

Fostering Rural and Local Economic Development in the Free State of South Africa



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Abstract

This paper focuses on local economic development in the Free State of South Africa. As a mainly rural province, it allows us to address questions about what can be learned from the Rural Economic and Enterprise Development framework in respect of rural enterprise development, local economic development, and the elaboration of integrated development plans in South Africa. In addition the paper provides an analysis of two local municipal level integrated development plans in the Free State, Republic of South Africa. The analysis is considered on an ex-ante basis in terms of contemporary local economic development and Rural Economic Enterprise Development (REED) approaches.

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Contents

1	LOCAL ECONOMIC DEVELOPMENT, INTEGRATED DEVELOPMENT PLANS AND THE REED APPROACH	7
1.1	REED AND ITS APPLICATION	9
1.2	MAKING REED PRO-POOR AND CHALLENGING URBAN BIAS	9
1.3	HOW DOES REED SUPPORT GROWTH AND POVERTY REDUCTION IN LOCAL ECONOMIC DEVELOPMENT FRAMEWORKS?	11
2	LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA	13
2.1	THE EXPERIENCE OF LOCAL ECONOMIC DEVELOPMENT IN THE FREE STATE	15
2.2	ENTERPRISE DEVELOPMENT AND SUPPORT IN THE FREE STATE	16
2.3	AN OVERVIEW OF THE FREE STATE RURAL NON-FARM ECONOMY (RNFE)	16
2.4	RNFE: RURAL TO URBAN MIGRATION	20
3	LOCAL ECONOMIC DEVELOPMENT AND INTEGRATED DEVELOPMENT PLAN STATUS IN DIHLABENG AND XHARIEP	22
3.1	DIHLABENG LOCAL MUNICIPALITY: AN OVERVIEW	23
3.2	XHARIEP DISTRICT: AN OVERVIEW	25
3.3	A REVIEW OF DIHLABENG AND XHARIEP'S INTEGRATED DEVELOPMENT PLANS	27
3.4	OBJECTIVES AND STRATEGIES IN THE INTEGRATED DEVELOPMENT PLANS	27
4	CONCLUSIONS	35
4.1	LESSONS FROM THE APPLICATION OF REED TO IDPS AND SOUTH AFRICAN LOCAL ECONOMIC DEVELOPMENT FRAMEWORKS?	37
5	REFERENCES	40
	FIGURE 1 THE FREE STATE PROVINCE OF SOUTH AFRICA	5
	FIGURE 2 RURAL ECONOMIC AND ENTERPRISE DEVELOPMENT CORNERSTONES	8
	FIGURE 3 COMMUNITY-BASED CLUSTERING, DYNAMICS AND ECONOMIC LINKAGES	10
	TABLE 1 A COMPARISON OF EMPLOYMENT PER SECTOR IN THE FREE STATE AND THE RNFE IN THE FREE STATE, 2001	18
	TABLE 2 THE GDP FOR THE FREE STATE, LARGE URBAN AREAS, AND THE RNFE IN THE FREE STATE, 2003 (CURRENT PRICES BASED ON 1996 BASELINE)	19
	TABLE 3 THE CHANGING URBAN-RURAL POPULATION PROFILE OF THE FREE STATE, 1991 – 2001	20
	TABLE 4 GGP IN DIFFERENT DISTRICTS OF SOUTH AFRICA (RAND)	22
	TABLE 5 THABO MOFUTSANYANE DISTRICT: LOCAL MUNICIPALITIES	23
	TABLE 6 XHARIEP DISTRICT: LOCAL MUNICIPALITIES	25

Glossary

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

Introduction

This paper focuses on local economic development in the Free State of South Africa. As a mainly rural province, it allows us to address questions about what can be learned from the Rural Economic and Enterprise Development framework (Davis, 2004) in respect of rural enterprise development, local economic development, and the elaboration of integrated development plans in the Free State. In addition, we review two integrated development programmes (IDPs) of a district and a local municipality in the Free State of South Africa. The evaluation is considered on an ex-ante basis, as longitudinal data are absent/ unavailable (at the time of writing) and in terms of a set of desired properties and considerations in accordance with the principles of contemporary local economic development (LED) and Rural Economic and Enterprise Development (REED) approaches and their effectiveness in terms of poverty reduction. The consistency of the plans and the capacity to identify factors critical in terms of development and poverty reduction are analysed.

The Rural Economic and Enterprise Development approach used in the paper is a framework developed by a number of developing country government agencies, donor and NGOs¹ (see REED working paper 1.0, November 2003; and Davis, 2004). Local Economic Development is *“about local people working together to achieve sustainable economic growth and development for the benefit of all the people in the local area... it aims to promote and develop all sectors and dimensions of the economy. The retention and expansion of the existing economic activities in a local area receives as much attention as new enterprise growth and the diversification of the economy”* (p.11, The South Africa Local Economic Development Policy and Strategy, 2003).

An Integrated Development Programme (IDP) is a strategic development plan, designed to cover five years of development planning within the local government of any Municipality in South Africa. The integrated development plan should provide the vision of the municipality and state clearly the objectives and the strategies to achieve them in a prioritised manner. The process to achieve this plan should involve all stakeholders; and the municipality in planning the integrated development plan must consult and listen to all stakeholders, in particular those who have been historically excluded from any decision-making processes, such as the poor.

The Government of South Africa has undergone a tremendous effort to establish a legal and regulatory framework to support local economic development: it has established a decentralized system that, as the World Bank (2002) maintains based on the success of North American and European models that decentralization to local government is the best institutional arrangement to ensure growth and development as it is the closest to the communities served, and the functioning of local markets.

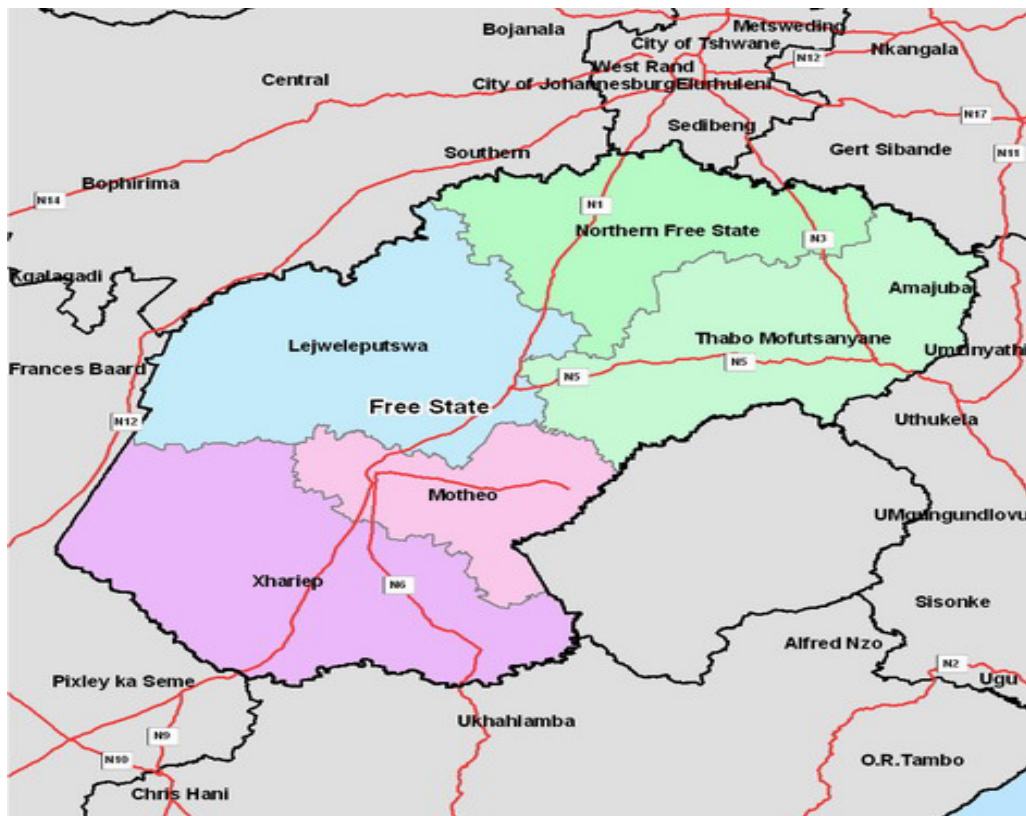
This paper is organised as follows: Section 1 outlines the REED framework in the context of local economic development. Sections 2 and 3 provide an overview of the present local economic development (local economic development) and integrated development plan situation at the national level, in terms of the vision the districts in terms of geography,

¹ Department for International Development(London, UK), Food and Agriculture Organization of the United Nations, FAO (Rome, Italy), Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, GTZ, (Eschborn, Germany), International Fund for Agricultural Development, IFAD, (Rome, Italy), Swiss Agency for Development and Cooperation (Bern, Switzerland), The World Bank (Washington DC, USA), Technical Centre for Agriculture and Rural Co-operation EU ACP (Waageningen, The Netherlands), Federal Ministry for Economic Cooperation and Development (BMZ).

economy and demography. We also assess the different sectoral contributions to the Gross Geographic Product² of each district. Section 3 provides an overview of integrated development plans and local economic development in Xhariep and Dihlabeng. Section 3 also discusses the integrated development plans and their structure with an assessment of the clarity of its objectives and strategies, the issues linked to its institutions and their effectiveness in terms of development and poverty reduction. Section 4 is related to the lessons derived from our analysis of the integrated development plans and local economic development in Dihlabeng and Xhariep.

The South African territory is divided in provinces. Each province is divided into metro and district municipalities which are further broken down into local municipalities. The Free State Province is entirely landlocked and borders in the south east with Lesotho (see Figure 1). Apart from the mining activity that characterises the Lejweleputswa District Municipality and the limited industrial activity in the Sasolburg area. It consists of 5 District Municipalities and 20 Local Municipalities. The geographical area of the province is 129,821.2 square kilometres. Xhariep District is part of the district municipality of Lejweleputswa District in the South West of the Free State. Dihlabeng is part of Thabo Mofutsanyana District, in the eastern part of the Free State.

Figure 1 The Free State Province of South Africa



Source: <http://www.demarcation.org.za/>

² Gross Geographic Product of a particular area amounts to the total income or payment received by the production factors – (land, labour, capital, and entrepreneurship) – for their participation in the production within that area. Gross Domestic Product is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

In South Africa, provincial poverty rates are highest for the Eastern Cape (71%) and the Free State (63%)³. There is a need for substantial improvements in basic public infrastructure investment and service delivery for the poor, especially in the rural areas of the Free State. This requires increased financing, but it also demands major improvements in the policy and institutional framework for delivery through integrated development plans, for more effective use of funds allocated. The potentially key role of effective local government in promoting and improving dialogue and partnership between the state, citizens and their communities, civil society and the private sector in local planning and service delivery is often overlooked in the context of integrated development plans. Although often a key integrated development plan objective, there remains a need for local capacity building and institutional change. Thus, this paper also deals with problems of implementation of local economic development strategies in municipalities in the Free State.

In many ways, this province provides a representative model of the kind of rural economic development problems and institutional responses to these through local economic development programmes faced in South Africa. Within the Free State we mainly focus on the Dhlabeng and Xhariep municipalities. Xhariep District is part of the district municipality of Lejweleputswa District in the South West of the Free State. Dhlabeng is part of Thabo Mofutsanyana District, eastern part of the Free State. We focus on these for comparative purposes: in terms of socio-economic conditions the Gross Geographic Product⁴ (GGP) of the Dhlabeng district is primarily produced by the agriculture sector, however most of the population is urban and black African. Urban unemployment, social housing, and a lack of employment and services for the urban poor in Dhlabeng are serious socio-economic problems. In contrast, the Xhariep District covers 34,131 square kilometres, which makes it the largest of all the provincial District Municipalities in the Free State. Xhariep District has a very low population density (4.75% of the total Free State population), with an average of 3.7 people per square kilometre. Most men in the economically active age group migrate to economically active areas leaving their families behind. This phenomenon contributes to a number of social problems experienced in the area. Many people live in unhealthy and cramped shacks in rural areas. Although agriculture provides most of the GGP, it is a largely rural district with high rates of employment (29%) and HIV/AIDS (approximately 28% of the population).

