. By doing this they achieve economies of scale and agglomeration as well as effective global pricing and/or branding.

Being 'lean and mean', in Bennett Harrison's terms,<sup>61</sup> partly means increasing the geographical scale of operations while simultaneously reducing the numbers of those formally employed. In mining this has meant large mining houses such as Anglo American 'going global' in order to maintain and enhance their competitiveness in increasingly globalised commodity markets.

At the same time, more specialised South African companies (such as Harmony) have focused on making the most out of marginal South African mining operations by reducing costs and overheads, including those pertaining to labour. Some of the operations previously performed by the mines themselves are now outsourced.

In South Africa this broad rule also applies. Particularly during the 1990s jobs in larger national and multinational firms were reduced, but at the same time the volume of new business registrations (minus liquidations) rose rapidly. For example, in a typical month in 1985–6 there was a close to 200 net increase in new enterprises per month; by 1998–9 the net monthly increase had risen tenfold to about 2000. These statistics are

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corroborated by patterns of demand for smaller business premises in the property market throughout South Africa, and statistics on loans and assistance from banks and development agencies.

The case of Welkom therefore presents itself as a mixture between these national and global tendencies, and the peculiarities of boom and bust associated with a single resource-dependent economic base. At one time (during the late 19<sup>th</sup> century) even a city such as Johannesburg was subject to such volatility, but as its economy diversified during the 20<sup>th</sup> century, it matured into a more complex and stable growth format. We are not suggesting here that Welkom can or should emulate any other city, but what we are emphasising is that:

- Welkom's challenges are not entirely unique, and are (an admittedly pronounced) part of a universal pattern of local economic readjustments that all towns and cities are continually having to make.
- The seeds of Welkom's economic reconstruction are already present in recent micro trends in the formation of business enterprises, and in the emergence among most local leaders of logical new strategic priorities.
- Despite differences in ideology between local public and private sector leaders, their respective hopes and strategies are fairly well aligned; however, they are frustrated by the lack of local powers and resources to make them come true.

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## SUMMARY OF KEY FINDINGS

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The most important empirical findings so far about the two cities can be summarised as follows:

### Bloemfontein

- Total population is increasing.
- Population composition is changing.
- Economic growth is stagnating.
- Unemployment is rising.
- There is a 'brain drain' of young, educated people.

### Welkom

- Welkom is shrinking in size.
- It is also shrinking in confidence.
- On most economic indicators it is (or is the leading part of) the consistently worst performing urban area in South Africa.

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- There is still some economic dynamism in selected ‘new economy’ areas.

Both of our case studies show, in different ways and to different extents, how difficult it is to adapt to challenges and overcome vulnerabilities to changing configurations of economic development. Welkom has been vulnerable to the vagaries of commodities as they become exhausted and/or more expensive to extract. For Bloemfontein it is no longer enough to rely on being a service centre for a political and economic unit whose relevance can no longer be taken for granted in the face of changing forms of communication and the shrinking of time and space that go with them.

Stakeholders in both centres seem to be aware of these problems. Business and civic leaders often respond appropriately to questions about the challenges they face; at least superficially they are largely agreed on the need for ‘consensus’ and ‘inclusiveness’. Elements of a response and, to some extent, structures to manage it have been drawn up. Plans have been produced at both provincial and municipal level in response to government devolution of responsibility for economic development.

However, such planning has been slow to produce results in Bloemfontein and Welkom, as the comparative performance figures for urban areas, with which this section began, bear witness. Under these circumstances, it will be necessary to investigate what will give substance to these plans (or other growth-oriented equivalents) and convert stagnation and decline into growth. Preliminary causes for concern are:

- the lack of synergy between the public and private sectors;
- the fragility of public sector capacity;
- the weakness of private sector actors, both as individual companies and, more pertinently, as active, effective business organisations, compounded by fragile capacity in the public sector;
- the different priorities of public and private sectors, and the lack of a common language of growth between them to fuse their energies.

As the case studies have made clear, the problems of change faced by Bloemfontein and Welkom are far from unique, or even confined to developing countries. All over the world, rich countries included, towns and cities have had to reinvent themselves in the face of resource exhaustion, technological obsolescence, market fickleness, and the shrinking and stretching of time and place brought about by new communications. As a result, there is a wealth of experience and examples in coping with similar situations to those faced in the Free State today. Some of this has already been covered in CDE’s research publication *Cities and the global economy*.<sup>62</sup> For example, it states;

Looking closely at the redefined economic role of cities in the new global economy, it can be argued that:

- Cities should no longer be seen just as places where people live and governments provide services, but as dynamic arenas for economic, social and cultural development;

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- With greater mobility for people and economic activities both within and between countries, cities are becoming more competitive with one another;
- The role of any city is therefore being defined in terms of the role of other similar cities within the 'borderless' global economy rather than in isolation as a local economy within a closed national economy;
- Cities act as barometers for pressures in the wider global economy. As a city becomes integrated into the global economy, it is disciplined by the growing strength of external markets and by the activities of other competing cities
- Cities in the global economy must link flows of products, people, information and finance between often distant sources and destinations. Managing these flows as well as retaining fixed sources of production has become the essence of the city's economic function.

These new roles have far-reaching implications for cities, notably in how they conceive themselves and how their futures are managed:

- City leaders and managers now need to confront such issues as: 'why should people and business stay in our city?' And 'how do we attract new investment and people to our city?'
- Officials need to act entrepreneurially in promoting the economic growth of their city ...
- In this environment, successful cities must be increasingly flexible and innovative. They must be able to adjust to changes in the global economy. The 'flexi-city' requires initiative and direction from an alliance of forces – official and unofficial, public and private, professional and voluntary.

These prescriptions are primarily for a changed perspective by the local public sector, and they can usefully be applied to Welkom and Bloemfontein today; but our research also suggests that different orientations are required from the local private sectors too. For this reason we pressed further into international experience with the present study for examples of where private sector leadership had come to the fore in similar circumstances. In seeking guidance from this experience and these examples, CDE chose two specific topics. The first is relevant to both the Free State cases, that is, the international experience of 'growth coalitions'. The second is specific to Welkom's situation; that is, the international experience of coping with the decline in extractive industries.

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**Part 3**  
**LESSONS FROM**  
**INTERNATIONAL EXPERIENCE**

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## GROWTH COALITIONS

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Since the late 1970s there have been significant alterations in global-national-local relationships, in response to forces as varied as enhanced global market flexibility, the fragmentation of labour markets, and the increased inability of local authorities to meet local service needs. As new forms of local-level governance, service delivery, and growth promotion have been sought, localities have had to become both more business-like and more socially inclusive.<sup>63</sup> This has been essential to ensure both buy-in from key stakeholder groups and the simultaneous pursuit of new, innovative growth paths which require widespread support. The concept of the public-private partnership (PPP), often in collaboration with the voluntary or community sector, is a direct response to this situation. In its more sophisticated and scaled-up variant, partnerships are also conceptualised as being 'growth coalitions' or 'growth machines', oriented towards economic and investment-led growth in pursuit of local economic growth, property enhancement, and widespread local benefits.

The concept of the growth coalition (GC) first became prominent in practice and academic theory in the 1970s. Growth coalitions were first recognised in the American urban context with its long tradition of independent local government action and association with active property interests. In other countries, stronger levels of state control and weaker economies have spawned a variety of responses, often involving toned-down variants of the growth coalition concept. While coalitions are more established in the developed world than elsewhere, there is increasing evidence of such activity in other parts of the world, and in Asia in particular.<sup>64</sup>

Despite its mainly developed world pedigree, the growth coalition concept can help to place a developing economy on a higher growth path, especially where economic reforms shift leadership responsibilities away from dependence on the state, and recognise a plurality of stakeholders. As such, incipient growth coalitions are reasonably well established in South Africa's largest cities, especially in the form of inner-city partnerships. However, they have yet to operate on a city-wide basis, and have yet to make a meaningful showing in secondary and tertiary cities in the country, such as Bloemfontein and Welkom.

### **The global context in which growth coalitions are emerging**

Greater local freedoms, but restricted resources to meet the public services, property, and infrastructural requirements of development, have encouraged local public sector actors to seek greater collaboration with and support from the private sector. The private sector is seen as a potential provider of services through privatisation, and a co-funder of property and development ventures. For the private sector, planning assistance, legislative support, and joint action are clearly attractive reasons for promoting collaboration. For the community sector, in an era of enhanced democratisation, coalitions offer the prospect of economic opportunities and direct involvement in decision-



## GROWTH AND DEVELOPMENT IN THE FREE STATE

making. Their involvement endorses the broader mandate of the coalition, which may well leverage central state funds. As a direct result, growth coalitions represent a significant transition from local *government* to local *governance*.<sup>65</sup>

One of the key outcomes has been that of increased competition between localities, rather than within them, as noted by the strategic alliances for survival forged between once competitive industries in single cities.<sup>66</sup> In addition to encouraging local cohesion, these trends allow for the sharing of risks and the positive benefits of synergy.<sup>67</sup>

It should be noted, however, that while enhanced social cohesion is both pragmatic and desirable, and provides a basis for the emergence of growth coalitions, such cohesion does not imply that partners who participate are on an equal footing.<sup>68</sup> The voluntary/community sector is often hampered by lack of capacity and an inability to speak with a common voice, and is often unprepared and inexperienced, lacking the ability to participate effectively with other partners in what they may perceive as a pro-business venture.<sup>69</sup> In some instances the voluntary and community sectors are mobilised through their opposition to growth coalitions rather than their desire to participate in them.<sup>70</sup>

The South African public sector is undergoing significant change induced by increased pressures from communities to provide basic services and infrastructure.<sup>71</sup> Local governments, however, are hamstrung by limited budgets and diminished capacities to provide them, requiring the exploration of alternatives, including partnership creation and privatisation. Unlike the situation in many western countries, this trend has met with opposition in South Africa, especially among labour movements, which sometimes see issues such as privatisation as a betrayal of the social contract that previously bound labour to government.