We return to some of these issues below, however we selected these municipalities more for the socio-economic, demographic, location and spatial differences they reflect within the Free State, than their similarities. This state of affairs concerning local economic development in the Free State, as a mainly rural province, raises questions about what can be learned from the REED framework in respect of local economic development and the elaboration of integrated development plans in the Free State?

Whilst the National Government provides a broad local economic development policy framework and plays a supportive role, the developmental effort is responsibility of the local

³ Source: www.polity.org.za/govdocs/reports/poverty.html

⁴ Gross Geographic Product (GGP) of a particular area amounts to the total income or payment received by the factors of production – (land, labour, capital, and entrepreneurship) – for their participation in the output/production within that area. Gross Domestic Product (GDP) is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

government not only in terms of implementation of the programmes but also in terms of formulation of plans. The function of the civil society and in particular of private enterprises, non-governmental organizations (NGOs), community based organisations (CBOs) and donor organizations is also considered to be crucial in the participation of the planning phase.

1 Local economic development, integrated development plans and the REED Approach

Local economic development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community (World Bank, 2004). It brings into focus the role of rural towns in fostering new opportunities for people, rather than simply as marketing hubs, which has tended to be the implicit assumption of many policy makers. This is important for promoting broad based economic growth, improving social welfare and promoting a more varied and vibrant local economy.

For much of sub-Saharan Africa disproportionate levels of poverty are to be found in rural areas and a high percentage of the population of most developing countries live in rural areas. The need for directing local economic development programmes to rural areas has become widely accepted in recent literature (de Janvry & Sadoulet, 2003; World Bank, 2003). The World Bank (2001, 2002a, 2002b) suggests the following ten issues as representative of the most important and frequent sets of local economic development interventions:

- ensuring that the local investment climate is functional for local enterprises;
- supporting small and medium sized enterprises;
- encouraging new enterprises;
- attracting inward investment;
- investing in physical (hard) infrastructure by improving the built environment (roads, sewerage, airports) for businesses;
- investing in soft infrastructure including human resource development, institutional support and regulatory issues;
- supporting the growth of business clusters;
- targeting particular geographical areas for regeneration or growth (i.e. area or spatial targeting);
- supporting survivalist, primarily informal sector enterprise; and
- targeting certain disadvantaged groups.

Several broad intervention areas are identified in terms of local economic development initiatives for poverty alleviation (World Bank (2001, 2004a). More especially, key areas of municipal policy intervention are identified as relating to (1) regulatory frameworks, which support the livelihoods of poor communities (2) access to municipal services, and (3) employment creation. The prime thrust of these policy interventions has been to augment the asset base of the poor or to enhance their capacity to manage their existing asset base. Improving the delivery of infrastructural services to poor communities is a critical element of local economic development in support of poverty alleviation. Indeed, a major step forward towards expanding the asset base of the poor is to enhance their limited access to a wider range of services e.g. water supply, sanitation, local roads and transport.

A refinement of local economic development is the REED approach which aims at enterprise development, economic diversification and innovation of the rural economy, increasing its market orientation, and fostering value addition to rural products. The intensification of agriculture and the transformation of agricultural and natural resource products should in turn lead to increased rural non-farm employment, increased incomes and demand for both agricultural and non-farm products. Thus, a major objective of REED is to stimulate and enhance sectoral linkages between agriculture, agri-business and non-farm activities including service provision (Davis, 2004).

The framework, which tries to address the shortcomings of the traditional rural-urban dichotomy, is comprised of ten cornerstones for successful intervention, covering the policy and institutional dimension, access to infrastructure, services and markets, entrepreneurial competence and stakeholder links. The cornerstones presented in Figure 2 are:



Figure 2 Rural Economic and Enterprise Development Cornerstones

Although project and programme initiatives aimed at improved economic and enterprise development is incorporated within the REED framework, it looks beyond particular interventions by focusing on the institutional architecture. Thus, even where particular interventions make sense (e.g. economic diversification), the right institutional architecture will be vital to its success; particularly in supporting the private sector. With the increased emphasis that government institutions and donors place on local economic development, enhanced rural-urban linkages and growth, it is of paramount importance to (where necessary) streamline the institutional framework, and/or improve coordination to optimise efforts and reduce duplication between different role-players for the benefit of enhancing economic growth and the development of the private sector. Thus, the implementation of most of the indicated integrated development plans requires close linkages between actions taken by different spheres of government, private sector and other stakeholders (Davis, 2006). One of the questions that we address below is what the focus of the local sphere of government (i.e. district and local municipalities) and other stakeholders (private sector, producer groups, NGOs etc) should be in supporting pro-poor local economic development.

1.1 REED and its application

There are consistent elements in the evolution of REED approach. Key amongst these elements is the role of local government, the private sector, the not-for-profit sectors and the local community in creating opportunities to work together to improve the local economy, building on local strengths and opportunities, while working to minimise local weaknesses and threats. Local economic development and REED approaches also focus on enhancing competitiveness, and thus increasing sustainable growth; and also on ensuring that the growth is inclusive. A top-down, macro-level perspective has been shown to be largely ineffective in generating growth (de Janvry and Sadoulet, 2003; Satterthwaite and Tacoli, 2003). Local economic development and REED usually include local level strategic functions to promote an enabling environment and infrastructure provision. Related services to facilitate this may be supplied by local government, the private sector and include functions such as planning, infrastructure provision, real estate development, enterprise development, finance and human development. The REED approach also has a bottom-up dimension, mobilising local people to recognise and build on their strengths, enhancing their livelihoods and creating incomes in the process.

Globally, the use of local economic development and REED frameworks vary. REED is a relatively new approach; whereas local economic development is well established in Europe and South America (e.g. Brazil and Chile) and parts of South East Asia. In sub-Saharan Africa, South Africa is actively looking at how an understanding of local economic development can contribute to building local economies and an local economic development component is a requirement of developing municipal and provincial Integrated Development Plans. The concept of decentralised planning, usually based around local government is not in general well established in Africa (with the exception of Uganda, South Africa and Tanzania) (Davis and Rylance, 2005). However these local development initiatives often have a very limited understanding of economic development built into them and tend to be much stronger on infrastructure, social infrastructure and services, environmental services and local revenue collection. It is essential to take a broader perspective on planning and support if sustainable economic development is to be achieved including maximising the returns on other sectoral investments

1.2 Making REED pro-poor and challenging urban bias

Another challenge is to ensure that local economic development and REED approaches are pro-poor, and does not just support existing elites, especially in the urban areas. Recent liberalisation and globalisation processes have lead to greater homogeneity and integration of national and regional economies. Nevertheless, government's often neglect the role of municipal authorities and non-urban planning frameworks which support the economic development of peri-urban and rural regions, their inter-connectedness (often through rural towns) with for example trade and remittance networks which themselves enhance growth and income generation opportunities for the rural poor.

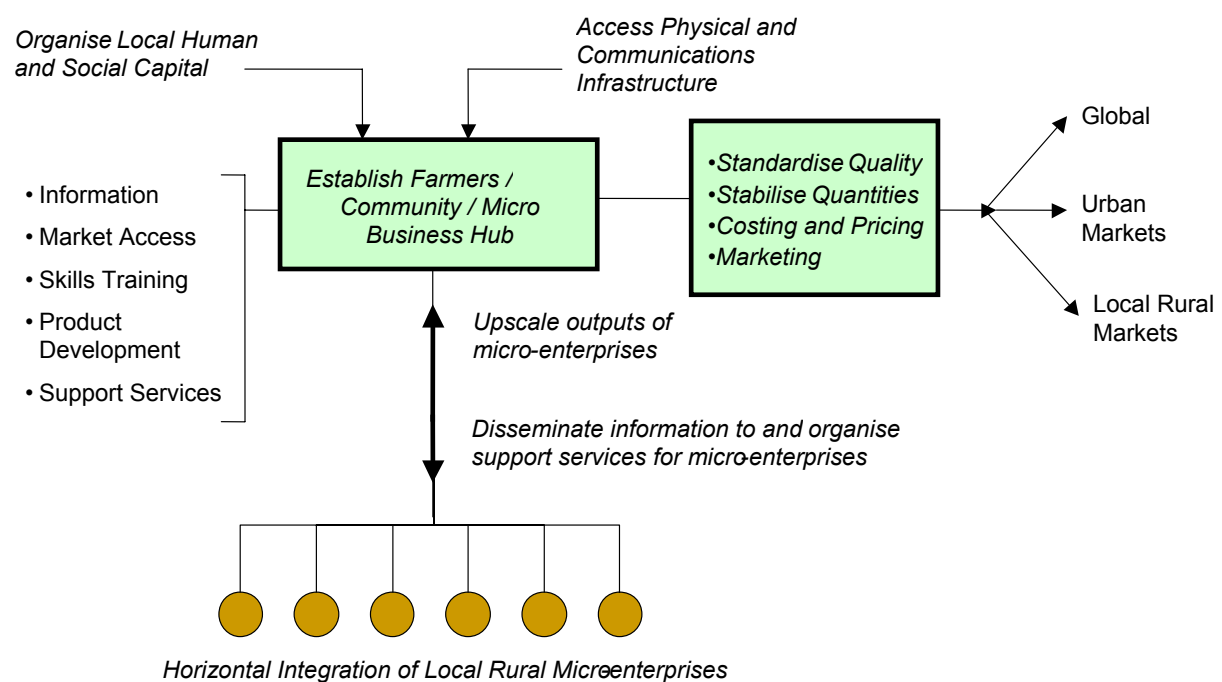
The challenge in implementing area-based approaches to rural development lies partly in their multi-location character. There is a traditional divide between urban planners and rural development agencies. The former tend to suffer from urban bias, often neglecting the interdependencies between urban centres and their rural hinterlands, whereas the latter are

essentially concerned with development at village level, ignoring the importance of small and medium towns to the livelihoods of rural households and their role in rural development processes. Both although more so rural agencies, lack a full understanding of and capacity to mainstream principles of local economic development and REED within sub-national structures. The multi-sector nature of local economic development processes also poses major challenges, especially in contexts characterised by centralised decision-making systems and limited inter-agency and inter-departmental coordination.

The REED approach places great emphasis on the role of enterprise clustering for scale economics and economic linkages which enable horizontal diversification. The principle of clustering is an important organisational instrument for producer groups, micro businesses and micro social projects which aim to support growth and economic diversification. It yields important efficiency, empowering and equity gains in so far as it effects resource pooling, cost sharing, risk and responsibility sharing, collective lobbying, information sharing and resource mobilisation. It is a distinct economic asset which can expedite local wealth creation, job creation, wealth redistribution as well as encourage the development of local financial services e.g. savings and ROSCA schemes.

The grouping of rural micro-enterprises, producer groups, common properties for storage and/or marketing, shared natural resource base, similar input supplies, common physical and communications infrastructure or a mix of these can lend itself to clustering and the formation of a shared apex type organisation or business hubs. Necessity is the mother of creativity and invention. It has been our experience that such “developmental hubs” have an uncanny habit of facilitating, fostering and supporting quite extensive and diverse hives of local activity. Efficient resource use is evident in the multipliers which invariably accompany the establishment, capacitating and nurturing of such developmental hubs. We illustrate community based clustering and linkages in Figure 3 below:

Figure 3 Community-based clustering, dynamics and economic linkages



The above type of enterprise clustering opens an important institutional space for producer groups, small farmers and rural micro-enterprises to interface with formal sector markets, support services and public sector institutions. It renders possible the local integration of producer groups, small farmers and rural micro-enterprises with medium scale enterprises which add value, market and distribute. The arrangement expedites the resource pooling and sharing of scarce physical, economic, communications infrastructure and skills in a manner which provides appropriately scaled business leadership and enhances the prospects for successful horizontal diversification.

For many rural businesses, their greatest asset is their capacity for labour. Accordingly, REED initiatives/actions towards employment creation represent important options for poverty alleviation. Employment generation as the means for alleviating poverty has been historically one of the major strategies for alleviating poverty in developing countries. A range of local government interventions can facilitate job creation and assistance to poor communities e.g. attracting new investment, retain existing investors and support for the expansion of existing formal enterprises. Another dimension would be interventions that support the activities of the survivalist informal economy, including street traders, and a range of home-based enterprises. The informal economy allows scope for low-income groups to develop or pursue their own livelihoods through informal enterprise. Another pro-poor emphasis includes direct support for the expansion of labour-based public employment and community-based enterprises.

1.3 How Does REED support growth and poverty reduction in local economic development frameworks?

The potential contribution of small and medium towns has not been sufficiently recognised in rural development strategies, and IDPs in most developing countries. These have often emphasised developments at village level, particularly in the agricultural and artisanal sectors and in the local governance sphere, without due consideration to wider realities. A more balanced and integrated approach, that recognises spatial links along supply chains and the key role of rural towns within such systems, is likely to be more effective from a growth as well as poverty reduction viewpoint.

The challenge in implementing REED and other area-based approaches to rural development, especially when encouraging sustainable economic diversification, lies partly in both their multi-location and multi sector characters, especially in contexts characterised by centralised decision-making systems and limited inter-agency and inter-department coordination. On the other hand, while decentralisation can facilitate effective planning, local governments must be supported by clear legislation regarding their relationship with central government, have sufficient resources for investment and service provision, and possess adequate planning and implementation capacity (Davis, 2006).

Most developing countries illustrate these problems. As mentioned, there is a tendency amongst policy-makers, government officials, the voluntary sector, and some international development agencies to equate rural development with the development of the agricultural sector and the village economy. An excessive emphasis on the preservation of self-employment in traditional agricultural (e.g. coffee, tea, sugar) or artisanal activities with limited growth prospects is symptomatic of this perspective. So is the neglect of wage employment promotion in rural towns and the lack of attention to sub-sectors with potential to act as engines of local economic growth.

Furthermore, current decentralisation efforts (e.g. in Uganda and Tanzania) have emphasised the devolution of a wide range of administrative and fiscal powers to local communities, but less attention has been devoted to institutional change at these levels, where government capacity remains very weak and inter-agency cooperation is still incipient. Recent experience not only highlights the difficulties in bringing about effective change in local power dynamics, but also illustrates the challenges of building capacity for effective local resource mobilisation and planning with a view to improving the investment climate, economic and social infrastructure, and service provision (Hare and Davis, 2006).

Emphasis among international development agencies is now shifting from infrastructure construction to institutional development and capacity building, alongside a renewed interest in enterprise development as an engine of local economic growth. Flexible institutional coalitions and learning alliances involving a wide range of public and private stakeholders have been given centre stage in this process. Such coalitions are part of the current focus on participatory planning and management of programmes, the development of demand-driven services, and the creation of an enabling institutional and policy environment.

The REED framework with its emphasis on multi-level alliances and the promotion of an effective environment for business shares much with the lessons that are emerging from literature on institutions and pro-poor growth and economic diversification and highlights some opportunities that have hitherto been unexplored (see Hare and Davis, 2006).

The emerging literature on local economic development and territorial development frameworks is increasingly agreed on several important dimensions required for successful social and economic development: an institutional set-up within which the state plays a central co-ordinating role but in close partnership with the private sector; a market focus; effective support systems especially with regard to credit and market information and hard infrastructure such as roads and communications; the importance of appropriate human capital for new enterprises and markets; the role that farmer organisations can play but more importantly collective action at the regional level and finally the importance of a conducive policy environment.

There is less literature and coherence on technical issues, namely on how to initiate and plan sustainable pro-poor local and territorial development. However more importantly from an action point of view is guidance on how to ensure that there is adequate co-ordination, monitoring and evaluation by government, especially at the local/regional level. The REED approach emphasises local people working together to achieve sustainable economic growth that brings economic benefits and sustainable quality of life improvements for all in the community. It brings into focus the role of rural towns (and rural enterprise development) in fostering new opportunities for the poor, rather than simply as marketing hubs, which has tended to be the implicit assumption of many policy makers.

In the next section we set out our framework for action in which we combine insights from the REED approach with lessons from our integrated development plan case studies in Dihlabeng and Xhariep of the Free State, South Africa.

2 Local economic development in South Africa

South Africa has embarked on a comprehensive overhaul of local government to democratise municipalities, redress massive inequity of service provision and gear services towards overcoming poverty through growth and economic development. Apartheid created separate local government structures, both urban and rural, most of which were under-resourced and unable to service the needs of their communities. There are unequal rates bases, backlogs in service infrastructure in historically disadvantaged areas and spatial separations and service disparities between towns and townships. The resulting urban sprawl increases service provision costs.

The social situation of the historically disadvantaged population of South Africa living in rural areas is characterised by relatively low standards of living and high rates of unemployment and poverty (Labour Force Survey of Statistics, 2003; Poverty and Inequality Report, 1998)⁵. The majority of people are resource poor and have insufficient incomes and often also limited access to basic services to satisfy their elementary needs. While the achievements made over the last ten years in addressing the social needs of the poor are quite impressive, concerns remain about the sustainability of these often strongly subsidised interventions (Bond, 2003; Rogerson, 2003). Another question in point concerns the extent to which extent these interventions have contributed towards long-term growth and improved income generation for disadvantaged households. Whilst the poverty situation in the old homeland areas resemble the rural situations of other Sub-Saharan countries, the one major difference is that the rural poor in the homelands have far better linkages with wage incomes earned elsewhere, as well as transfer payments in the form of pensions and other subsidies. The communities are in the first instance not small-scale producers, but rather receivers of transfer income and/or job seeker societies. Only 3% of the households living in the former homelands were estimated to derive their most important income from farming and only about 6% of rural households, which farmed, sold any fresh farm produce (Poverty and Inequality Report, 1998).

The enormous efforts by the democratic Government since 1994 to develop a new policy framework for steering and planning the transformation process as well as social and economic development resulted in at least 25 white and green papers and framework documents. These sectoral papers, policies and strategies - which are further detailed in development plans at provincial and local levels - provide guidance on the development priorities of the country. Central to the overall steering of the transformation process are the Reconstruction and Development Programme (RDP) of 1994 and the Growth, Employment and Redistribution (GEAR) macro-economic strategy of 1996, which form a twin strategy, aimed at poverty alleviation and development and economic growth respectively. Relevant

⁵ On the characterisation of poverty in South Africa the study notes: "Poverty is characterised by the inability of individuals, households or communities to command sufficient resources to satisfy a socially acceptable minimum standard of living. Poverty is perceived by poor South Africans themselves to include alienation from the community, food insecurity, crowded homes, usage of unsafe and inefficient forms of energy, lack of jobs that are adequately paid and/or secure, and fragmentation of the family. In contrast, wealth is perceived to be characterised by good housing, the use of gas or electricity, and ownership of a major durable good such as a television set or fridge... poverty typically comprises continuous ill health, arduous and often hazardous work for low income, no power to influence change, and high levels of anxiety and stress. The absence of power is virtually a defining characteristic of being poor, and is worsened for women by unequal gender relations. Poverty also involves constant emotional stress, and violence has a profound impact on the lives of the poor".

for guiding community development in rural areas are the following strategic elements of RDP and GEAR (World Bank, 2004a):

- Strengthening the capacity of local Government to provide services in a viable and sustainable manner,
- Poverty alleviation by meeting the basic needs of the disadvantaged communities,
- Ensuring a more equitable role for women,
- Ensuring meaningful participation by residents and stakeholders,
- Growing local economies that are conducive to sustainable employment creation.

The GEAR strategy reiterates the need for a competitive fast-growing economy which creates sufficient jobs for all work seekers, a redistribution of income and opportunities in favour of the poor, a society in which sound health, education and other services are available to all, and an environment in which homes are secure and places of work are productive. Further important elements are: a strict fiscal policy and the provision of a stable policy environment for private investment, the promotion of export growth, the restructuring of state assets and the creation of more flexible labour markets so that an impetus could be given to the private sector for the creation of jobs. Whilst the commitment to improving social services remain in place, there is a growing emphasis on creating the policy framework conditions to ensure economic growth that would not only sustain social service delivery, but would create opportunities in the economy for the poor to improve their own position through income generating activities (Davis and Rylance, 2005; Rogerson, 2003).

Implementation capacities to turn agreed policy into practical programmes and projects designed to service the disadvantaged communities appear to be limited on both provincial and local Government levels. The pressure for implementing reform and support measures with visible practical results and tangible socio-economic benefits for the historically disadvantaged population is meanwhile considerably on the increase. Reflecting this situation, the Government has made the support to poverty alleviation - through social and economic development especially of rural areas - as well as accelerated growth and job creation key priority areas. In support of this policy the numerous local economic development programmes related to community development in rural areas are expected to continue and is reflected in the medium-term expenditure framework (see Box: 1).

In 2000, a local economic development fund was established by the Government of South Africa, to enhance municipal level efforts to promote job creation and SME development (World Bank, 2004a). The local economic development programme in South Africa has been administered by the Department of Provincial and Local Government and its aim is to support projects at the municipal level dealing with the provision of business facilities, the support of agri-industry, the promotion of tourism and the development of human resources. However, after 275 projects were funded, the monitoring report identified major weaknesses in the policy and programme implementation (Atkinson and Ingle, 2003). These weaknesses were firstly regarding policy confusion. For example, it was unclear whether local economic development should be welfarist or entrepreneurial in approach, or whether it was exogenous or endogenous in scope. Perhaps more importantly the monitoring and evaluation process was seen to be ineffective not least because of its overly bureaucratic yet vague procedures. A lack of reliable data and effective communication between stakeholders was seen to be a problem. It was therefore recommended that local economic development should promote either the economic environment holistically or promote SMMEs. Participatory evaluation and monitoring at all levels was also recommended.

This contradiction between empowerment and poverty eradication is not uncommon in local economic development strategies. Atkinson and Ingle (2003) have identified areas of policy confusion such as this in their assessment of the local economic development fund in South Africa. However, the Mahala Development Centre is an example of demand-led and grassroots-led local economic development. It is also an example of how collective action, in the form of trade unions, can effectively promote pro-poor local economic development (see Davis and Rylance, 2005)).

Box: 1 National Government and local economic development Initiatives in South Africa

The concept of local economic development was new to the 1994 ANC-led South African government. However, following international trends, the National Government realized the importance of the devolution of economic functions to local government. Thus the Constitution of South Africa (Act 108 of 1996) stipulates that the promotion of social and economic development are specific objectives of local government (article 152.1 c). These 'developmental duties' of Municipalities 'structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community'. Municipalities now have a mandate to practice local economic development. The tools put in place thereafter to further this goal are the following:

- Three statutory requirements for strategic planning by each municipality. These statutory requirements are: 1) The Local Government Transition Act Second Amendment Act requires Municipalities to prepare Integrated Development Plans through which their priorities are defined. 2) The Development Facilitation Act requires Municipalities to prepare land development objectives, which would determine their spatial planning. 3) The Development Facilitation Act highlights linkages between economic development and town planning by arguing for 'pro-active' rather than 'reactive' planning and zoning. However, there is no specific requirement for the preparation of a LED Strategy.
- Financial and budgeting stipulations for Municipalities (contained in the Local Government Transition Second Amendment Act) strive to ensure that each municipality has good accounting and financial practices. Whilst this is a fundamental for economic development, there is currently no stipulation about the percentage of the budget that must be spent on economic development. Furthermore, as part of the taxation system, the country's municipalities do have access to a tax on businesses, (which is collected separately to the local property taxes). In theory these funds are supposed to be invested in economic development projects, but are often not.
- Until 2000 there were no national government funds for Local Economic Development. However, in January 2000, the Local Economic Development Fund was launched. It is part of the Governments Poverty Alleviation Project. Municipalities can tap into two funds as part of a 'Regenerating Local Economics Program'. The first, the Social Plan Fund is aimed specifically at job creation in local areas. The second, the Local Economic Development Fund also has job creation as a goal, but is also available for SMME support, and strategic planning.
- The South African National Government does not have a national spatial plan for its urban areas. However the Spatial Development Initiatives have dictated government infrastructure investment. More recently the Industrial Development Zone Program and Cluster Initiatives give direction to municipalities on further national government spatial investment in infrastructure, and on where they will support which clusters.