### Defining and identifying growth coalitions

Growth coalitions represent a scenario in which 'the public sector moves beyond general promotion of development and enters into specific contractual arrangements with one or more private-sector partners, agreeing to share the risks and rewards of development'.<sup>72</sup> Such 'coalitions of interests dedicated to growth tend to emerge from key local activists',<sup>73</sup> including property owners, local government, universities, and cultural organisations. Where common interests prevail and *dependence on the locality* is high, collective action and the pursuit of joint accumulation strategies will be pursued with greater rigour.<sup>74</sup>

Growth coalitions seek to maintain a 'business climate' which attracts businesses and or industry, through favourable taxation, vocational training, law enforcement, and good labour relations. The role of the local authority is reconfigured, often playing a reduced role, but none the less being a key player in promoting and helping to guide more economically oriented policies and the pursuit of investment through policies of facilitation and the fast-tracking of investment.<sup>75</sup>

Within the overall process of growth coalition formation, it needs to be recognised that all places are unique and that no uniform model can realistically be applied in each and every case. Growth coalition and partnership development ‘will reflect the intersection of general processes with local conditions, such as the state of the local economy, the structure and organisation of local capital, the political structure and complexion of the council and wider community, and more elusive factors such as local ideological traditions and historical experiences’.<sup>76</sup>

### Conditions required for success, and key strategies

There is little agreement as to how GCs emerge and how they are reinforced, but it is apparent that they are driven by the emergence of consensus and common purpose, however defined, which in turn may well be triggered by a local level crisis of some description.<sup>77</sup> (See box, *Conditions which encourage growth coalitions*, this page).

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### Conditions which encourage growth coalitions

- The inappropriateness of previous developmental approaches, particularly those of a top-down nature, and the obsolescence of older forms of governance.<sup>78</sup>
- A phase of sluggish economic growth, unemployment, and local political incapacity, and the need to pursue new alternatives.<sup>79</sup>
- The dominance of market-driven approaches to economic growth which are responsive to the private sector.<sup>80</sup>
- Global pressures which require greater levels of place-based competitiveness and niche marketing to ensure sustained growth and investment.<sup>81</sup>

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Social and cultural factors, combined with institutional thickness, lie at the heart of the success of GCs. The concept of institutional thickness refers to several qualitative considerations besides size and budget, including their depth of skills and breadth of experience, their coherence and competence, their connectedness to other institutions, and so on. Achieving consensus among a range of actors, the joint pursuit of an agreed strategic approach, and investment attraction are hallmarks of a successful GC. Sustaining GCs, particularly in Africa, depends on local leadership, supportive ideology, adequate capacity, and the correct sequencing of political and economic processes.<sup>82</sup>

A key ingredient of successful GCs globally is that business should have the capacity to engage in technical policy discussions, and have access to relevant and appropriate resources; and that the private and public sectors should complement each other. In addition, business partners need to represent the diversity of local interests, and dynamic leadership is required. GCs also need to respond to the reality that business is increasingly footloose. Lastly, a strong institutional presence is required, and high and continued levels of interaction between key role-players are needed.<sup>83</sup>

### Growth coalition strategies<sup>84</sup>

- **Property and real-estate development:** land consolidation; prestige flagship projects, eg convention centre development; provision of infrastructure ; inner city redevelopment and revitalisation; high-technology nodes.
- **Fiscal policies:** tax concessions; low interest loans; grants; loan guarantees.
- **Economic strategies:** investment attraction; export promotion; regional competition; prestige event projects eg major sporting events; marketing; business retention strategies; business incubators.
- **General:** appropriate regulatory frameworks.

While most GCs focus on these strategies, largely geared towards encouraging and unlocking the potential of the business sectors, this model is not binding. Evidence of an alternate focus comes from one of the best established GCs in the world, namely that of Pittsburgh in the United States. In this city a key role has been played by local leadership from diverse sectors, and development initiatives have focused on the provision of high-quality public infrastructure and services and the associated development of higher educational and medical facilities.<sup>85</sup>

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In developing countries partnerships are more difficult to initiate and maintain than in developed countries because local governments are generally weaker, urban growth is more rapid, the private sector is smaller, and regulatory and planning frameworks are weaker. The role of the state in partnerships is further hampered by administrative, financial, and institutional weaknesses as well as inflexible, hierarchical systems which are often unable to respond to development needs.<sup>86</sup>

### Examples of growth coalitions

As GCs have been active for more than two decades, useful applied evidence can be garnered from studies from around the world. One of the key distinctions between GCs in different parts of the world is the degree of localisation of coalitions. In the United States, GC partners are often highly localised, while in the United Kingdom and Africa the weaker nature of both the public and the private sectors at the local level often means that national-level agencies play a more prominent role.

#### *Growth coalitions in the developed world*

In the United States, the key drivers and partners of GCs are independent and corporate businesses. In countries such as France and the United Kingdom, where local businesses often lack the power and size (and perhaps entrepreneurship) of their American counterparts, other agents such as banks (particularly those which are locally based), administrative agencies, and local academics are more important in the partnership process.<sup>87</sup>

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A key element of the GC process in the United Kingdom is property-led regeneration as well as a long-established policy of supporting urban development corporations designed to deal with particular urban issues, such as CBD renewal. These strategies often bypass weak local governments to forge links between higher tiers of authority and the established business sector. However, central government control has in fact weakened local level discretion over local matters.<sup>88</sup>

The recently introduced single regeneration budget has proved to be critical in area based initiatives.<sup>89</sup> In this regard, competitive bidding by coalitions for central state funding to support regeneration has helped to ensure that GCs are based on sound economic logic. While the availability of central state funding is crucial, it does raise the question of what can be done in poorer areas less able to design and drive business-focused programmes.

While the British model raises key issues such as the role played by central state support, direction, and funding, critics sometimes allege that only a small percentage of people derive benefits from the work of growth coalitions, and that long-established businesses often suffer from competition from new firms.<sup>90</sup> In addition, partnerships are also inhibited by the frequently top-down nature of initiatives, which limits manoeuvrability, and by political pressures for quick results.<sup>91</sup>

### *Growth coalitions in the developing world*

In the developing world, GCs tend to be less well established and to have achieved less dramatic results. Key trends have however been the significant decentralisation of power to local governments across the developing world, and increased attention paid to privatisation.

In many developing world cities the local private sector is limited in size, and is seldom able to become a key partner in significant urban redevelopment and GC endeavours. In African countries in particular, there are few local business associations; this weakens the local input into GCs, and regional or national business is seldom in a position to make a significant difference within localities. The privatisation of services is one area in which the private sector has started to become more active, either on behalf of or in collaboration with the public sector.

It is only in the larger, middle-income economies of the developing world that more conventional western GC approaches are noted. In Brazil property development forms the backdrop to a GC between investors and developers.<sup>92</sup> In the case of Sao Paulo a property-led boom was driven by the establishment of high levels of collaboration between property developers and capital investors, which saw the doubling of the city's office space by the mid-1990s. The city of Porto Alegre provides evidence of state-community partnerships geared towards the provision of land and housing for low-income households.<sup>93</sup> The establishment of housing co-operatives in the city is a key initiative which provides a forum with which the public sector can collaborate.

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In Hong Kong the establishment of a land development corporation represented a significant attempt to formalise a GC process, but its existence brought to light numerous difficulties which may well face countries in the developing world. This example shows that agencies can become too dependent on private sector partners, or ineffective if they do not have adequate powers and resources.<sup>94</sup> The corporation experienced difficulties in assembling land, it lacked power, the state was reluctant to work with it, and achieving its goals was difficult as a result.

A more successful case is the island state of Mauritius, where a long history of active business associations and the establishment of a joint economic council between business and the public sector have been key ingredients in driving investment and economic growth since the 1970s. Here the emphasis has fallen on deregulation and integration with the global economy, for example in establishing a 'free port' to capitalise on global market opportunities and an offshore banking industry, as well as cultivating textiles, IT, and international information processing capacity.

### *Growth coalitions in South Africa*

In the light of South Africa's relatively recent democratic transformation and devolution of powers to local government, the GC concept has yet to become well-established in this country. However, there are certain exceptions to this broad statement.

One of the significant earlier examples of a GC in South Africa was Operation Jumpstart in Durban. Born of a desire to address the flagging economy of the city in the early 1990s, this key public-private coalition sought to lay the basis for enhanced economic growth, support for the SMME sector, job creation, and the upgrading of services and infrastructure in the city. In the course of the 1990s political transition, issues of participation and representivity had to be dealt with, and critics argued that the growth focus was problematic.<sup>95</sup> However, the level of collaboration which was established continued in the Durban Growth Coalition until recently, and key economic achievements in the city in recent years can clearly be linked to this process (for example its international convention centre, and the revitalisation of its Point Waterfront precinct). Some observers have however noted a recent tendency for the council to extend its control over such projects as a 'state-led' development philosophy gains momentum.

Elsewhere in South Africa, significant partnerships and coalitions are now active in the CBDs of Johannesburg and Cape Town. The privatisation or topping-up of services, joint management, and reinvestment have all enhanced the physical fabric of such areas, and would seem to be laying the basis for significant rejuvenation. These are very significant developments, but a key question to be addressed is whether the benefits of such activity are perceived to be spreading beyond the CBDs to disadvantaged communities. Indirect benefits often accrue, of course, such as increased job opportunities, and improved rates incomes which are subsequently redistributed to poorer areas, although they are rarely publicised to the degree they might be.