Source: World Bank (2004a).

2.1 The experience of local economic development in the Free State

Nel (2000) emphasises that, in an era of globalisation, localisation has also become an important consideration. In the post-1994 environment, the importance of LED was emphasised by the fact that local authorities were given the responsibility in this regard by the South African Constitution. Although some success stories do exist in the Free State, the success rate of LED has been fairly limited. Marais *et al.*, (2002) found that, despite the fact that the projects financed by means of the LED fund had made a contribution to human development, only a limited number of these projects would actually survive the initial phase, during which funding occurred. In an evaluation by Nel *et al.*, (2004), it was found that the most successful projects were those driven by the private and community sectors; that there

was little evidence from the Free State that municipalities were making any significant contribution to LED; that managing LED through municipalities created various managerial and financial problems; that partnership formation was limited; and that the most successful projects were tourism-related and linked to international markets. Thus, despite high expectations in respect of LED and the importance of LED projects in national policy, the latest research shows that the long-term viability of such projects has been limited.

2.2 Enterprise development and support in the Free State

At the start of the democratic era in South Africa, very high expectations were placed on the ability of the country's small- medium- and micro-enterprise economy, especially in relation to manufacturing (Rogerson, 2003). In general, Small Micro and Medium Enterprises (SMMEs) were seen as "agents of employment promotion, redistribution, and improvement in global competitiveness" (Rogerson, 2004:766). In order to implement the relevant strategies, a number of support institutions were founded. The main types of institutions in this regard are Local Business Support Centres (LBSCs), Retail Financial Intermediaries (RFIs), and Manufacturing Advice Centres (MACs). The task of the LBSCs is to provide business information, business management advice, aftercare, and networking. These institutions were also supported by a range of initiatives from the Department of Trade and Industry, including local industrial parks, small business incubation, and linked sectoral cluster programmes (Rogerson, 2004). In an evaluation of the government's post-1994 SMME programme, Rogerson (2004) found that the SMME economy has only made a paltry contribution towards the creation of employment and that existing government SMME programmes have largely been biased in favour of small and medium-sized enterprises, and have consequently bypassed micro-enterprises and the informal economy.

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

2.3 An overview of the Free State rural non-farm economy (RNFE)

This section will attempt to provide a brief overview of the available data in respect of the rural non-farm economy (RNFE) in the Free State. The RNFE may be defined as comprising all those non-agricultural activities which generate income to rural households (including income in-kind and remittances), either through waged work or in self-employment (Davis, 2005). We encounter the RNFE in South Africa both as an area of new growth and income generation opportunities and as a refuge from poverty in a stagnant local or regional economy. In either case, opportunities for RNFE diversification and non-agricultural incomes are shaped in part by such factors as a region's comparative advantage in the production of tradable products (especially agriculture), population density, infrastructure, location, and government policies (Davis, 2005). Regions with significant recreational, mineral or trade advantages (e.g. a port or highway) may be less dependent on agriculture as a motor of

growth, and hence may expand and diversify their RNFE much earlier in the development process. Growth of the RNFE can also be de-linked to varying degrees from agriculture by market and trade liberalization policies that enhance non-agricultural opportunities and these possibilities are increasing with globalization. Many rural regions have greater opportunity today to find additional motors for growth. Moreover, the “motor” does not even have to be local, as long as the local economy is “open” in that workers can commute and local farm and non-farm firms can sell to the area where the motor is providing job opportunities and generating growth. For example, a mine or a big city in a coastal region could induce non-farm employment growth in the nearby highlands. Thus it is important to make a comprehensive assessment of the factors facilitating or hindering RNFE development. While the list of general factors is similar across regions and countries (infrastructure; education; market vicinity; social capital and so on) their precise nature and interrelation need to be researched in some detail in order to realistically assess RNFE opportunities and pitfalls, as well as the growth and poverty impact of RNFE development (Davis, 2005).

The latest report on the 2001 population census in South Africa questioned the conventional definitions of urban and rural (Statistics South Africa, 2003). Part of the conventional wisdom questioned by Statistics South Africa is whether small towns, which are usually functionally linked to the rural economy, can be classified as urban. The Free State landscape can be categorised into the following main categories (see Krige, 1995): (i) cities; (ii) regional towns; (iii) middle-order towns; (iv) small towns; (v) commercial farms; and (vi) former homeland rural.

However, the classification of these areas is not that simple. A number of problems should be mentioned:

- Cities include two former homeland urban areas, namely Botshabelo and Thaba Nchu, while middle-order towns include Phuthaditjhaba, which was also an urban area in a former homeland (QwaQwa) (see Figure 2 for an overview of the former homeland areas). Although these areas have distinct urban functions, rural characteristics are also evident.
- When considering the economy of the Free State, a clear-cut definition becomes even more difficult. Phuthaditjhaba is home to a number of large manufacturing industries (especially in the clothing industry). However, except for providing job opportunities to the people of the former homeland area, these industries have virtually no links with their surrounding area.
- The definition of Krige (1995) also includes all towns in the Free State Goldfields as cities. This is somewhat simplistic as a number of small towns are included as parts of cities due to their functional connection with the gold industry. However, they perform some typical rural small town functions.

Considering the above realities, the following decisions were taken with regard to defining the RNFE of the Free State:

- It excludes the commercial farms, but will be interested in the links with the agricultural sector.
- A decision was also taken to exclude the following urban areas, namely, Bloemfontein, Botshabelo, Thaba Nchu (Mangaung Local Municipality), Welkom, Virginia (for their links with the mining industry), Bethlehem, Kroonstad, and Sasolburg (for its links to the petro-chemical industry in the Northern Free State).
- Even with such a decision, a clear cut method of working with the available statistics was extremely difficult. In the case of census data it was possible to determine the data fairly

accurately. Using the economic data, however, was more difficult. The economic data were only available at the magisterial district level which automatically included the agricultural sector.

There can be little doubt that small and intermediate urban centres play a pivotal role in rural enterprise development (see Davis and Rylance, 2005). However, a number of notes should be made with regard to small and urban areas and their markets in the Free State:

- For most parts, the Free State agriculture is well developed. The South and South Western Free State is known for its stock farming while more intensive crop farming takes place in the northern and north eastern parts of the Free State.
- Markets are usually well developed.
- These small urban areas play a role in the provision of inputs. However, a hierarchy of small and intermediate urban areas, which differentiates between what type of inputs you will find where, also exists.

The assumptions made with regard to how the concept of “rural” was determined in each of these areas will be stated. Two sets of data will be used. Census data provides adequate information in respect of employment trends per sector. Secondly, the respective contribution of GDP per area will be assessed. The economic data used in this report were gathered from the Global Insight database (Marais and Hoogendorn, 2005). The census data provides a good overview of employment per sector in the Free State. An attempt was also made to develop the employment figures for the RNFE in the Free State (see Table 1).

Table 1 A comparison of employment per sector in the Free State and the RNFE in the Free State, 2001

<i>Sector</i>	<i>Free State</i>	<i>Free State %</i>	<i>Free State % (excluding agriculture and mining)</i>	<i>Free State RNFE</i>	<i>RNFE %</i>	<i>RNFE % (excluding agriculture and mining)</i>	<i>RNFE as % of FS</i>
Agriculture, hunting, forestry and fishing	102686	17.4		9500	6.5		9.3
Mining and quarrying	44295	7.5		11585	7.9		26.2
Manufacturing	48399	8.2	10.9	12736	8.7	10.1	26.3
Electricity, gas, and water supply	4191	0.7	0.9	1271	0.9	1.0	30.3
Construction	21884	3.7	4.9	6933	4.7	5.5	31.7
Wholesale and retail trade	72634	12.3	16.4	23014	15.6	18.3	31.7
Transport, storage, and communication	21259	3.6	4.8	5782	3.9	4.6	27.2
Financial, insurance, real estate, and business services	32939	5.6	7.4	7106	4.8	5.6	21.6
Community, social, and personal services	111293	18.8	25.1	30896	21.0	24.5	27.8
Other and not adequately defined	45	0.0	0.0	0	0.0	0.0	0.0
Private Households	86029	14.6	19.4	27273	18.5	21.6	31.7
Undetermined	45351	7.7	10.2	10992	7.5	8.7	24.2
Total	591005	100.0	100.0	147088	100.0	100.0	24.9

* The following assumptions were made in determining the RNFE of the Free State: firstly, the following urban areas were excluded: Bloemfontein, Botshabelo and Thaba Nchu, Welkom, Virginia, Sasolburg, Bethlehem and Kroonstad. Secondly, the farm economy was also excluded. Despite this second assumption, a number of people in the remaining towns are still involved in agriculture.

The comparison of employment per sector (including the RNFE) in the Free State Table 1 has highlighted the following:

- Approximately one quarter of employment in the Free State is provided by the RNFE. If only the bulk RNFE figures are considered, the figure is 24.9%. However, if the employment in agriculture and mining is excluded, the percentage rises to 28.4%. Although the RNFE does not provide the majority of employment in the Free State, it does provide employment to a considerable part of the Free State population.
- Manufacturing provides 8.7% of the employment in the RNFE of the Free State. In the Free State, this is 8.2%. A recent study on manufacturing in the Free State suggests that there has been a decrease in manufacturing in the smaller towns of the Free State (Nel *et al.*, 2004). Furthermore, it is increasingly difficult for smaller firms to compete with larger firms in the production of fast-moving goods. Although this was extremely difficult to substantiate in detail, it is expected that the largest percentage of manufacturing in the RNFE is food – especially meat – related. This means that a direct link exists at this level with the on-farm economy of the Free State (Marais and Hoogendorn, 2005).
- The percentage of people employed in construction in the RNFE of the Free State is also slightly higher than the percentage of people employed in the Free State as a whole. Overall, construction contributes to 4.7% of the employed people in the RNFE of the Free State. The fairly high percentage of people employed in construction could be related to the massive low-income housing initiative since 1994.
- Wholesale and retail are also important sectors of employment. Nearly 16% of the employed people in the RNFE are employed in wholesale and retail. Although, the link between retail and the agricultural sector is fairly obvious in respect of food, this is less apparent in the case of huge national chain stores. These national chain stores usually have central procurement premises where they procure in bulk. The goods are then transported to the decentralised outlets.
- The sectors in which the RNFE contribution to the total employment is less than the same percentage for the Free State are transport, finance, and community services.

In terms of economic data, this section attempts to reflect on the contribution of the RNFE to the Free State economy.

Table 2 The GDP for the Free State, large urban areas, and the RNFE in the Free State, 2003 (current prices based on 1996 baseline)

<i>Sector</i>	<i>Free State</i>	<i>Free State %</i>	<i>Large urban</i>	<i>Large urban %</i>	<i>RNFE</i>	<i>RNFE %</i>	<i>RNFE (excluding agriculture and mining)</i>	<i>Free State (excluding agriculture and mining)</i>
Agriculture	2704297.33	8.24	800984.64	3.34	1903312.69	21.54		
Mining	5647506.46	17.20	4038003.64	16.82	1609502.82	18.22		
Manufacturing	5359782.62	16.32	4642209.19	19.34	717573.43	8.12	13.48	21.89
Electricity	1612178.67	4.91	1377409.14	5.74	234769.54	2.66	4.41	6.58
Construction	785306.57	2.39	563808.60	2.35	221497.97	2.51	4.16	3.21
Trade	3667844.28	11.17	2742124.42	11.43	925719.86	10.48	17.40	14.98
Transport	2422013.14	7.38	1890579.51	7.88	531433.62	6.02	9.99	9.89
Finance	2890814.48	8.80	2305483.81	9.61	585330.67	6.63	11.00	11.81
Community services	7745592.77	23.59	5640429.69	23.50	2105163.07	23.83	39.56	31.64
GDP	35455958.91	100.00	25903905.86	100.00	9552053.04	100.00	100.00	100.00

* The following magisterial districts were excluded from the RNFE and used to reflect on the economy of large urban areas in the Free State: Bloemfontein, Botshabelo, Thaba Nchu, Sasolburg, Welkom, Virginia, Kroonstad, and Bethlehem). It should also be noted that here it was not possible to exclude the farming economy in terms of the figures under agriculture as was the case in Table 1.

Concerning Table 2 above, and Table 1, a number of observations may be offered:

- Manufacturing plays a considerably smaller role in the RNFE than in the Free State as a whole, this despite the fact that the employment figures for the RNFE in the Free State are more or less similar to those in Free State as a whole.
- The RNFE contributes to just over 21% of the Free State’s economy (if agriculture is not considered as part of the RNFE in Table 1).
- Manufacturing, electricity, and finance contribute comparatively less to the RNFE of the Free State than to that of the Free State as a whole.
- Construction, trade, and community services contribute comparatively more to the RNFE of the Free State economy than to the Free State economy as a whole.
- In the case of transport, the relative contributions are more or less the same.

2.4 RNFE: rural to urban migration

Marais and Hoogendorn (2005) note a couple of trends in the Free State’s population change since 1991, namely out-migration from former homeland areas, the increasing out-migration of the white population from the Free State province, and an increasing migration from farms to small urban areas. If this trend is fully understood, it will become patently obvious that it is of crucial importance that the RNFE should provide opportunities to new migrants in these small and medium-sized rural areas.

In addition to the trends of residents from former homeland areas “voting with their feet”, large-scale migration from commercial farms is taking place. For assessment purposes, the Free State rural population is divided into commercial farming and former rural homeland areas (see Table 3).

Table 3 The changing urban-rural population profile of the Free State, 1991 – 2001

<i>Year</i>	<i>Urban</i>	<i>Rural</i>		
		<i>Total: Rural</i>	<i>Rural: Commercial farms</i>	<i>Rural: Homeland rural</i>
1991	1,655,566	942,857	630,537	312,320
1996	1,902,007	794,243	520,465	273,778
2001	2,048,846	657,926	399,177	258,809
% 1991	63.7	36.3	24.3	12.0
% 1996	70.5	29.5	19.3	10.2
% 2001	75.7	24.3	14.7	9.6
% change 1991 – 1996	2.8	-3.4	-3.8	-2.6
% change 1996 – 2001	1.5	-3.7	-5.1	-1.1

1991 population in terms of 1995 boundaries

Sources: Krige, 1995; Statistics South Africa, 1998; 2003

From Table 3 it would appear that, between 1991 and 1996, the urban areas grew by 2.8 % per annum and, between 1996 and 2001, by 1.5% per annum. In real terms, this represents a growth of nearly 400 000 people between 1991 and 2001. This growth was the main contributing factor to the growth of the urban population in the Free State - from 63.7 % in 1991 to 70.5 % in 1996 and 75.7% in 2001. At the same time, the rural areas (commercial farming and former homeland areas in this case) experienced a population decrease of 3.4 % per annum between 1991 and 1996, and an even larger decrease of 3.7% per annum between

1996 and 2001. One consequence of this is that the rural population decreased by approximately 150 000 people during the period 1991 to 1996 and by a further 140 000 between 1996 and 2001. The largest decrease was that of nearly 230 000 people on commercial farms between 1991 and 2001. With current legislation protecting farm workers from being evicted under certain conditions and with the farmers' reaction of either not employing workers at all, or of seeking accommodation for their workers in the nearest urban areas, the result will probably be an increasing movement of people away from commercial farms in the future. Hartwig (2004) argues that the global competitiveness in agriculture, which has increased since the early 1990s (and which includes an increase in mechanisation), coupled with an internal drive by the government to put minimum wages in place, has played a large role in farmers not employing as many farm workers as they did in the past. The declining rural population (including farm workers) has had a tremendous impact on the urban areas. It has resulted in huge influx of mostly poor people to small towns where economic opportunities have been limited.

Against this background, the focus of the paper shifts to an analysis of Xhariep and Dhlabeng municipalities (of the Free State) integrated development and local economic development plans in terms of the REED framework.

3 Local economic development and integrated development plan status in Dihlabeng and Xhariep

The Municipal System Act (2000) states that an integrated development plan (IDP) must reflect the vision of the Municipality for long term development, by an assessment of the existing level of development and the consideration for social and economic advancement of disadvantaged sections of the community, in particular for those communities who do not have access to basic services. The Municipal Act (2000) also requires a detailed description of the objectives and strategies of the integrated development plan and states the spatial development framework of the district.

Integrated development plans are therefore mechanisms for coordinating local economic development strategies with other municipalities' strategies. Integrated development plans and local economic development are then linked in the sense that they have the common aim of allocating the resources optimally in order to foster growth and reduce poverty through the crucial linkages between fostering competitive economic activities and the satisfaction of basic needs, resulting from, for example, the creation of employment opportunities and the support of infrastructures. However, in evaluating an integrated development plan it is important to recognise the extent to which it may effectively be implemented. Since a relatively large proportion of the poor in South Africa live in small towns and rural areas, it is most schemes oriented towards pro-poor interventions should be directed to rural regions. Often, local economic development interventions focus on dealing with economic decline and severe poverty; but with limited institutional capacity and financial resources. A comparison of the different economic sectors in the two municipalities is presented in Table 4.

Table 4 GGP in different districts of South Africa (Rand)

<i>GGP Sector</i>	<i>Xhariep</i>	<i>Motheo</i>	<i>Lejweleputswa</i>	<i>Thabo Mofutsanyana</i>	<i>Northern FS</i>
Agriculture	212383	251618	1030977	758531	583662
Mining	37572.25	219	3739593	224	353638
Manufacturing	2517.15	421320	436700	343364	2240459
Electricity / Water	9316	142495	88290	47267	1047781
Construction	952.05	249447	256372	156511	66668
Trade	74369.45	941333	914821	432393	490072
Transport	38891	945650	195497	190265	275818
Finance	91998.90	1258085	614995	446807	518064
Community	6433.55	124544	78567	31951	40616
General Government	95597.35	1590336	515907	750037	411034
Other Producers	21526.05	297667	77395	57758	62389

Source: <http://www.fs.gov.za/>

The Free State produces a Gross Geographic Product (GGP) of some R44,1 billion (approximately US\$8 billion). The government is the largest contributor to the GGP at 15%. The economic activity of the province centres mainly around mining, agriculture and manufacturing, contributing respectively 22,6%, 11% and 14,5% to GGP. Tourism contributes 3%. Gold production dominates the mining activities in the Free State – almost one third of South Africa's gold production. The province's contribution of 14,1% to the total mining production in South Africa is the fourth highest amongst the provinces. The mining

industry is also the biggest net supplier of jobs in the Free State - approximately 22% of the Free State's labour force. The second most important sector in terms of GGP contribution is manufacturing, with a relatively wide spread of activities.

3.1 Dihlabeng Local Municipality: An overview

Thabo Mofutsanyane is one of the 5 districts of the Free State province of South Africa. The seat of Thabo Mofutsanyane is Phuthaditjaba. The majority of its 725,932 people speak Sesotho (2001 Census). The district contains the following local municipalities:

Table 5 Thabo Mofutsanyane district: local municipalities

<i>Local municipality</i>	<i>Population</i>	<i>%</i>
Maluti a Phofung	360 780	49.70%
Dihlabeng	128 933	17.76%
Setsoto	123 192	16.97%
Nketoana	61 956	8.53%
Phumelela	50 905	7.01%
Golden Gate Highlands National Park	174	0.02%

In terms of socio-economic conditions the GGP of the district is primarily produced by the agriculture sector (see **Error! Reference source not found.**). There are 140,919 residents, 62.2% in urban area. 84% of the population is African. 47.1% of the population is male, 52.9% is female. The largest proportion of the population is very young, in the age bracket 5-19 years old. With respect of education 17.51% of the population have no formal education and 33.5% only have primary education. Only 48.8% of the total population, 70.6% of the age bracket of active population, is formally employed. HIV prevalence is 26.7%, one of the lowest in the region of the Free State. The Dihlabeng local municipality incorporates the towns of Bethlehem, Clarence, Fouriesburg, Paul Roux and Rosendal.

The integrated development plan of the Dihlabeng municipality is organised in three sections:

1. The first part is describes the process plan and the detailed, by programme, review cycle.
2. The second part focuses on specific programmes: for each of these plans there is an analytical section, the national approach to the specific problem is introduced and finally the objective and strategies of the municipalities are stated.
3. The last part is the strategic planning within the review process, highlighting the priorities and the competencies of the local government.

The introduction of the Integrated Development Plan (integrated development plan) is dedicated to the legal and regulatory framework, and clarifies the distribution of roles and responsibilities, the role of civil society, and the roles of institutional actors like the integrated development plan manager. It also sets out the principles for public participation. However, as we will see later, it does not stress the importance and the means of this participation, especially for encouraging the participation of the poor who do not have the instruments, or often the education, to be an effective part of the decision-making process at the local level of government.

A monitoring and performance framework is also described in detail with key indicators of performance. For each objective there is a precise strategy and a key indicator with the

corresponding measurement of its effectiveness and the correlated department responsibility. The system makes evaluation and performance measurement a straightforward process. Unfortunately, an in depth analysis of the district is not present and there is no evidence of the way the priorities have been decided. It is not clear how the needs have been assessed and how the decision-making process for prioritising issues has been carried out.

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

However, in terms of targeting poverty, two considerations may be possible: (i) This is a positive situation that reflects not only favourable conditions in terms of spreading economic risk, but also because the more diversified an economy is, the more opportunities there are in the area. (ii) In a diversified economy there is scope for interventions aimed to increase efficiency by specializations in relatively high value added sectors.

The national legislation (*The South African Local Economic Development – Policy and Strategy*”, 2003) also points out that institutions have a crucial importance as they set the rules of the game of interactions between individuals and organizations in any community. Within the Local Economic Development framework, institutions have a responsibility to enhance the operational and administrative capacity of local government to deliver services, to promote cooperation and integration of all spheres of government, and to play an important role in involving all the segments of the civil society.

The Dihlabeng local municipality, despite the recognition of the importance of full participation, information, planning effectiveness and feedback on the integrated development plan draft, does not seem to have put in place effective mechanisms (REED Cornerstone 2) for encouraging important segments of civil society to participate in the planning phase of the integrated development plan. Certain segments of the civil society may have difficulties in participate to planning. The point would be absolutely crucial for “*working towards having empowered and aware customers, served by competing private providers, efficiently overseen by local business associations and government*” (REED, p18-19). The section on “the distribution of roles and responsibilities” clearly states that the legitimacy of the integrated development plan process is validated by the involvement of existing non-governmental organizations (NGOs), community based organizations (CBOs) and faith based organizations (FBOs). Unfortunately the promotion of *new* organizations, especially for those most marginalized, who are unlikely to be part of any organization, is missing. Without an active role in promoting such participation, the risk is that the needs of the poor, marginalized victims of the apartheid regime will remain unheard.

Although the strategy of the integrated development plan seems to take into consideration the objective of poverty alleviation, the likelihood that this will be met depends on the coherence and the effectiveness of the prioritisation of their objectives. In this respect, redistribution and equity play a very important role. Only by ensuring that the poor have access to assets will

they be enabled to escape the trap of deprivation. Of crucial importance then is training, education and land redistribution, but also access to micro-finance, information and business support.

In the integrated development plan of Dhlabeng a summary of municipal expenses is missing but a table with a five-year budget is shown. Of this between 70 and 80% is accounted for by salaries and allowances and general expenses. To the integrated development plan project is dedicated a residual 5%, while disaster management and environment are totally overlooked. This budget reflects what we will see in detail about the absence of a specific set of programmes for poverty alleviation. The next section will evaluate the integrated development plan of the district in terms of the many dimensions of poverty alleviations policies.