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However, outside the examples quoted above, it is not easy to find further examples of GCs in this country, particularly in the smaller centres. There were exceptions in the past, such as Pietermaritzburg and Stutterheim in the 1980s and the first part of the 1990s, often based around key black leaders who established relationships of trust with business leaders; but, nationally, these are less common now. Interviews with business chambers undertaken for this study and the 2003 LED study by the Premier's Economic Council of the Free State indicate that not only is the more recent evidence of growth coalition behaviour limited, but there is also a reluctance to formalise relationships.<sup>96</sup>

Many businesses, both in small towns and even in larger centres, are small-scale in nature (eg panel beaters, local bakeries, and so on) and are so focused on survival that they do not have the time, money, or capacity that larger corporate businesses have to look beyond the immediate scope of their daily operations. In areas such as the Free State, where real economic decline has been experienced in certain sub-sectors, the ability to contribute to local development has been diminished further.

In the Free State – as CDE's case studies reveal – there has also been discernible tension between the private sector and local government over alleged instances of non-payment or delayed payment for services rendered, a lack of mutual support in economic ventures, allegations of the politicisation of development, and of a failure to involve all stakeholders. The business sector itself admits that it is not well-organised, and key sectors, such as mining, do not appear to be major partners in local development in the smaller centres.

### Key international lessons

According to one of the research papers produced for this study, international GCs hold out the following key lessons:

#### *Devolution of local authority*

Rigid and uniform traditional models of local government are now increasingly seen as impractical in a modern, international political economy based on the market and global competitiveness. This reconceptualisation has required municipal officials to look for hitherto untapped local resources and capacities for new solutions to ongoing socio-economic problems. The key lessons are that:

- solutions should be sought at the local level through devolved power;
- local government alone cannot carry through development initiatives: powers devolved to local level have to be supported locally by other stakeholders; and
- it is important for cities not to treat uniform GC models as an ideological panacea: adaptation to local conditions is crucial.

### *Partnerships and participation*

The decentralisation in decision-making authority to local levels has opened the door for non-traditional groups to participate in decision-making processes. This has encouraged stakeholders to recognise their inability to achieve certain goals alone and seek shared responsibilities and collective action. Among the beneficial spin offs are a wider field of available expertise, and the encouragement of greater amounts of public transparency.

There is additional evidence to support the idea that by providing an inclusive framework for local decision-making, such avenues for public participation have greatly enhanced the quality of civil society and social capital, and have been able to address such issues as responsible citizenship and empowerment, as well as local ownership of development initiatives.

### *Local government vs local governance*

A third lesson to be learnt from the written evidence is that local government is not synonymous with local governance. Elected municipal officials, civil servants, and publicly owned parastatals are now but one portion – albeit a vital one – of urban governance. Local governance is increasingly being perceived along the lines of a fluid *process* that has the flexibility to evolve when needed, and move to include those segments of the targeted local population directly affected by the decision-making process.

### **The Free State context**

The main similarity between localities in which GCs developed internationally and the situation in the Free State is that they are particularly apparent in areas where decline has been experienced in a once dominant economic sector. In many of the examples in the United States and United Kingdom, the decline had been in manufacturing (secondary industry) as opposed to the primary sector as in the Free State. The implication is that in seeking new economic opportunities, local entrepreneurs in the Free State would need to make strategic sectoral shifts away from declining resource-based activity, unlike in other countries in which change has often simply meant reorienting economic activity within the secondary manufacturing sector. International evidence suggests that the key drivers of GCs tend to be locally dependent enterprises; by contrast, in the Free State, key sectors have often not been closely linked to local areas.

Regarding agriculture, the relatively close proximity of markets in Gauteng and improvements in the road network since the 1970s weakened linkages to local markets and supply centres although there are dynamic, yet locally rooted, aspects of agriculture in the Free State that could still be mobilised. In the case of mining, corporate headquarters have never been located in the Free State. The relative decline of agriculture and the accelerating, apparently irreversible decline of mining, as well as the weak local dependence of both, suggest that the drivers of GCs may well have to be found in other sectors.

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Neither Welkom nor Bloemfontein has traditionally housed the headquarters of any large South African companies. Although their regional investments, especially in Bloemfontein, have been substantial, it is doubtful whether these companies have much local empathy with the long-term future of these cities. This comparative lack of locally-rooted and dependent business must be considered a handicap as far as growth coalitions are concerned.

Weak business structures are also a major stumbling block for the development and maintenance of partnerships. Although, a number of chambers of commerce do exist in the province, they are characterised by a number of constraints. In the first place, black and white business in the Free State is still fairly separated. The former white-dominated business chamber in Bloemfontein and NAFCOOC in Bloemfontein formed a unified chamber only during 2004. Furthermore, in Welkom, separate chambers still exist. A second aspect related to this fairly weak business structure is that not all businesses are actually associated with the chambers. Although this is probably the case in many parts of the world, in the Free State this has coincided with a history of limited business lobbying and activism.

The third problem related to weak business structure is that black business structures in the Free State are usually even weaker than their white counterparts. The fact that race is still a factor will enhance the perception that business is dominated by white interests. This might be problematic from the point of view of the public sector when partnerships are to be established. A final problem related to local business and its structures is that there are low levels of capital in the Free State. It is highly unlikely that business would be able to contribute extensively to GCs if there is no immediate or direct return on investment.

City competition is usually enhanced by GCs. Considering the historical competition between Welkom and Bloemfontein, in which Bloemfontein has mostly dominated access to opportunities, the establishment of GCs could enhance this competition. If separate GCs are established, they could be in direct competition with each other, if their frame of reference is restricted to the provincial or national 'economic cake'. On the other hand, if a single one for the Free State was created, conflict about the internal distribution of investment could be fierce.

### The current experience of growth coalitions in the Free State

The foundations for sustainable partnerships are very weak, as the history of cross-community social cohesion is limited in certain localities, and many of the diverse stakeholders have different understandings of what local development entails, and varying ideas of how to achieve it. There are additional allegations of hidden agendas on the part of some stakeholders, while a lack of communication has also been identified as a major factor preventing the development of growth coalitions. Simply put, the public sector, the private sector, and social groups are all moving in separate directions when it comes to development. This is evident, for example, in the differences of public and private sector leadership perspectives on growth and development trends and priorities in the cities, as discussed earlier in this report.



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Despite these discouraging signs, there is some evidence that in two key Free State cities, Welkom and Bloemfontein, stakeholders are beginning to take the idea of GCs seriously.

### *Welkom*

Within the city there are forums or initiatives which correspond with the GC concept. However, despite their potential, probably only the first example described below is playing the role of a growth coalition in any full sense of the term.

- The Free State Goldfields Development Corporation (based in Welkom)

The key example of a GC in the Free State is the Free State Goldfields Development Corporation (FGC), established as a joint venture in 1992 between the public and private sectors in response to the radical decline of the mining sector, associated job losses, and the need to find alternate growth options. Its board is a public-private coalition, and its operational arm is a section 21 company, which receives direct funding from the municipality.

To counter downward trends, the FGC has been looking at various non-mine-related economic strategies that will promote the refocusing and redevelopment of the area, and create employment. The FGC has striven to ensure that elected officials, members of both NAFCOC and SACOB, as well as different community groups are part of the decision-making process, and that strategies formulated reflect the need to cater to both macroeconomic growth development and socially responsible poverty alleviation schemes.

Some of the key recent initiatives in which the FGC has been involved include:

- the proposed construction of an international cargo airport to service products from Johannesburg, Durban, and Bloemfontein destined for international markets that will kick-start the local construction, warehousing, and related services sectors.
- The re-routing of the N1 national road through the area to feed this airport and to generate additional business for local companies.
- The establishment of a paprika-growing project aimed at establishing a viable urban farming initiative that can give unemployed informal settlement residents the opportunity to become retrained as potential commercial farmers.
- The facilitation of a skills training project to provide skills for the paprika farmers and other potential entrepreneurs.

According to business and local government sources, the work of the corporation has however been restricted by limited private sector buy-in – particularly on the part of the mining sector and the seeming reluctance of the public sector to endorse and commit significant funds to the venture. In addition, CDE's own observation is that this

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was compounded by limited legal powers to act at local level in relation to the challenges at hand.

- The Economic Advisory Committee

This consultative committee is intended to act as a bridge between local government and established business. Despite the key role such a body could play in the city in terms of negotiating a shared future, the body only met twice, and has been inactive for two years.

The Welkom experience indicates that even though the motivation and framework for effective GCs does exist, the potential is immobilised by the failure of the public and the private sectors to address the issues at hand in effective partnership. Contributing factors include:

- the small-size of most businesses, and hence their restricted ability to contribute to GCs;
- allegations that the development process is politicised;
- the failure to use and capitalise on channels of communication;
- the limited role played by the mining industry;
- the fact that the FGC does not receive significant support from either the private or the public sectors; and
- the value and advantages of the GC process are apparently not fully appreciated by the potential role-players.

### Bloemfontein

Bloemfontein has a more diversified economy than Welkom and a business sector which is more strongly attached to the local area. Despite this, GCs are not as well established as one would anticipate. Even though the business sector is more unified than in Welkom, the small size of operations and the negative effects of contraction in agriculture and food sector firms restrict the capacity and ability of many firms to contribute meaningfully to GCs. However, local government is committed to growth, and is currently in the process of identifying appropriate developmental vehicles.

#### *Electricity supply*

The move by local governments to become more business-like in their approach to service provision is partly evident in the Mangaung Local Municipality (MLM). Traditionally, Bloem Electricity has been the main electricity supplier to the MLM; however, Bloem Electricity has recently been privatised, and is now known as Sentlec. MLM is the only shareholder in Sentlec, and councillors act as directors in the newly established enterprise. The process to privatise Bloem Electricity was driven by the opportunity to host a Regional Electricity Distributor (RED) in Bloemfontein, with all

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the socio-economic and employment opportunities associated with it. To host such a RED in Bloemfontein requires that institutions should be ring-fenced within the municipality by means of privatisation to avoid a situation where profits from the provision of electricity are used to subsidise other activities of the municipality. At the same time, it will ensure that the RED is managed in a financially sound way. It is, however, interesting to note that the 'privatisation' process has not yet been extended beyond municipal ownership to include actual private sector partners.

### *Mangaung local municipality/local private sector interests*

The current relationships between the MLM and business can be described as open, but not always well structured. Businesses, as well as other organisations, have an annual opportunity to co-operate in the drafting of the municipal budget. Furthermore, business is consulted and requested to comment on various common issues on a regular basis. The Bloemfontein Chamber of Commerce and Industry (BCCI) also serves on implementation committees of projects related to business. However, such representation only operates on an *ad hoc* basis, and is evidence of the often unequal relationship among various actors.

While the preceding activities show that a base is being laid for collaboration in the city, clearly the process is a long way from operating as a fully fledged GC.

### **Key considerations which will impact on the potential of growth coalitions in the Free State**

So far, issues of concern impacting on the feasibility of growth coalitions in the Free State may be summarised as:

- the modest level of commitment of the mining and agricultural sectors to the local economy;
- the weak and divided nature of the business sector; and
- the degree and kind of commitment and /or involvement shown by the public and community sectors.

These, in CDE's assessment, are perhaps sub-sets of a much wider national theme of public-private sector distrust around development issues, which we will elaborate in the conclusion to the report. However, there are other key local issues that deserve comment.

Firstly, the establishment of GCs is sometimes based on the assumption that government should reduce its role in urban management. This raises the question whether the current political environment would accept such an approach, or alternatively whether new collaborative GC concepts can emerge such as those referred to earlier in the extracts cited from the CDE Research report *Cities and the global economy*. The conceptual gap about GCs in Bloemfontein/Mangaung will not be aided by the fact that the

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MLM has decided not to create a separate body to manage its economic development plan. Business contributions will probably be reduced to advisory services as a result.

Secondly, GCs do not always overtly or directly cater for the needs of the disadvantaged, or for marginal areas. GCs in the Free State need to be as inclusive as possible and also ensure that, within practical limits, the benefits of growth are seen to devolve down to the poorest sections of the community. Furthermore, in situations where there are political, cultural, and/or racial differences within the host community, such as in Bloemfontein and Welkom, there are often ingrained barriers to collaboration. These differences will first need to be acknowledged before they can be confronted.

Thirdly, despite the fact that establishing a GC or GCs in the Free State will be fairly difficult, a number of opportunities and possibilities could be considered in this regard. From a public sector perspective, both the Free State Development Plan and the Free State Growth and Development Agreement make ample provision for a role to be played by business. In fact, the Free State Growth and Development Agreement is a formal agreement with business as one of its main signatories. Although no specific structures for partnerships have been stipulated, it could form the basis for one or more GCs in the Free State, Bloemfontein, or Welkom. The missing link, it would seem, is the ability to move beyond formalities and into synergistic partnerships based upon common understandings and practices.

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## COPING WITH THE LIFE CYCLE OF EXTRACTIVE INDUSTRIES

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Mining is popularly associated with enormous wealth, high wages, and major employment opportunities. However mines have finite lives, and when they start to decline, the livelihood prospects of mineral-dependent communities wane with them. In their historical form, mining activities have not led to sustainable local growth and development.

It is not only the finite life of ore reserves and mines that constrains the sustainability of development:

- fluctuating commodity prices result in unstable employment;
- investment in non-mining sectors is inhibited by the relatively short life of contemporary metal mines (5 to 15 years);<sup>97</sup>
- continually improving technology replaces workers; and
- the environmental damage that frequently accompanies mineral exploitation prevents businesses from establishing themselves close to mining operations.

The effects of mine downscaling and closures are more extreme in developing countries, where local government lacks capacity to structure and manage a development process that would provide alternative economic opportunities.<sup>98</sup> At least 25 major mines in developing countries are expected to close during this decade. The problem is

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particularly acute in mature mining regions: for instance, the number of operating coal mines in South Africa has declined by more than half in less than 20 years, from 112 in 1986 to 53 at the end of 2000.<sup>99</sup> In general, where a community is dependent on mining, fear of closure increases reluctance to invest in homes, upgrade and expand businesses, or fund public investments such as clinics and schools.

Mining companies generally pay taxes and royalties directly to central government. These benefits of mining thus accrue nationally while the costs, in the form of environmental degradation, are borne locally. The local economy benefits from service and infrastructure provision and from the creation of jobs, but in remote rural settings, few members of the local community have the skills, education, or finances to benefit fully from these opportunities. In many instances, very little of the mineral development expenditure is channelled through the local economy.

### Effects of downscaling and closure

In towns that grow around a new mine or are specifically created by a mining company, secondary economic activities, such as service provision and commercial enterprises, are dependent on mining and are not able to sustain the community after closure. The manufacturing base is usually small or even non-existent, and the capacity that exists is focused on the needs of the mine. Dependency is often increased when communities are not informed of the mine's activities and future plans, and are thus not encouraged to prepare for a future without the mine. In South Africa, several mine-dependent communities have been found to lack the capacity to identify alternative economic activities.<sup>100</sup>

Local community members are affected most by the loss of employment and cash income. Local authorities are affected by the loss of income for service provision and property taxes. Local businesses that service the mining industry are affected by a loss of markets and in most cases close down, with further job losses. When the closure of a major industry occurs, the socio-economic impacts may even be felt on a regional and national scale. Labour-sending areas, many of which are dependent on the wages earned by men who have migrated to the mines to work, are severely affected by the loss of cash income.

Retrenched miners may have acquired a wide range of skills during their mining careers, but many have little formal education, and the skills they have may not be transferable outside the industry. This is compounded by the higher incidence of long-term disabilities and injuries experienced in mining workforces.

Mining is declining in South Africa, and secondary industries servicing the mines will also decline. Many communities have already been critically affected in their ability to sustain themselves. Huge job losses have resulted from changes in the gold-mining industry – the workforce nationally fell from 474 000 in 1990 to 217 000 in 1998. In South Africa, manufacturing shed 35 000 jobs, and construction lost 45 000 in the period 1993–6.<sup>101</sup> On the Free State Goldfields alone, 100 000 jobs were shed during the 1990s.<sup>102</sup>

### Approaches to dealing with commodity cycles – a review of experience in developed and developing countries

The vagaries of commodity cycles and the closure of mines are not new phenomena. The large-scale closure of mines and industries in Europe and North America peaked 20 years ago, and several different approaches have evolved to deal with the difficult transition to an alternative post-mining economy.<sup>103</sup>

There is no single recipe for success in developing alternative economies, but the case studies below, which focus on strategies that have had some measure of success, have one or more of the following characteristics:

- strong local leadership and champions;
- multi-stakeholder/partnership programmes;
- strong involvement of local government;
- competitive advantage;
- natural resources other than minerals; and
- access to external funding;

Typically, programmes have focused on:

- urban renewal;
- training and retraining to improve skills levels and promote employability;
- improving the housing stock;
- encouraging inward investment;
- encouraging organisations to locate or relocate, through a mixture of fiscal incentives and support measures; and
- local clustering.

The following case studies from South Africa and overseas (Sullivan Mine, Canada; Pittsburgh, USA; Placer Dome, South Deep Mine; Utrecht, KwaZulu-Natal) have been chosen to illustrate these points.

#### *Sullivan Mine, Canada*

The Canadian town of Kimberley grew from a mining camp in the early 1900s to a prosperous community of nearly 7 000 in the 1960s. When the Sullivan Mine closed, it resulted in an annual loss of \$2 million to the tax base of the Kimberley municipality.<sup>104</sup>

The local government of Kimberley recognised the challenge posed by mine closure over 20 years ago, and has worked proactively to diversify the local economy. For the past decade, the local government and the mine have worked in partnership to attract investment, stimulate development, and increase diversification of the economy.

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Through collaboration between the Teck Cominco mine management and the community, an Economic Development Office was established. The resulting company/community/government partnership implemented strategies which included industrial development, tourism and small business development. A programme was initiated to improve the physical appearance and image of the downtown area.

Kimberley has a competitive advantage in its great tourism potential. The town is situated in an area with several national parks, and large populations of wildlife. The company and the government exploited this advantage through investment.

Teck Cominco, a developer, and the community undertook a joint housing development project, which was one way of addressing the loss of revenue by the local authority. The development was intended to broaden the town's tax base, and provide employment for retrenched workers.<sup>105</sup>

Strong points of the ongoing initiatives by all the partners have been:

- the key role played by government in facilitating the plans for the future of the community;
- investment of capital by the federal government;
- strong partnerships;
- local leadership;
- addressing closure issues at an early date; and
- the company's continued involvement in the post-closure phase.<sup>106</sup>

### *Pittsburgh, United States*

Industrial production dominated Pittsburgh's economy for more than a century. With the recessions of the 1970s and the advent of competition from cheaper foreign labour, Pittsburgh's steel mills found themselves unable to compete with foreign imports, resulting in closures that decimated the local economy. The economic base of the region shifted dramatically from heavy industry to services and high technology. But service jobs were generally less skilled and paid much less than the steel industry. Pittsburgh's population steadily decreased as people sought employment elsewhere.

By the mid-1980s it had become clear that the city needed to transform its economic base away from industrial production, and a move began towards an economy based on information technology. In the following decade, information technology businesses were rapidly established. These were greatly assisted by technology development programmes at the University of Pittsburgh and the Carnegie Mellon University. In 1998 alone 15 new companies emerged that had started as research projects at Carnegie Mellon University.

While the high-tech sector of Pittsburgh's economy employs fewer people than the old industrial sector, there is greater potential for expansion and growth, and the remuneration is 50 per cent higher than that in heavy industry or service jobs. As a result, a

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steady population growth ensued, which in turn led to an increase in residential and commercial construction that further developed the areas surrounding Pittsburgh. The new economic diversity has attracted professionals from far and wide, and has increased the resilience of the city's economy.