3.2 Xhariep District: An overview

The Xhariep District covers 34,131 square kilometres, which makes it the largest of all the provincial District Municipalities (approximately 26% of the total surface area of the Free State). It is part of a large open grassland fed by the “Nile” of South Africa - the Orange River, which the San used to call the Garib ('great river'). There are 17 towns in the region that are divided into three Local Municipalities, namely Kopanong, Letsemeng and Mohokare. The district contains the following local municipalities:

Table 6 Xhariep district: local municipalities

<i>Local municipality</i>	<i>Population</i>	<i>%</i>
Kopanong	55 947	41.3%
Letsemeng	42 986	31.7%
Mohokare	36 330	26.8%

As previously noted, in contrast to the large surface area, the Xhariep District has a very low population density. A mere 128,509 people are currently resident in Xhariep. It is only 4.75% of the total Free State population, with an average of 3.7 people per square kilometre. The population is fairly evenly distributed through the region with the most (42%) living in Kopanong. Letsemeng and Mohokare respectively have 29% and 28% percent of the population of Xhariep. The majority numbering 90,670 (70.5%), live in urban areas, whereas 37,830 (29.5%) reside in rural areas. The demographics reflect a ratio of 47.9% male and 52.1% female spread; as most males in the economically active age group migrate to economically active areas leaving their wives and families behind. This phenomenon contributes to a number of social problems experienced in the area.

Many people live in unhealthy and cramped shacks in rural areas. One of the priorities of the Xhariep District Municipality is therefore to improve housing for disadvantaged communities. Since 1994 4,139 RDP houses have been built throughout the area (Kopanong – 1,887, Mohokare – 1,008, Letsemeng – 1,244). It is third highest in the Free State Province with regard to access to water. The level of internal water services in Xhariep is 88.2%. Mohokare has 100% access to water services, followed by Kopanong (89.4%) and Letsemeng (84.4%). Most of the population with access to water have water metres. Currently 91.1% of the homes in Xhariep have electricity.

In terms of socio-economic conditions the GGP of the district is primarily produced by the agriculture sector. There are 128,509 residents, 70.5% in urban area. 84% of the population is African. 47.9% of the population is male, 52.1% is female. The largest proportion of the population is very young, in the age bracket 5-19 years old. With respect of education 17.5% of the population have no formal education and 33.5% only have primary education. The unemployment rate in Xhariep is 28.9%. This is amongst the highest in the Free State. HIV prevalence is 28.7%, one of the lowest in the region of the Free State. Other human development indicators that would have been useful in the integrated development plan such as per capita income, life expectancy or number of persons living below the poverty line are not presented.

The integrated development plan of the Xhariep municipality is divided into four volumes:

- An introduction that briefly explains the framework, the process plan and the methodology
- The district profile: institutions, development profile, infrastructures and priorities
- Action programme with the strategic plan for each priority. A list of responsibilities, financial resources required and a paragraph on “meeting the targets set.”
- The last volume is further divide into a financial plan, institutional plan, spatial development, local economic development and poverty alleviation, HIV/AIDS, gender and equity, integrated waste management and a disaster management plan.

The objective of the integrated development plan is clearly defined, and it is identified in development with a clear specification on poverty reduction: local economic development and poverty alleviation are included in the same programme.

- Equitable development of infrastructure and services
- Promote social equity
- Promote economic development
- Optimal use of resources
- The promotion of social equity and equitable development is a clear reference to those who are most in need.

The analytical phases in the Xhariep district are formulated in consideration of the following dimensions: spatial, environmental, human, economic and institutional, to align the integrated development plan with the Free State Development Plan. For each of these dimensions we have a policy, key principles, focus area, localized guidelines. This framework seems to be very effective in shaping the national objectives and adapting them to the local environment in a coherent and consistent way. The description of the district is detailed in a series of profiles: demographic, social, ethnic, infrastructure, communication, housing and so on. Overall this shows an analytical capacity of the district that is the first condition of any effective policy intervention.

Kopanong is the wealthiest area with a contribution of almost half of the Gross Geographic Product, of which a third comes from agriculture. Agriculture is the most important sector in Letsemeng, while in Mohokare trade is the most important sector. Overall, agriculture retains 36% of the contribution to the economy, followed by Government, Finance and Trade. Besides the importance of exploiting an obvious comparative advantage in agriculture, there seems to be scope for crowding in effects of public spending. It is possible for example that the municipality will be able to create employment opportunities integrated in a poverty alleviation plan, being one of the biggest sectors of the economy. In terms of poverty

alleviation, a look at the budget for the integrated development plan will show that local economic development and poverty reduction have been allocated almost half of the resources. However, the Plan is very integrated and benefits in terms of development and poverty reduction are present also in the other programmes of the integrated development plan, such as housing, HIV/AIDS etc.

In the integrated development plan of Xhariep between 70 and 80% is accounted for by salaries and allowances and general expenses. To the integrated development plan project is dedicated a residual 5%, while a small percentage is allocated to disaster management and environment. This budget reflects attention to risk management (disaster) but it is not detailed enough to consider the financial effort for a specific set of programmes, i.e. poverty reduction. The impression is that a possible explanation of why the municipalities are keen to show the financial constraints they have to face. The next section will assess the integrated development plan of the district in terms of poverty alleviation policies.

3.3 A review of Dihlabeng and Xhariep's integrated development plans

The integrated development plan of Xhariep “*The purpose of local economic development is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation*” (p.9, Xhariep integrated development plan). The approach is integrated and poverty alleviation and local economic development are encompassed in the same programme. Poverty is seen in its multidimensional nature and other programmes like housing, gender equality, etc, also take into consideration these aspects.

The integrated development plan of Dihlabeng is many ways similar to a legal document, where poverty and local economic development are considered within the objectives and strategy framework. Local Economic Development and Poverty alleviation are considered separately under two different programmes. Poverty alleviation is included in the job creation programme. We know that unemployment is the main cause of poverty, however this separation is unfortunately a sign of a lack of integration between the different sets of the integrated development plan.

3.4 Objectives and strategies in the integrated development plans

1. The Dihlabeng local municipality clearly states *poverty alleviation* and economic development as objectives. Economic growth (with the exception of tourism growth) is not explicitly recognized as an objective, but it is implied in many of the strategies. This makes their vision more socially orientated than economically driven. For Xhariep the objective is clearly stated and the vision is to improve the quality of life for all: development and poverty alleviation are the main objectives.

2. That *growth* is critical for poverty reduction is an argument widely accepted in the literature and is strongly supported by extensive empirical evidence by Chen and Ravallion (2000), and Dollar and Kraay (2000) and recalled in Easterly: “*on average, growth has been much more of a lifesaver to the poor than redistribution*” (Easterly, 2002, p14). However, this is not to neglect the importance of equality, especially in a country where the regime of apartheid has maintained a very unequal distribution of income and assets for decades.

Growth is a powerful instrument against poverty, but if it is kept in the hands of too few people, will not contribute to the alleviation of poverty. The literature on pro-poor growth is also recognises that a lack of equity may even be damaging for growth in the longer run⁶ (Hare and Davis, 2006). Thus, the importance of linking pro-poor development strategies with economic growth through equity is crucial in the process of development, as a condition for ensuring that development is socially and also politically sustainable (Hare and Davis, 2006). The evidence⁷ suggests that growth retains its central role in raising living standards. However, achieving rapid growth at the cost of relegating a significant portion of the population to poverty, or substantially degrading the environment - even if such trade-offs existed - would not represent sound policy. The argument is widely recognized in both the integrated development plans where specific programmes to address dimensions of inequality like gender are presented. Moreover, Xhariep set as an objective an equitable development of infrastructures.

With respect to the different economic sectors and a sectoral analysis, the different areas of district of Dihlabeng have a similar composition of their GGP. In fact, agriculture is the most important contributor (24.2% of the GGP of the district) with a particular concentration in Fourisburg. However, the district is subject to the urbanization process, and more than half of the population of each district lives in urban areas (with the exception of Senekal). The main reason is that people move to the cities in search of opportunities. If these opportunities were created in agriculture, there would be a boost in the leading comparative advantage sector and there would be a decrease in the pressure on the population to move towards the urban areas.

3. The process of *re-focussing development on the poor* must include the retention and expansion of local economic activities. Considering the relative proportion of poor people living predominantly in the countryside, then the REED approach becomes crucial to foster economic growth in rural areas. However, local agriculture is correctly seen as a comparative advantage (see the composition of the GGP) only in Xhariep where the local economic development department will take responsibility for identifying more value adding opportunities. Agriculture retains its central role in the Xhariep municipality, where the integrated development plan underlines the necessity of stimulating it and exploiting the sector to its full potential. There is large-scale production of a few crops and an unorganised production of high potential products like wine. This is a clear and effective identification of an important economic driver.

4. Growth must be accompanied by *access to markets*. The main problems are the lack of information and infrastructure; access to regional, national and international markets is practically non-existent. This is even more important in times of globalisation, which paradoxically may even isolate entrepreneurs who do not have access to what the REED framework calls “integrated and open markets” (Davis, 2004). Important steps in this direction would be to provide information on opportunities available, and focused training for emerging farmers. Poor communities are not aware of what is available. For Xhariep an option is to create a Small Micro and Medium Enterprise (SMME) support desk. However,

⁶ Examples are Alesina and Perotti (1993) with an index of socio-political instability rising with inequality, Alesina and Rodrik (1994) on the median voter, Person and Tabellini (1994) with a strong middle class good for growth, Ahion, Caroli and Garcia-Penalosa (1999) on capital market imperfections.

⁷ See Chen and Ravallion (2000) and Dollar and Kraay (2000).

the problem of the absence of markets as functioning, integrated and open exchange places which, seems to be particularly critical in the area, is not stressed in either of the integrated development plans.

5. However, the creation of markets is linked to *infrastructure* (soft and hard). Rural enterprises face a lack of infrastructures from utility services and communication networks, to access to capital markets. In the municipality of Dihalabeng the problem of hard infrastructure is dramatically felt: it is one of the priorities of the integrated development plan but it explicitly reports that the resources of the municipality are not only insufficient to develop new infrastructures but they are even insufficient to keep the existing ones in good order. Besides the utilities, for infrastructures we also intend the construction of transport networks (roads, railways and airport) and the construction of market stalls, industrial and commercial sites, clusters, where the creation of positive externalities are fundamental and have a multiplicative and synergic effect on growth. Xhariep recognizes that transport infrastructures are critical for the agriculture sector and need to be improved and that this is linked to the creation of a market. Functioning and effective infrastructures are also part of the REED framework (cornerstone 4). Soft infrastructure are recognized as crucial for development by both Xhariep and Dihlabeng. They both assign resources for soft infrastructure like healthcare and social infrastructure, communication, and especially training, which is given a central role in Xhariep as well as in Dihlabeng. In the local economic development section of the integrated development plan there is only one project dedicated to training (IT training) in the five year plan. However data about the actual amount destined are missing..

6. *Business retention, expansion and attraction* should be addressed in an integrated way. In particular it is essential in order for business development that a certain technological upgrade of the physical infrastructures. The effort of retaining business tends to be lower and more effective than that of the attraction of new business, and depends on proximity to product-markets, good quality and low cost labour, good quality of infrastructure, natural resources, and the regulatory environment. The need to understand the existing situation can be achieved with business retention visits and surveys, technical assistance to business, financial advice and assistance. This possibility is taken into consideration in Xhariep, but overlooked in Dihlabeng, where there is more stress on the creation of new business.

Actual strategies adopted in both the districts are public procurement policies and “buy local” campaigns, provision of sites and premises, export club, but also investment in hard infrastructure (transport, communications, water, electricity) and soft infrastructures (training and education, business advisory, provision of access to capital and finance). In particular, for Dihlabeng, development initiatives include the acquisition of land by the municipality to be made available at low cost to investors and release unproductive properties of the municipality. The provision of land at low cost may be a fantastic opportunity to encourage entrepreneurial activity. Investment in hard intrastate is considered of primary importance however lack of resources is lamented. It is clearly stated that there are only resources for maintaining the existing infrastructure. The importance of training activities is also stressed. However, it is impossible to assess whether there has been allocation of funds to these activities since the financial plan is not described by individual projects. Therefore we are not aware of the funds targetted to poverty reduction projects or HIV/AIDS. Some evaluation would still be possible since the integrated development plan clearly state the objectives a criteria of measurement. However, an independent evaluation to identify whether the

allocated expenditure matches the importance that the plan assigns to its project is impossible within the integrated development plan.