### *Placer Dome*<sup>107</sup>

In April 1999 Placer Dome Inc bought a 50 per cent interest in the South Deep Mine in South Africa's Witwatersrand basin. Soon afterwards it was faced with declining economic conditions, leading to the retrenchment of 35 per cent of the total workforce (2,650 workers) at South Deep between July and October 1999. To address the social and economic needs of the retrenched workers and their communities, the company launched the Care Project.

The key components of the Care Project include the registration of retrenched workers, counselling, re-training, and a micro finance strategy to provide fledging entrepreneurs with seed capital. The company contributed significantly to the project by funding, training, and providing support staff. The goal was to ensure that 70 per cent of the retrenched people, or nominated family members, became economically active within two years. The Care Project includes rural communities in Mozambique, Lesotho, and the Eastern Cape, the areas where most working and retrenched employees are resident. This project is regarded as the first retrenchment programme that has attempted to operate at the community level (ie beyond the employer's locale) in South Africa. It is also reported to be the first project that has provided direct benefits to women.

In Lesotho, 251 of 278 affected mine workers have received financial life skills training; 133 have received product training of their choice, 146 have been re-employed at a mine, and 71 have started their own small businesses. Overall, 77 per cent of displaced South Deep mine workers in Lesotho have become economically active through the Care Project.

An important feature of the Care Project is the recognition that sustainable development can be achieved more effectively by engaging in dynamic partnerships with key stakeholders. These stakeholders include:

- national and local governments;
- non-governmental organisations: the Employment Bureau of Africa, TEBA Bank, and the Mineworkers Development Agency;
- international institutions: the Canadian International Development Agency; and
- the private sector: Placer Dome Western Areas Joint Venture, and Placer Dome Inc.

The workers whom the Care Project aims to train for employment outside the minerals sector come mainly from the rural areas. The project thus faces challenges that are typical of southern Africa and many developing countries. Markets in the rural areas are limited, and infrastructure is poor and does not facilitate market expansion. If the



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impact of closure and downscaling on labour-sending areas is to be mitigated, training must focus on enabling retrenched workers to return to their homes and contribute to the sustainability of the community, or on providing them with skills so that they can move to cities and towns to get urban jobs.

### *Utrecht*

The town of Utrecht is located in the Northern KwaZulu-Natal (KZN) Coalfield. Utrecht's economy benefited from coal sales to the ISCOR plant in Newcastle and from a thriving agricultural sector. During the 1980s however, the contribution of both the mining and agricultural sectors declined.

The manufacturing base in Utrecht was small, partially because the mine had traditionally imported most of its supplies. In 2001 the unemployment rate was over 50 per cent.

The realisation by the Transitional Local Council (TLC) that the future of the town was in danger led to a remarkable concerted effort to identify economic activities which did not rely on the mine. The TLC took the lead, and was strongly supported by the mining company. The key role-players – tribal leaders, business and community interests, local government and the mining company – achieved a rare degree of co-operation and shared vision.<sup>108</sup>

New initiatives were based on the availability of local skills and the needs and resources of the community. Unlike many other initiatives, which consider a manufacturing base as critical, the plans for Utrecht focused on the tourist potential of the town.

The following strengths and advantages of the Utrecht regeneration are particularly relevant:

- an early and positive response by the local authority to a possible crisis;
- proactive local leadership, on an institutional/organizational and individual level;
- strong partnerships, and an unusual degree of consensus and collaboration;
- the availability and use of high-level local business skills;
- the presence of natural resources other than minerals;
- realistic planning proposals which considered both the competitive advantages of the town and its weaknesses;
- the parallel focus on development and poverty alleviation;
- the involvement of the mining company in development planning;
- effective rehabilitation by the mining company;
- marketing and branding the town so as to establish its uniqueness – ‘The Village in a Game Park’; and

- the ability to draw outside funding.

While all the above should have led to a successful redirection of Utrecht's economic life, recent communication with the Utrecht Local Authority indicates that the initial promise of the regenerative activities has not been fulfilled. There is still only one manufacturing concern in the town, no information was available on the number of tourists who had visited the area, the Youth Camp no longer seems operational, the Arts and Crafts Association is described as 'marginal', and information on the number of people it employs was not available. No further external funding has been attracted, no operational partnerships exist, and the Agri-Village, the poverty alleviation programme, is also described as 'marginal', ascribed to a lack of municipal capacity.<sup>109</sup> The difficulties faced in reshaping the economy of a mining town are manifold, and may only emerge some time after the initial planning of regeneration projects.

### International best practice: adaptive growth strategies of extractive industries

The optimal context for economic transformation, development, and diversification is one which has a high degree of institutional thickness, social capital, diversified economies, strong social networks, and access to external support.<sup>110</sup> Particularly in the more remote communities, where mining frequently takes place, such contexts simply do not exist, and these communities are rather characterised by a lack of most, if not all, of the requirements for successful economic diversification.<sup>111</sup>

#### *The role of local government*

Where local government has responded quickly and proactively to indications of closure and/or downscaling, and has taken a strong leadership role, it is easier to promote and initiate alternative development plans. Binns and Nel highlight the role that active local government can play in accessing external funding for projects.<sup>112</sup> In the successful identification and implementation of alternative economic activities in the Sullivan closure, the local authority played a leading role.<sup>113</sup>

Some would agree that local government should take the lead in establishing partnerships, but for this to be effective it needs to be based upon an understanding of what it is that drives private investment – often a missing link in local government throughout the country at present. An important outcome of such partnerships should be that, within the concept of developmental local government, the local authority and the mining company ensure that mining projects are integrated into the local, regional and integrated development plans and strategies. This will reduce dependency on the mine, and also enable government, rather than the mine, to provide infrastructure and social services.<sup>114</sup>

Particularly in remote areas, it is likely that much of the infrastructure, such as roads, water, and sewage disposal, is provided by the mining operation. Passing infrastructure on to government very often leads to a collapse of essential services. The World Bank stresses the importance of ensuring that local authorities and community have the capacity to ensure the continuation of such services.<sup>115</sup>

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Local government must provide infrastructure that is conducive to development, allocate funds from central government to development initiatives, and ensure the participation of local communities in identifying development projects and available local resources. In short, local government needs to become entrepreneurial.<sup>116</sup> This could include tax and service-rebate incentives, marketing the town/city, and ensuring that the local workforce is appropriately skilled to take advantage of job opportunities so that these do not go to non-local workers. Once again, however, this assumes that those in the local public sector are experienced and skilled in enterprise approaches to development, which in South Africa at present is almost universally not the case.

Indeed, many of these activities are not traditionally regarded as falling within the scope of activities of local government; but where local authorities have taken up the challenge, usually in close collaboration with the local private sector, the results have been positive, as in Utrecht, Dundee, Stutterheim, and Kimberley in British Columbia.

A number of circumstances constrain local authorities in carrying out their developmental and entrepreneurial roles. In South Africa, in terms of the concept of developmental local government, the responsibility for development is ostensibly being decentralised to local government. However, the procedures, powers, and roles are not always clear or consistent, and local officials are uncertain about the extent and nature of their new obligations and authority. Most importantly, few – if any – have had experience in private enterprise.

Inappropriate bye-laws and time-consuming legislative requirements inhibit local authority activities and proactive responses to development needs. Many local authorities find access to funding problematic, and, in particular, applications for funding to central government in South Africa are frustratingly time-consuming. Central government is so slow in processing these applications that the funds are practically unusable within the stipulated time frame.<sup>117</sup> Donor funding is a more viable route, but local authorities are not familiar with the mechanisms for accessing donors. Above all, understanding how to stimulate local private investment is weak.

One activity which is regarded as viable in mining communities is the promotion of the small-scale/artisan mining sector.<sup>118</sup> Although this may in some cases be a short- to medium-term opportunity, it provides breathing space for development in other directions and, importantly, it provides scope for the use of otherwise redundant skills.

In South Africa, the regulation of the minerals sector is highly centralised, and the Department of Minerals and Energy (DME) has sole regulatory control. The department's 1998 white paper states that well-managed small-scale mining has the potential to contribute significantly to overall production, but the failure to involve local government in the regulation of artisan and small-scale mining (ASM) has led to uncertainty in local government as to the exact nature of the sector and what is required to use it as a tool in development strategies, particularly for rural areas.<sup>119</sup>

### *Partnerships*

According to Zaaier & Sara, LED 'is essentially a process in which local governments and/or community-based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area'.<sup>120</sup> Interestingly, this is one of many definitions of LED that foregrounds local government as initiator, which we will argue later may well be the source of current inaction in South Africa.

Partnerships are central in the implementation of successful LED projects. Some argue that local government should take the lead in the establishment and direction of such partnerships and this is the position formally endorsed by central government in South Africa today. Internationally, partnerships between local government and mining companies have a shared responsibility for sustainable post-mining communities (See box, *Cluster partnerships to maximise development benefits*, this page). Such partnerships must however be established and operative during the life-of-mine, so that the transition to alternative economic activities is a continuous process rather than one of collapse and regeneration.

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### **Cluster partnerships to maximise development benefits: Chile and South Africa**

The importance attached to partnerships in community economic development is apparent in Chile, where the mining sector plays a key role in the growth of the country. Some of the larger mines are approaching closure, and with the possible impacts in mind, multi-stakeholder *mesas de dialogo* have been formed to establish clusters of economic activities which will be sustainable without the mines. These forums draw on all possible resources that can contribute to the identification and implementation of alternative economic activities – local and regional governments, communities, local industry and commerce, academia and training institutions.<sup>121</sup> At its Tintaya operation, Teck Cominco found that the considerable strengths of the different partners enhanced capacity for dialogue and consensus building in community organizations.<sup>122</sup>

In South Africa, Alusaf Limited teamed with Richards Bay Coal Terminal, Richards Bay Minerals and other companies involved with the Zululand Chamber of Business Foundation to turn the construction camp for an aluminium smelter into the Zululand Chamber of Business Foundation Community Park. The park drew contributions and support from large and small businesses in the area and currently houses a multitude of community resources and facilities. This network aims to mobilize businesses and community leaders to respond to the area's development needs and to be a hub for regional development, education and community empowerment.<sup>123</sup> There is a potential critical mass in the private sector in Welkom and the surrounding towns to undertake this kind of partnership clustering across sectors. The method can draw on more resources than individual efforts and it also leads to greater alignment of development objectives.

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Arguably, the case of Utrecht locally demonstrates the importance of particular types of partnerships. The new direction for the Utrecht economy started with an enviable degree of partnership, based largely on a high level of initial trust between the local public and private sectors. Currently, however, the development appears to have almost ground to a halt, and one of the factors mentioned in this regard is that there are no operational partnerships.<sup>124</sup>

### *Funding*

Development projects initiated by mining companies should have the potential to get support from other stakeholders and to draw funding other than that from the company. This will ensure that projects which may need continued funding can be handed over to the community with a good chance of sustainability.<sup>125</sup>

The chances of securing such funding are poor. In South Africa, where social restructuring to right the inequities of the apartheid era is a state priority, competition for funding is fierce and there are constraints on accessing funding caused by bureaucratic procedures and delays.

In their study *Decline and response in South Africa's Free State goldfields*, Nel and Binns refer to the Phakisa Freeway. Even before the flaws in this mishandled LED project became apparent, it was clear how heavily it depended on external support and funding.<sup>126</sup> This reinforces claims that local initiatives can only hope to achieve minor victories, and that considerable external support is required for local economic regeneration.

A further complicating factor for areas where the economy is declining is the perception that they are areas with serious economic problems, and this perception will hinder external investment – as is the case in Welkom.

### *Support for local-based development*

Skill training in disadvantaged communities is part of the objectives of any development programme. It is important that, within the affected communities, employment is provided; failing this, skilled and re-skilled people will leave to find employment elsewhere. Local development requires that local skills are retained and utilized.

References to the constraints on the development of SMMEs are common in development literature, and these constraints are almost identical in all developing regions – lack of access to credit and training, a constraining regulatory framework, monopolistic behaviour of existing firms, local government inertia and passivity, lack of access to land and poor public infrastructure.<sup>127</sup> Many such local enterprises are based in areas where roads are poor and water and energy reticulation is basic, at best. Their suppliers and markets are local and limited, and they cannot hope to widen these or broaden their skills base through contact with other operators in similar sectors.

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Locally based enterprises face a number of challenges in communities that are affected by a downturn in the main source of economic activity. These can include the loss of spending power within their market and the need to be globally competitive. The formation of clusters is promoted as one of the ways in which a number of the constraints on local development can be overcome.

An optimally functioning cluster includes the players in the value chain of a specific industry, from supplier to release of a product into the market. It will also include specialist services such as design and training. Geographical proximity optimises collaboration. Importantly, collaboration and exposure will encourage innovation and the acquisition of progressively more advanced skills, thus counter-acting the constraining parochial context under which most small enterprises operate.

In an age when globalisation presents both opportunities and threats to local enterprises, the importance of clusters is best summed up by Caniëls and Romijn: 'There is mounting evidence that embeddedness in a strong regional innovation support structure bolsters firms' competitive position in the context of globalising markets, where competitive pressure for continuous innovation is intense.'<sup>128</sup>

### *Planning for closure*

The traditional approach to mine planning is to leave the planning for closure to the end of the life of mine. A major problem with this is that mines close when they are losing money – a poor time to undertake closure planning and almost a guarantee that it will not be done well.<sup>129</sup>

The correct time to begin planning for the closure of a mining operation is at the commencement of the feasibility study for development of the mine<sup>130</sup>. Mine infrastructure should be set up with closure in mind so that, when the economically recoverable ore is exhausted, alternative uses for the infrastructure are already in place or the complete removal of infrastructure is possible. The advantages of this approach are that the necessary skills and programmes to ensure post-closure sustainability can be more accurately predicted.

Mine closure planning should be aligned with local economic development (LED) plans. Linkages with the planning framework of local government and integrated development plans (IDPs) can ensure that post-mining land uses are compatible with surrounding development initiatives. This broader view provides a context against which the investments of the mine in human capital and infrastructure can meet local/regional development needs and create a mechanism for post-closure economic growth.

Mine-sponsored development projects are important vehicles for stimulating local economic growth and development, but an exit or succession strategy is essential. The succession strategy must be a viable one with arrangements in place to continue the life of projects after initial project funding stops.

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In planning the closure of mines, it is important to remember that, while the role of mineral production in the overall economy is shrinking, natural amenities such as clear water and air, open space, wildlife, and outdoor recreation opportunities now play an increasingly important role in lifestyle, consumption and perceptions of economic well being. This provides remote mining towns with an opportunity to use their infrastructure to facilitate tourism. Mine rehabilitation plans should take cognisance of this possible post mining land use.

In summary:

- Many towns similar to Welkom throughout the world have experienced drastic downscaling of mining as a leading economic sector
- Anticipating and planning for such downscaling should be a focus of local government and local business leadership in all such towns
- While there are strategies that national mining companies and national government can employ to assist, diversification of the local economy is the only realistic strategy to ensure the sustainability of jobs in the long run.

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**Part 4**  
**KEY POLICY ISSUES**  
**AND PROPOSALS**

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In concluding this analysis of the Free State and its two leading urban centres, it is worthwhile to return to where we began in this report. South Africa is currently celebrating the enhanced economic growth rates achieved in the last two quarters of 2004, but a report such as this poses the question: Is this happening everywhere, and if not, what – if anything – can be done in South Africa’s secondary cities and platteland to diffuse and accelerate growth?

The recent growth achievements in any case come against a background of poor performance in the African context and relative to other competitor countries. For example, the table below shows that although South Africa had the largest economy in sub-Saharan Africa in 2003, it was only third in GNP per capita after Botswana and Mauritius, while its growth rate was the second lowest of all (after Zimbabwe).

Table 7: GNP and growth in sub-Saharan Africa, 2003<sup>131</sup>

Country	GNP (\$ Bill)	GNP/Capita	Growth % p.a.
Angola	12.6	865	4.5%
Botswana	8.7	5 117	4.5%
Congo	6	113	5.6%
Ghana	6.8	330	5.2%
Kenya	12.1	371	1.8%
Lesotho	0.9	450	3.9%
Madagascar	9.6	286	6.0%
Malawi	1.9	171	4.4%
Mauritius	4.7	3 884	3.3%
Mozambique	4.2	232	7.0%
Namibia	4.6	2 421	3.1%
Nigeria	46.5	341	10.6%
South Africa	160.2	3 745	1.9%
Swaziland	1.17	1 854	2.2%
Tanzania	9.02	256	5.2%
Uganda	6.05	236	4.9%
Zambia	4	387	4.2%
Zimbabwe	6.8	540	-13.2%

Moreover, during the third quarter of 2004 – while South Africa’s improved economic performance was being widely celebrated in national leadership circles – *The Economist*’s list of 25 leading emerging market economies revealed that South Africa ranked only 20<sup>th</sup> in terms of GDP growth. This was well behind countries such as Egypt, Turkey, Brazil, Chile and Indonesia, let alone China and India, which led the pack with growth rates more than twice that of South Africa. Considering the scale of the last two countries and the broad comparability in size of the 20 that did as well if not better than South Africa, it should be clear that this country is still being outperformed by most of its competitors, and remains a relatively small player on the global economic growth stage. How much more so, if one is part of the small (in population terms) and remote

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section of South Africa known as the Free State? Resting on one's laurels in such a global scenario is a certain recipe for increased marginalisation.

But can the Free State or the towns within it rise to crucial economic challenges on their own? What does it feel like rising to such challenges on one's own, when jet aircraft no longer visit even your largest and most prosperous urban centre, and when you book your propeller airline ticket through a city in another province hundreds of kilometres away? Why has discontent about delivery been expressed more sharply and ominously in Free State townships than anywhere else in the country?

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### KEY POLICY ISSUES

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Our visits to Bloemfontein and Welkom reinforced our conviction that local municipal and business leaders need extra confidence, vision, and co-operation to come up with urban economic growth strategies under tough global conditions. In short, South Africa needs much more economic growth if we are to meet the needs of the more than 30 per cent of the population that is unemployed and growth has to be diffused more widely than just in the major metropolitan areas, as well as a few tourism-driven coastal and other urban centres. In order to achieve that we need to address key issues and questions.

#### Why does development occur where it does?

It is important to understand the factors that drive development in the 21<sup>st</sup> century. Some places grow because they have natural resources or lifestyles that attract investors and entrepreneurs. These are the lucky places, like Welkom 40 years ago, Johannesburg a century ago, or Cape Town or the Garden Route today. Some places grow because they perform an important economic function at a particular time in technological development – Chicago at the heart of the American Midwest, Bloemfontein in the mid-20<sup>th</sup> century as an important service centre for agriculture, and a central railway junction for the country. For both these kinds of places, growth has to be well managed and far-sighted, and leaders and institutions need to plan for when resources dry up or technology changes. South Africa's apartheid history acted as an enormous obstacle to the development of such leadership in most places, and in the vast majority of urban areas this leadership has failed to emerge over the past ten years of democratic rule.

However, some places develop despite their lack of natural attraction or specific economic function. These places develop because of visionary leadership and effective co-operative programmes of development. An interesting and inspiring example for South Africa is Atlanta, Georgia, in the United States. Here is a city that has no natural economic attraction or physical features, and was a fairly minor railway junction in the early 20<sup>th</sup> century. What Atlanta did have was vision, leadership, confidence and brash boosterism. It declared itself to be an international convention centre city seven years

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before it had a license for an international airport, and it actively recruited the large headquarters of multinational companies through providing a business-friendly environment and the energetic and compelling reality of black and white leadership committed to Atlanta's growth and receptivity to international and local business. Today Atlanta is a world-class city – not without problems – but nonetheless a world-class centre of growth and opportunity for millions of people.