The same argument is valid for Xhariep. Its integrated development plan does not even take into account the possibility of internal Monitoring and Evaluation. Thus, the ideas and the strategies present in the integrated development plan may only be evaluated on principle, on the base of their internal consistency form a theoretical perspective. As a result, there may be the risk that the integrated development plan of both districts is only an exercise dictated by the legal framework but without a real content.

7. In a increasingly globalised world the problem of *information assymetry* has been widely recognised both in development practice and economic theory. One of the challenges in rural South Africa for rural entrepreneurs is to develop a marketing strategy and overcome a series of distortions, especially concerning information, to become competitive in the international environment, and to play their role in globalisation. In Xhariep information gathering in agriculture is considered extremely important but there is not an institutional framework to provide it. Improved market information is recognised to be crucial also for adding value to the products of Xhariep. In Dihlabeng the difficulty is primarily a question related to business support. This problem is particularly difficult to overcome and certainly requires the intervention of the municipality, which should address the issue in an integrated and consistent way across the municipality.

8. *Business support* is a big part of the local economic development objective for both the districts. In Dihlabeng, the first objective in the Local Economic Development is to broaden the economic base. The integrated development plan plans to provide incentives for investments or enter into long-term lease, realising unproductive properties, opportunities to engage farmers, training programmes for Small, Micro and Medium Enterprises (SMMEs), and establishing an information centre. However, Xhariep recognises that training and skills development may be addressed in different ways, with the establishment of an ad hoc institute, using the resources available within the municipality, contracts with neighbouring district, encouraging commercial farmers to act as mentors and advisors for emerging farmers (this would actually create interdependence in the chain of production). How to support small emerging farmers is clearly included into the local economic development and poverty alleviation objectives of Xhariep. The access to land is considered of crucial importance in this respect: unlocking property of the municipality, identifying the land with potential and initiate land reform are strategies listed in the integrated development plan. Unfortunately, the evaluation of this kind of policies would need data on the production of these emerging farms. The previous regime was actively relegating them into the informal sector. Therefore, the challenge is to bring emerging farmers into the formal sector to develop their potential. There is also a need to get rid of the historical ethnic imbalances, the need to build the rural economy and create livelihoods. It would also involve unlocking access to land and finance to emerging farmers. This means that the municipality needs to promote development by identifying land with potential, preparing it for development and making clear its willingness to issue certain rights, in the specific property rights which are another issue in any developing country, as the World Bank (2004, 2005) has maintained for several years. Xhariep sees this strategy as “*Encouraging inter-firm collaboration, institutional development and targeted support to a particular industrial sector after identifying a champion for that particular sector. Of course this strategy should be for those sectors with potential economic development (developing broker and network agencies, supporting joint research, developing cluster-focused public procurement and local purchasing agreements,*

providing cluster specific information, developing cluster related marketing efforts, developing demand-led skills and education training programs).”

Their integrated development plan states that firms are the engines of local economic development. Their size ranges from 5 to 200 employees. However, we have previously highlighted how more accurate data about the number of firms by size is absent. In fact, analytically both the integrated development plans lack of correct and accurate analysis of the various issues under consideration.. The SMME support offered in the region includes: management and business training, counselling, research and other forms of support. Create an Local Business Support Centre (LBSC) task team to look for assistance, funding and seek accreditation, dissemination/collection of information, facilitate access to start-up and venture capital.

9. The support described extensively in the REED cornerstone 7 - (*adaptive management capacity and entrepreneurial competence* within business and enterprises) should materialize in terms of financial and technical support but also in terms of business support. Such an objective involves a holistic approach that should focus on strategies such as coordinating specialized services, training programmes, and trying to create economies of scale. In other words, as the “Pro-poor local economic development in South Africa” (2005) report notes, it requires that the municipality becomes a manager itself in organizing the available resources. However, the Dihlabeng municipality itself would need training and capacity development for such a major effort.

10. *Area targeting/Regeneration Strategies* specific sites or small area local economic development issues. Some areas need special attention such as declining shopping areas and slums, but also the creation of business districts. Regeneration strategies are likely to be very expensive and challenging. In the specific we can have town centre enhancement schemes/encouraging investment into growth nodes, corridors, informal markets, retaining redundant workers. Unfortunately, the only clear regeneration programme is the conversion of a centre in the city of Bethlehem. These are distinctive difficulties in situations of structural adjustments where skill training should be demand driven, and job search and employment outreach (information), entrepreneurship training and SMME support programmes, community confidence building should be prioritised.

There is no mention of any support for the creation of special development zones in Dihlabeng where particular interventions are employed, nor for support for inward investment such as information supply, i.e. database of economic trends and/or sector information, support for export and marketing and for the agribusiness as a whole in the rural areas where this kind of intervention is needed most. There is an existing BDS in the city of Bethlehem and it is a strategy of the integrated development plan to rejuvenate it. The REED framework, cornerstone 6 indicates as a key strategy the establishment of new BDSs or adapting of existing urban ones to rural areas, encouraging a link between groups of local producers with commercial banks. It also reported an example of success in Myanmar. The viability of this strategy may be difficult in a context of financial scarcity. However, the municipalities could play an organizational role of mediator between rural enterprises, especially to more powerful commercial entrepreneurs, suppliers of physical input and financial resources, rural communities. After all, the role of the public sector is precisely of correcting distortions that obstacle economic growth.

11. The Xhariep municipality sets as the second objective for local economic development the *creation of an enabling environment* for investment with improvements of infrastructure and service delivery, infrastructural networks, water, sanitation, electricity and communication to attract new investments. The vision stated in its integrated development plan is “*to be an attractive place in which to live, invest and spend leisure time*”. The South African “brain drain” and outflow of money are key issues here. However, an inviting environment takes also into consideration cost effectiveness. Financial constraints are typical of developing countries and they are even worsened by the lack of access to financial markets. This is why it is particularly important in a strategy to attract new investments or retain existing ones, the use of grants and rebates but also in a situation of scarcity of funds the capacity to build external support for a) planning, b) implementation, c) interdepartmental cooperation. In theory, in a situation where there is a scarcity of capital it is important to attract it externally in order to unfreeze economic opportunities. Such opportunities have often been overlooked or impossible to exploit because of a lack of essential (individual or collective) assets such as skills or infrastructure. The attraction of inward capital or the retention of local capital may work to kick-start the economy if used to invest productively. In practice, strategies to retain/attract investment are mainly of financial nature (tax rebates, low cost land, etc). Both the integrated development plans focus on this aspect. However, a clear quantification of these incentives is absent.

Xhariep clearly states amongst its strategies on regional linkages: the three important steps are to assess the region, to create channels for communications and to explore joint initiatives (marketing efforts, tourism development, infrastructure and service delivery, special district and zones i.e. industrial development zones, international linkages, leakages (determine local buying patterns, increase public awareness, consider periodic markets). The integrated development plan of Dikhalang generically refers to a search for possible sources of funding.

12. *Transparency and good governance* is an argument linked to the creation of an improving local business climate where we intend business support intervention, area support, tax free zones, Integrated Development Zones (IDZ), provision of incentives, small business support, provision of business information, guides, and moves to reduce the amount of red tape. The aim is to create an environment that provides a climate to attract investment. According to the World Bank (2004,2005) the role of governments is then to remove distortions and enable individuals and firms to compete. Transparency, participation and accountability are then essential elements for good functioning of the markets. It is not by chance that these requirements are the first cornerstone of the REED framework. In developing countries market distortions are more important, and therefore the task of harmonizing private and public interest is more challenging. This is especially true in light of a widespread inequality in the distribution of assets and income. Asset and income inequality may obstacle the correct individuation of the private interests to encourage in order to promote economic growth. Firstly, historically unproductive rural entrepreneurs may enjoy particular political power and secondly because there may be a higher degree of monopoly among the established entrepreneurs that may squeeze the profit and therefore the investment opportunities of the emerging farmers.

In this respect, a good example may be a policy of land redistribution in favour of emerging farmers may help them in facing the greater bargaining power of the commercial entrepreneurs. The REED framework indicates an “active participation and ownership of development processes by well-linked stakeholders”. The provision of sound leadership through the implementation of economic strategy in order to mobilize commitment and

participation of this joint effort from all the stakeholders is clearly stated as the first strategy of Local Economic Development in the integrated development plan of Xhariep.

13. Unfortunately the concept of *ownership of development processes* is relegated to the purely administrative sphere in the integrated development plan of Dihlabeng, where the community involvement priority can be considered as a pure social development objective rather than an operational dimension. No mention is made of the participation of the stakeholders in the process of development, for example in the form of a public-private partnership for the transfer of soft infrastructure. In Dihlabeng the possibility for cooperation with neighbouring districts for the implementation of training process and for public/private partnership would also be useful. This option is taken into consideration as a local economic development strategy in the integrated development plan of Xhariep, where a framework or checklist is identified for creating public/private partnerships; even the national Green Paper (1997) encourages and suggests this strategy. Unfortunately the idea of public/private partnership is not taken into consideration yet in the area.

14. The first objective of both Dihlabeng and Xhariep is to *reduce the level of poverty* amongst the local population. In Dihlabeng this is linked with a series of strategies to create employment opportunities: more labour intensive in municipality funded projects, cooperate with NGOs in order to create jobs in projects with NGO cooperation, urban agriculture, skills training programmes. In Xhariep, there are two strategies:

1. Increase food security: the poor depend primarily on agriculture and related activities for their livelihood. The urban poor also spend the largest portion of their income on purchasing staple food. Indeed poverty and food production are inversely related. Growth in the hand (only) of commercial farmers but such increase, while maybe good for increasing the national income, may do little to improve the conditions of the poor or to reduce food insecurity. So it is important that poor groups increase their productivity and output with the aim of increasing growth (in a sustainable way).
2. Empowerment of the poor: reversing the historical legacy of marginalisation. Access to health and education, the possibility of organizing themselves to have a voice in the decision-making process. Human capital and the capacity to work is their most important asset. The municipality has to ensure participation of the poor and especially of the women. They need material support in terms of assets, technology, markets and institutions. In terms of assets, land and water are the most critical. Greater resources and new technologies must be mobilized. This can improve the productivity of these assets.

The second objective of both Dihlabeng and Xhariep is to improve the self reliance of the poor and unemployed by implementing self-sustainable projects. In Dihlabeng the strategy is to source all possible funding for poverty alleviation, implementing projects and ensuring their sustainability, urban agriculture. In Xhariep the situation is particularly stark in terms of the racial distribution of unemployment: Coloured (48.1%), and the African (40.9%). While it is very low amongst the white population (8.95%), the majority of the unemployed are women. This has been worsened by the closure of key industries e.g. the mines since 1976 and the fact that there has been insufficient investment in new factories.

In the Dihlabeng municipality, the issue of unemployment is strictly linked to poverty alleviation. This brings us to two considerations: firstly, the integrated development plan recognizes that the major cause of poverty is unemployment and underemployment,

especially in rural areas where the harvest cycles cause seasonality of jobs provoking a high level of volatility in incomes. Secondly, poverty alleviation - job creation - economic development are not linked together in this integrated development plan, while in reality they are inextricable.

However, the integrated development plan of Dihlabeng shows a strategy for poverty alleviation but not a specific set of pro-poor programmes. The multidimensionality of poverty is, in fact, neglected. It is laudable that the integrated development plan dedicates an objective to gender equity, since women are mostly likely to be poor and with fewer employment opportunities, but this objective is totally unlinked to the poverty issues. In its multidimensional nature poverty should be addressed in its very causes, which are inextricably linked to economic development, but it should be addressed for its immediate effects as well. UNDP (1997) clarify the concept of multidimensionality of poverty, focussing on both expression or effects and causes. To this list economists for example Sender, (2002) add other dimensions such as gender, urban-rural for example.