So we can say that Atlanta developed a 'growth coalition' sufficiently representative of different interests in the city to work, and through a succession of different political leaders sustained this vision long enough to achieve tremendous success. There were no 'hard' factors in Atlanta's endowment of position and resources that would necessarily have led anyone to predict its growth and success as compared to a whole host of other cities. However, one 'soft' factor clearly played a crucial part: namely recognition on the part of the city's leaders that cities and towns *compete*. *They compete for business, for developmental resources and support, for residents – especially new young people – and for investors*. To pretend otherwise is to invite passivity and stagnation. To accept this competitive principle is the path of more innovation, efficiency, and greater overall growth.

### Leadership in a city makes all the difference

At key stages in a city's life, leadership can make all the difference. This can come from different parts of the city. Sometimes it is a powerful and determined political leader, sometimes it is a civic leader or a business leader, but ideally it is a coalition of people who together provide broad-based leadership to make a difference. What these people generally share is a commitment to the city and its people, and a determination to implement a plan for its future that will drive expansive economic growth. The question then becomes: why is South Africa struggling to produce effective urban leadership in most of our cities and towns? And what can be done to cultivate local leadership? Roles for local economic leadership differ, but those in the public and private sectors should complement each other. At present there is confusion where there should be synergy, and above all we lack a pragmatic, common development language and understanding. What can be done to establish such a language? An important starting point would be for the national ANC government and business to communicate the lessons they have learned about working for economic growth at the national and international level to their counterparts at local and provincial level. It is clear from CDE's research that the national ANC leadership's insights into and experience of understanding the market and the importance of working with business have not filtered down to the local level.

### Can Bloemfontein or Welkom do it alone?

Our research into the two leading urban areas in the Free State in 2004 confirms work done by CDE in the second half of the 1990s on South Africa's small towns, and work done early in the 1990s on a selection of secondary cities across the country.<sup>132</sup> Although there has undoubtedly been progress over the period since – formal desegrega

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tion and formal political rights are two key examples –the essential development challenges are still the same, and in certain instances they have become even more acute.

Words, plans or intentions are not the same as results. In both Bloemfontein and Welkom, the many different aspects of implementation are not being handled effectively, or are not being handled at all. There is no real common vision of growth or an agreed programme of action and prioritisation between the key role players (public and private) within the urban centres, and there is little if any effective interaction from the provincial or national level of government. This ineffectiveness is matched by the shortcomings of business organisations. In both Bloemfontein and Welkom, local, national, and regional versions of business organisations have all been found wanting.

**Our reluctant but inescapable assessment is that under current conditions there is little prospect of achieving the kind of growth that is needed in either of the cities we have studied (or in many other places around the country).**

However, the issues facing the two cities are different. With respect to Welkom, a number of salient features emerge. Here is a town with a declining population and dwindling resources. Its leaders have some creative ideas about future development, but provincial government is not interested in their proposals, or in other instances (such as Phakisa) mishandles implementation. Some also argue that while, for years, Welkom's mines and the companies that own them have paid enormous national taxes, the benefits for the local population have not been commensurate to this contribution, and therefore, now that the decline is setting in, national resources should be contributed to this particular place. There is a third strand of discussion. This is the view that cities/towns prosper and decline, and that sometimes there is very little that can be done to prevent that cycle. National and regional policy-makers should then focus on enabling migrants from that city to prosper elsewhere in the country rather than waste resources and effort on trying to rebuild a place whose heyday has long gone and will not come again, whatever anyone does. It is a complex argument, but certainly one worthy of discussion.

Bloemfontein is a different kind of city. It is experiencing an influx of poorer people and an exodus of more skilled people, in a context of rapid political change and dramatic changes in economic dynamics. To face challenges on all these fronts, determined and visionary leadership is required in order to stop the city's decline and find a new path to prosperity for all. A good start has been made in the city's planning, but there is as yet no agreed programme of action and priorities that provide a feeling of confidence in local players themselves or outsiders that a new role and vision for this city can be forged by its citizens, black and white.

**Do we have the correct systems of governance – rights, resources, and representation?**

Decentralisation as a proclaimed political strategy requires a devolution of resources and rights, together with responsibilities. It is useless for example to tell Welkom to 'pull itself up by its own bootstraps' when one reserves provincial and national politi

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cal rights to ignore or overrule whatever a local growth coalition proposes. It follows that if we are serious about local urban development and the prospects for economic growth which is driven by local actors and interests, we have to revisit the powers and responsibilities of local governments. One of the weaknesses of South Africa's new democratic system of representation is the fact that we only have proportional representation in parliament and no constituency representatives. The voice and needs of the local communities of Bloemfontein and Welkom are not heard in national or provincial debates about regional strategy, priorities, local development needs, or the impact of national legislation on those particular places. This is a serious weakness, of our political system, and has a negative impact on the prospects for development and growth. What can be done to rectify these systemic problems?

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### POLICY PROPOSALS

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Despite the constraints and difficulties outlined above, there are important things that can be done (and in certain instances not done) that would substantially improve development prospects in the two cities in question, the Free State as a whole, and other urban areas across the country. These are discussed in order, from the local to the national in scope.

#### **In Bloemfontein/Mangaung**

The key policy requirement is to align the efforts of the local public sector and private sectors into agreed development priorities and strategies that build around comparative advantage and the existing momentum of growth. The University of the Free State could probably play a leading/brokering role in this regard, given its esteem in the wider community, and given the apparent polite standoff between the local public and private sectors. Foregrounding current economic trends and niche areas, particularly in the ICT and legal services domain, with the eye on national and international markets, seems to be a good starting point.

#### **In Welkom/Matjhabeng**

The key policy requirement here is to make progress on implementing the widely endorsed IDZ/airport strategy and related initiatives. It is also important to build on some of the area's other emerging comparative advantages, such as low property prices, and support entrepreneurship in the transport and ICT servicing domains. This may require further assistance from the mining houses to project these possibilities on to the national stage, thereby bypassing any provincial political constraints.

### In provincial government

It is clear that the Free State case illustrates the need for the provincial tier of government to act more as a facilitator of local economic growth initiatives, some of which are supported with national funds. Most importantly, provinces should not allow themselves to become 'political clearing houses' for competing local demands; rather, they should help localities to prepare local economic development plans and projects which are mostly reliant upon their own resources, but are supplemented by national resources where it is clear that the economic returns to CAPEX will be highest.

### Business – its role and responsibility

A disconcerting aspect of the study is the extent to which most local business organisations appear not to be taken as seriously as they should be in the local economic area. It is time for local chambers to start putting political priorities behind them, and bring economic and developmental priorities to the fore. This is how they will be most likely to secure sustainable growth paths. This is what national business organisations ought to help local business organisations to do, rather than 'playing at politics', often placing (sometimes divisive) symbolism ahead of business substance. Therefore, the specific policy proposal to business organisations at both the local and national levels is that they should move economic development issues much higher up their agenda, link this to realistic local business interests and trends, and work in practical development partnerships based upon enlightened self-interest

### What can national government do?

We suggest that a number of different activities are rightfully the domain and responsibility of the national government:

#### *Communicating downwards*

It is not enough for national leaders to promote economic growth through generalised rhetoric. What is required is a concerted political education of and information campaign among local political leaders about the realities of economic growth in the 21<sup>st</sup> century. When the president and his key economic ministers say that jobs will be created predominantly by the private sector, they need also to point out what this means for urban political leadership in the heartland. Unless there is a true meeting of minds between urban government and private entrepreneurs, and a deep understanding of what investors and businesspeople need in order to risk money, South Africa's urban places will never create the conditions for a truly expansionary economy outside the metropolitan areas. In this context, it is important to prioritise the likely success of enterprise ahead of all other considerations (including racial ones).

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### *The effect of laws on the ground*

The implications of national policies, laws, and regulations for local communities, towns, and cities need much greater consideration. For example, current South African laws and regulations have resulted in a large number of factories moving from Bloemfontein to Lesotho, whose government has created a much more pro-business environment. The fact that most new enterprises either in Welkom or Bloemfontein are of limited size (in terms of employment) is probably the consequence of those same laws and regulations.

### *A national urban strategy*

A thorough study of places such as Welkom and Bloemfontein reveals the absence of a national urban strategy in South Africa. Other than the nodal approach that characterises the current Urban Development Strategy (UDS), and the recent incentives for inner city development, what is national government's strategy for urban development throughout the country? For example, do we know which places are losing people to the larger cities or elsewhere, and which cities/towns are growing through large-scale in-migration? What policies do we have in place to deal with these predictable trends that characterise an urbanising developing country? What guidance are we giving to cities and towns on how to balance the immediate competing demands for services and economic infrastructure? Our reports from the interviews with government and business in these two Free State towns indicate clearly the realities and difficulties of this dilemma. Black South African neighbourhoods have been starved of basic services for generations, but if too many resources are absorbed in meeting this challenge too quickly, the services will not be affordable to the population they are designed to serve, and the prospects for economic growth essential for such sustainability will not be improved. Growth needs money to be spent on maintaining and improving roads, electricity capacity, and other infrastructure which is vital for economic development, including ensuring that our cities are globally competitive in telecommunications infrastructure. What lead is the government providing in this respect? A major leadership task is to strike the right balance and sequencing between the requirements for growth and service provision needs. The Office of the President should take the lead in responding to such questions by articulating an economically based national urban strategy that builds on real resources, not on imaginary highly skilled local governments.

### *The language of partnership*

It is not enough for national leadership alone to espouse the language of partnership. Senior government leaders should address those in their own ranks – elected representatives and officials in national, provincial, and local government – who use a language of development that is overly state-centred, crowds out the private sector, and/or antagonises or ridicules those engaged in the difficult business of local private investment. There is frequently a thinly disguised hostility, especially among senior officials (white and black), to private sector participation in local growth coalitions, and people in business are reading these signals and desisting from further involvement.