Poverty: Manifold expressions and many roots

- Income deprivation
- Shortfall in consumption
- Inadequate supply of nutrition
- Poor access to education
- Low physical asset bases
- Risks, uncertainties and vulnerabilities
- Physical insecurity
- Lack of food security
- Crisis coping capacity
- Self-development initiatives
- Dismal of health and health care access
- Transient and chronic
- Static and dynamic
- Sporadic and systemic
- Seasonal and spatial
- Intergenerational

This list is reported to illustrate the complexity of rural poverty. However, it is very often address only in its more apparent expression such as scarce supply of nutrition. In reality a more complex approach should be needed to address not only its expressions but also its roots.

The Dihlabeng municipality overlooks the integration with a series of measures like subsidies, safety nets, and social development issues besides education, food packages, and nutrition. It lists objectives such as housing and health and social services or sport and recreation but there is no evidence of possible pro-poor outcomes. The municipality also stresses the lack of financial resources. However, the participation of the poor is a precondition to the success of poverty alleviation programmes, primarily because of the necessity to know the needs of the most marginalized, and secondly to give them the opportunity to strengthen their representation through their associations and organizations. This task is challenging, especially in rural areas, but it is absolutely vital. The voice of the poor is an objective that can only be implemented at a very local level. The REED framework shows it as Cornerstone 8 and gives very detailed and clear suggestions as to how to implement it. Xhariep is much more concerned with participation issues and the district seems to have a more specific idea, through the detailed analysis of the district profile of the conditions of the poor in the area, in terms of demographic distribution, ethnic groups and status of social services.

Moreover, in terms of the effects of poverty and the conditions of the most marginalized, both municipalities have a series of programmes (a specific set of programmes is missing in Dihlabeng on the causes of poverty). An HIV/AIDS response plan analysed and addressed in both the districts as well as gender equity programme. Marginalization, especially in rural areas, again is because of the multidimensionality of poverty. The majority of poor are women because of gender division of labour within the household, the lower value accorded to women's work, past discriminatory laws denying them access to land, loans and property. They are less educated and less in charge of their sexual life, therefore more vulnerable to the contraction of HIV/AIDS. They are likely to suffer violence. Despite improvements in the institutional status of women we cannot say that there is an equally distributed institutional power. Disaster management, because the poor are more vulnerable, however no funding has been assigned in the budget of Dihlabeng.

Overall the integrated development plan in Xhariep is coordinated and integrated, but it does not show a system for Monitoring and Evaluation. On the other hand, Dihlabeng elaborates a monitoring and evaluation process that simply reflects the legal requirements stated in the Municipal Act (2000) in which "Monitoring and review of economic development initiatives" are listed among the functions of the metro and district municipalities. Concerns might be raised for the effective capacity to evaluate the operational aspects of development. Local governments have the important task of coordinating, facilitating, and promoting economic activities that have stagnated for long periods of time. This requires resources but most importantly it requires commitment to the process of learning at all levels. In the REED framework this is associated with cornerstone 10 and it is increasingly recognized in the literature about economic development. Development is a complex process, and despite the existence of evidence of many successes, the keys to these successes need to be adapted and shaped in different socio-economic contexts, in an environment that like never before is changing fast in terms of society, environment, technology. At the local level, planning with an instrument like the Integrated Development Plan retains its vital importance but may become meaningless without what the REED framework defines as "critical self-awareness".

4 Conclusions

Poverty reduction strategies require specific interventions. The main cause of poverty is underemployment, specific programmes should focus on this dimensions, This ideas is recognized in both integrated development plans. However, specific programmes are described only in Dihlabeng. Those programmes are aimed to address the effects of poverty, such as nutrition programmes, and not the causes of it. It may be argued that in a situation of scarcity of resources the effects are more urgent to address, however it is important to plan for programmes that address the causes of poverty. Moreover, the approach to poverty reduction is different in the two integrated development plan: Xhariep is well integrated and coordinated, poverty reduction is included in the same programme of Local Economic Development and it is its main objective. In Dihlabeng a specific set of programmes to address poverty, rather than only its effects, is missing, poverty is seen only in terms of extreme privation of basic needs which the municipality addresses in a very simplistic way.

Training is critical in poverty relief intervention because it provides the poor with the most important asset they can sell: the capacity to work. Therefore it is important to create employment opportunities and on the other hand to ensure that the local poor may take

advantage of these opportunities. Particularly interesting for Xhariep is the option to involve neighbouring district in this process.

Positioning small operators in a niche market is critical for competitiveness, because they can create positive linkages. Unfortunately, programmes of this kind are missing in both the districts although Xhariep plans to concentrate its effort on “scattered” high value agriculture products and the possibility of improving that niche market. The reference here is to the wine producers (high value) which are not organized nor can rely on a structured sector where which function is well managed from the production to the marketing and export. Such as sector seems to have a great potential. However a more detailed evaluation of its possibility would need some data and some sort of help to the producers to organize a business plan (hence the importance of Business Development Services).

Advantages from collective efficiencies are recognised in both the municipalities especially with respect to business support. For collective efficiency we intend non only economies of scale that a business support centre may produce, serving multiple business realities, but also positive externalities created by a number of firms that may undertake new projects thanks to this support. The diffusion of an efficiency culture would probably be difficult to create and it is too early to evaluate.

Key elements for pro-poor growth: the explicit linking of pro-poor and pro-growth local economic development policies. Economic growth as the main engine for poverty reduction is not completely assumed by Dihlabeng while it is totally recognised in Xhariep. Dihlabeng seems to concentrate more effort on the effects of poverty. Eradicating poverty is different from making the life of the poor more comfortable. There is a need to identify “key performance indicators” for monitoring and evaluation (learning from mistakes and adapting). Key indicators are organised in a very well developed Monitoring and Evaluation system for Dihlabeng. Xhariep does not show key indicators for this function. International organizations and NGOs may help in transmitting the importance of a culture of learning from mistakes.

Need to identify “key economic drivers”. Dihlabeng identifies tourism as a key economic driver but neglects the importance of agriculture, trying to explore manufacturing and services instead. Xhariep is very concentrated on tourism but also on agriculture. The risk is an excessive focus on tourism seen as the new *deus ex machina* that can sort out the problems of the region. The concern is that until tourism is proven to be a viable and sustainable source of growth, it would be safer to concentrate on the leading sectors as well, namely agriculture for both the districts. Policy expenditure coherence in the pro-poor target cannot be assessed from the data, the integrated development plans need to be more specific in this respect. The integrated development plans lack of specific data sets that would be useful in evaluating the policies and programmes they prescribe. For example the only longitudinal data are present in session on unemployment of Xhariep. It is therefore impossible to have idea about trends. An example is the composition of the GGP. It is impossible with the data available to see which sectors are in decline, which one are growing, the only data we have are related to a specific point in time. The only possible deduction is that agriculture is the most important sector in both the districts in terms of weight in the GGP. Secondly, financial data for specific projects are not presented. As a consequence it is impossible to evaluate whether the municipality is consistent in the implementation of its policies, for example it would be impossible to evaluate the degree of commitment of the municipality to a specific objective, which could be indicated by the financial resources destined to that specific programme.

Participation of the poor in projects is effectively considered in Xhariep, overlooked in actual terms in Dihlabeng. There may be strong linkages between service provision, infrastructures and the poor: this is an explicit objective in Xhariep, but it is overlooked in Dihlabeng. Appropriate institutions in place: the development of the institutional dimension is extensively considered in both the districts, clear responsibilities are set for each institution and the necessity to create new institutions is also considered.

The multidimensionality of poverty is recognised in Xhariep and Dihlabeng's IDPs. The sustainability of the programmes is seen as a difficult task in financial terms in the district of Dihlabeng. Xhariep has a positive attitude with respect to sustainability and indicates routes to effectively achieve this. Realism and operational feasibility are desirable characteristics of any poverty reduction programme, as noted in the Poverty Reduction Strategy Papers (World Bank, 2000). The concern is that systems and plans remain unexploited. It is too early to evaluate but it will depend crucially on the political will and management capacity of the district authorities (Davis, 2006).

The main sources of growth are different in the two municipalities. For the integrated development plan of Xhariep agriculture retains its central role and the contribution to the local economy should be improved. However, the municipality will try to develop tourism as well as a programme of infrastructure development, which should both create employment opportunities in the area and alleviate poverty. Mining and manufacturing (linked to rural areas) are also considered as priority sectors. In Dihlabeng the integrated development plan aims to enhance agriculture, potentially implementing value adding manufacturing processes, to improve the manufacturing sector, to promote the city of Bethlehem as a service centre, and to boost tourism in the area. However the integrated development plans might be improved only through a good evaluation. Unfortunately an evaluation system in the integrated development plan of Xhariep is missing, the system should provide an institutional framework and processes to actively involve, also during the revision process, all the stakeholders. The integrated development plan of Dihlabeng provides a very detailed system of evaluation. However, evidence of evaluation is not provided and concerns might be raised about the district's capacity to effectively evaluate the operational aspects of development.

In terms of directing resources, the analytical framework that the Xhariep municipality has in place should be retained in order to have a better and dynamic picture of the area and evaluate the impact of their policy in a more accurate way. A comprehensive analysis of the district is unfortunately missing in the integrated development plan of Dihlabeng. In Xhariep there is the promotion of new representative organizations, especially for the most marginalised, and the integrated development plan process itself involves the participation of different groups which is recorded according to gender composition. Despite the participation of different stakeholders, being explicitly set out as an objective in the integrated development plan of Dihlabeng, a set of effective programmes to involve different segments of civil society, especially the poor, is missing. The provision of services may only improve with the effectiveness of these three processes: participation, evaluation and analysis.

4.1 Lessons from the application of REED to IDPs and South African local economic development frameworks?

In drawing up integrated development plans, policy-makers have given little explicit attention to the under developed rural non-farm sectors. Nevertheless, strategies that see only adding

value to agricultural produce and/or only farming in the countryside can miss non-farm opportunities. Also policies that stress decentralization, with the potential for predatory and capricious local governments, may actually produce threats to the micro businesses that make up a large and important part of the local economy.

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

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

It is well recognized that poorly functioning financial systems in rural areas are an impediment to growth, but the development of credit co-operatives and micro-credit organizations should be complemented with training on how to develop business plans and approach financial institutions. Useful guidance on the effective targeting of credit and appropriate terms of repayment is available from the growing number of examples. In terms of pro-poor local economic development approaches, DFID's Briefing Note 2; Sept 2004 sets out *'four broad conditions for accelerating pro-poor growth, namely: creating strong incentives for investment; fostering international economic links; providing broad access to markets; and reducing risk and vulnerability. Domestic investment remains the most important component in almost all countries and all the same ingredients that make for a good climate for domestic investment also attract foreign investment and promote international trade.'*

In terms of moving forward, the debate in the context of IDP design and efficacy, we should seek to address the difficult question of how rural local governments and NGOs – collectively and/or individually – can achieve a growth path or trajectory which operates to achieve *simultaneously* the goals of enhanced competitiveness on the one hand and of poverty reduction on the other. At present there are few locally relevant examples of pro-poor growth initiatives that focus on best practice case studies of economic and enterprise development supported through local economic development frameworks (Nel et al., 2004). So what might be done to improve the situation in a local economic development context? In brief the following are the main lessons from an REED approach that could be considered as a part of a framework for promoting a sustainable process of economic diversification which leads to pro-poor growth in Southern Africa:

- Build on (and develop) local resources and assets, e.g. land holdings, agricultural skills, community networks, municipal land;
- An enabling, “listening”, responsive, supportive state, particularly at local level, which can augment ordinary people's assets, economic activities, and aspirations. This will require (a) re-tooling and re-orientation of local government to focus on the “client interface” (the connection point between citizen and government), and (b) devolution of developmental functions to local/regional level.

- Providing support services that are directly relevant to people's livelihoods needs, e.g. storage facilities, local roads and local goods transport systems.
- Decentralising local policy-making to municipalities, and regional governments providing support to municipalities to devise effective policies and programmes.
- Intersectoral integration at local level, transcending the "silo mentality" of government departments.
- A new approach to spatial development, much more closely attuned to identifying local potential, and identifying spatial opportunities where such assets can be utilised more fully, e.g. peri-urban smallholdings.

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