*A Cities Development Fund*

This is one component of a national urban strategy that would immediately assist Bloemfontein and Welkom. At present the national funds available to local governments are consumption- and not production-centred. The Cities Development Fund, by contrast, should be a pool of money for which cities can compete based on economic criteria, and especially concentrating on the economic dimension of leverage (see box, *Cities Development Fund*, this page).

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### Cities Development Fund

The management and efficient use of financial resources for development could be improved by the creation of a Cities Development Fund. Currently funds available to local government are consumption- and not production-centred. The Cities Development Fund, by contrast, would aggregate available funds for which cities could compete on the basis of specific economic criteria.

Councils would be rewarded according to their ability to maximise returns on capital expenditure (CAPEX). The Cities Development Fund would focus more on the expenditures to yield economic returns, but would not dismiss the link between social and economic returns.

The efficiency of public CAPEX towards economic ends could be measured as follows:

**Short-term economic growth impacts:** increased incomes of construction workers involved in capital projects, and the multiplier effect on local business derived from increased spending of these employees.

**Long-term economic growth impacts:** the establishment or expansion of enterprises which would create new permanent jobs, increased profits, rates and taxes; as well as the multiplier effect of spending on goods and services from other enterprises.

**Displacement effect:** the local development impact of a project must be calculated. If part of the profits or jobs created result in profit or job loss in other sectors within the local economy (displacement effect), this must be deducted from the total efficiency of the project

**Leverage effects:** public sector CAPEX projects might stimulate subsidiary CAPEX projects by other entities. One could say that public sector CAPEX 'leveraged' other CAPEX projects into operation; and development efficiency will include the additional growth impact (minus the displacement effect).

**Externality effects:** this is the 'spillover effect' of a project beyond its development objectives in terms of unpriced benefits (positive externalities) or uncompensated costs (negative externalities).

The awarding of funds should be weighted towards the leveraging effect of a project, as this is where the most sustainable gains are to be achieved. Thus a national fund which rated councils' economic CAPEX initiatives on these criteria would disburse funds more efficiently, and aim them more accurately at specific developmental ends. In addition, senior private sector representatives could be included in an adjudicatory panel to aid impartiality, speed, and private sector confidence in the decision-making process.

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### Rethink departmental roles

Finally, in respect of national government, the roles of national departments need to be redefined. Like many other developing countries, South Africa has tended to concentrate attention on local urban areas in a (national) department of local government. This has been found in many other countries to be an error. It is by no means clear that responsibility for local economic development should be vested in the Department of Provincial and Local Government. Urban economic growth is central to the future of Bloemfontein and Welkom, and this is an issue of concern to a number of national government departments. A method or mechanism needs to be found to involve more directly the central economic and infrastructure departments in what have hitherto been termed issues of local government.

One example of the implications of this approach would be a joint initiative by the Department of Trade and Industry, the Department of Transport, and the Matjhabeng Council to implement its airport/IDZ project. This could also be a possible model for the operation of the Cities Development Fund.

These recommendations should not be restricted in application to the Free State only. They should be more generally applied to the intermediate towns, cities, and regions outside of the metropolises. A collapsing heartland has serious implications for the poverty-stricken rural areas which rely on them for infrastructure and opportunity, as well as for metropolitan engines of the economy, not least through accelerating migration to these already often under-serviced areas.

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## SUMMARY OF POLICY PROPOSALS

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Specific recommendations in respect of the heartland include:

- An intensive political and information campaign by senior government economic ministers directed at local political leaders/officials about the realities of economic growth in the 21<sup>st</sup> century and the importance of creating an enabling environment for private sector investment
- The development of an economically based national urban strategy (led by the President's office) that provides guidelines on how to deal with rapid urbanization; more effective management of cities and towns so as to maximize their economic potential; and how to manage the timing, sequencing and balance between the infrastructural requirements for economic growth and long neglected basic service provision.
- A competitive Cities Development Fund, as part of an overall urban development strategy, would be a way for government to stimulate energy, ambition, and initiative in our cities and get a return on national investment.

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- National business organisations should make growth their number one priority, and recognise that growth means more than the metropolises and is crucial in the smaller cities and larger towns.
- Responsibility for diffused growth has been unduly concentrated where capacity is weakest, in local government or in inappropriate national departments; stronger roles for the key national economic departments and more facilitative provincial government are needed.
- A training programme carried forward by experienced business organisations is needed for cities and towns: this should foster understanding of economic growth, competition, and building growth coalitions, and should be aimed not just at officials and politicians but at business people too.
- A research programme should be launched on the reasons for the weakening of local growth coalitions in South Africa, and strategies should be suggested for reversing this negative trend.

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## CONCLUDING REMARKS

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All the research findings suggest that a new local leadership approach, emphasising boldness and a shared language of growth, is what is now required. The government's policy of decentralisation is placing a heavy responsibility for development on local government institutions and businesses. However, the deficient capacities of many municipalities are well documented, and there is a greater need than ever for active involvement by the key national role players in both the public and private sectors in supporting and enhancing local initiative. The government has recognised this by sending task teams to support 'failing' municipalities, but the challenge is broader than this and cannot be restricted to *ad hoc* national interventions in examples of especially beleaguered towns, in the Free State or elsewhere.

Issues of morale and expectations are difficult to quantify, but they powerfully affect myriad individual choices and actions. The interviews conducted for CDE's case studies seemed to point to a worrying general issue: an apparent fatalism gripping the country outside the few metropolitan growth nodes. Expectations are low, and actions are correspondingly modest. The ambitious – black and white – vote with their feet.

In his famous work entitled *Exit, voice, and loyalty: responses to decline in firms, organisations and states*,<sup>133</sup> the economist Albert Hirschmann points out that people's responses to perceived decline in an environment or organisation are largely a product of the extent to which they are personally affected by the decline, and their assessments of the costs and benefits of alternative courses of action, which he categorises as 'exit', 'loyalty', and 'voice'. Cost and benefit calculations in turn lead individuals to assessments of the likely efficacy of such actions, given their personal objectives. Very often it is the most able who find the least cost and most benefit in the exit option, whatever the specifics of the declining organisation or locality.

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'Exit' means leaving a place/organisation for potentially greener pastures, on the assumption that efforts to improve local/organisational circumstances will be unlikely to yield hoped-for improvements. 'Loyalty' means accepting decline, but politely not saying too much about it in public for fear of offending local/organisational leadership, or even overtly supporting such leadership, saying: 'This is the best anyone could be expected to do under difficult circumstances.' 'Voice' means speaking up, and often becoming unpopular with local/organisational leadership, by pointing out that there may be other ways of solving local/organisational problems.

Those who exercise the exit option are those who are generally the most able, in any context of general decline in a small city or large town. Unfortunately, many of those who had the most to offer Bloemfontein, Welkom, or the Free State have probably already left. Their views cannot be recorded in this study of the Free State's current leadership. On the other hand, not all the able leave, especially those with the strongest 'fixed stakes' in a declining organisation or locality. In the Free State, however, among those who remain – and perhaps especially among the most able – a dominant 'loyalty' that is bred largely of a well-judged sense of the likely lack of efficacy of any 'voice' option can be sensed.

Where this leaves us is that if national actors – both public and private – wish to see more 'voice' resulting in more local action from the residues of key leadership in the Free State, they will have to construct ways of raising the realistic prospects of likely returns to effort invested in 'voice' – or activist – options. At the moment, 'the clever money' on the Free State table still seems to be placed on the alternatives – go somewhere else, or 'lie low', be polite, and participate astutely in the (non)-development game. This may serve self-interest, but it won't bring about synergistic growth.

We thus reach a seemingly paradoxical conclusion. If *local* communities are to enjoy self-sustaining, synergistic economic development, with widely shared positive outcomes, a change in the rules of the *national* game will be required. Pre-eminent among these will be the following:

- National public and private sector leadership needs to collectively signal that the country can and should be able to develop mutual understanding and trust across racial and public/private sector divides. These signals need to be recognised by local people as the internalised beliefs of national leadership and not merely the rhetoric that oils national politics, and which can be discounted at the grass roots. 'Voice' – for example, as a local business strategy – should be accorded with the same respect by outsiders, and the same likely return to effort invested, as exit or loyalty would.
- We need real decentralisation, not merely lip service. Resources and rights should be devolved as well as responsibilities. As we have pointed out, declining areas like Welkom won't find the energy and determination to move forward when provincial and national politicians can ignore or overrule whatever their growth coalitions propose.

It is outside the major metropolitan areas, in the places that are 'halfway to everywhere', as Free Staters wryly describe themselves, that development policies are most

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rigorously tested, and their deficiencies or even absence exposed. The national developmental agenda for several years now has been one that tends to preach decentralisation, but practices centralisation. It is also a script that preaches the need for ‘inclusive participation’, for example in IDPs, but in practice is often distrustful. Active, critical business or community involvement in local development issues tends to be discouraged at the expense of those in a (public sector branded) ‘loyalty’ camp. This, incidentally, was the conclusion reached by a wide range of actors drawn mainly from the public and private sector as well as academia at a recent CDE Round Table on local government.<sup>134</sup>

In the major metropolitan areas, growth can be carried forward after a fashion by compacts – formal or informal – among business, labour, and government. These are made workable there by comparative advantage and the sheer weight of accumulated economic and human resources (especially in large national or multinational corporations). But away from the resources and relative energy of the metropolitan economy, polite expressions of loyalty, inaction, and quiet exit tend to be the order of the day. Participating creatively and effectively in the global economy from this vantage point will require an entirely different mindset – daring to be non-provincial and different, challenging conventional development orthodoxy, and, above all, celebrating competitive regional and global linkages. Equipping and facilitating the Free State – and our other ‘heartland’ areas – to develop these qualities is a major national challenge.

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- <sup>131</sup> Source: Standard Bank, cited in SAIRR, Southern Africa, Economic barometer of sub-Saharan Africa 2002, Fast Facts no 9, Johannesburg.
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