



THE C ENTRE FOR D EVELOPMENT AND E NTERPRISE

CDE IN DEPTH

ISSUE 2 / JULY 2005

Growth and development in South Africa's heartland



Silence, exit, and voice in the Free State

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

Series editor: Ann Bernstein

This report has been written and edited by Dr Jeff McCarthy, Dr Sandy Johnston, and Ann Bernstein. The following research papers and reports were commissioned for this study:

- Free State baseline study (J J McCarthy and P Robinson)
- Case Study: Business, government, and development in Bloemfontein (J J McCarthy)
- Case Study: Business, government, and development in Welkom (J J McCarthy)
- The international literature on growth coalitions (E Nel, L Marais and M Gibb)
- Coping with the life cycle of extractive industries (M Limpitlaw and M Hoadley)

Staff of the University of the Free State's Centre for Development Support conducted most of the interviews reflected in this report.

This study has been funded by the Open Society Foundation for South Africa.

Published in July 2005 by

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ISSN 1815-2937

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Abridged



The Centre for Development and Enterprise
Johannesburg, South Africa

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Introduction

In early 2004, CDE conducted a study of growth challenges facing Bloemfontein and Welkom, the two most important cities in the Free State. It included a survey of key stakeholders in both cities in order to record their perceptions of the development issues facing them and their localities. This document is an abridged version of the main report. In the pages that follow, we set out why we were concerned, what we did, what we found, and what we think should be done.

As we were receiving and checking the research results in September 2004, we – and the rest of the country – received confirmation that there was indeed cause for concern in South Africa's heartland. In that month 4 500 protestors closed the main N3 highway from Johannesburg to Durban at Harrismith in the Free State to highlight their anger about poor service delivery as well as corruption and nepotism in the local council. Similar outbreaks of angry and at times violent protest have continued intermittently in the Free State ever since, and have also spread to other parts of the country.

Our research findings lead us to argue that although the flashpoints for these outbreaks are invariably some aspect of municipal delivery, the problems are wider and deeper, involving important preconditions for economic growth.

A missing link

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

Private sector leaders have recently hailed South Africa's metropolitan-based economic growth rate, and have predicted that this could be sustained and increased.¹ If such prognoses need to be qualified, it is that growth will depend upon 'confidence', and that this is a fragile commodity.

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

Certainly the chart of mutual trust between business and government has been volatile in recent years. This was illustrated again in September 2004 when President Thabo Mbeki upbraided Tony Trahar, chief executive officer of Anglo American plc, for stating that political risk was still a factor that businesses had to consider in their

This report is about the 'missing links' in development strategy in South Africa, namely genuine trust between the public and private sectors

South African operations. There could scarcely be a better example of apprehension and misapprehension around questions of mutual trust.³

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

Concerns and convictions

CDE was concerned about the under-representation of provincial cities and small to medium-sized towns in development research in post-apartheid South Africa. To some extent this bias is inevitable because the central dynamics of economic growth and change are undeniably located in South Africa's major metropolitan areas, while the worst effects of poverty are found in the rural areas. However, South Africa's secondary urban areas deserve closer attention. Sandwiched as they are between the rural areas and the metropolises, they are expected to play an important part in local government and decentralised economic growth plans, at the same time as they face their own formidable versions of economic, political, and social adjustment to new conditions and new challenges of transformation and globalisation. The Free State is arguably one of the most neglected areas in these respects, and this is a notable deficiency in our understanding of contemporary South Africa.

CDE is convinced that our towns and cities are crucial sites of governance and commercial leadership.⁴ As we put it in an earlier publication:

Any national growth strategy must have the role of cities as a top priority. To neglect cities is to jeopardise national development. ... About 80 per cent of GDP is already produced in our cities and towns, making their role and performance central to national development.⁵

To neglect cities is to jeopardise national development

Two other assumptions shaped the study:

- We agree with Michael Porter when he wrote: 'Each location – whether it be a nation, a region or a city – has a set of unique local conditions that underpin the ability of companies based there to compete in a particular field.'⁶
- We believe that public-private partnerships of interests and capacities, that is, growth coalitions, are necessary for the vision, leadership, and lobbying which will convert these local conditions into opportunity and successful entrepreneurship.

What we did

This mixture of concerns and convictions led us to a research project built around two case studies of developmental challenges in the urban areas of Bloemfontein and Welkom (see box, *Case study data*, page 5). The immediate focus was on stakeholder interviews to reveal perceptions of decline and prospects of regeneration. In addition, three supporting papers were commissioned: a socio-economic profile of the Free State, a review of growth coalitions in global theory and practice, and a review of initiatives to promote economic development in areas that had

suffered from decline in ‘mature’ industries like mining and heavy manufacturing.⁷ The contribution of each of these components is fully reflected in our main report, while this abridged version summarises the profile of the province and concentrates on the case studies, as well as our conclusions and recommendations. While these recommendations follow the research focus on the specifics of the Free State and its two largest urban areas, they are directly relevant to development strategy in similar cities and towns throughout South Africa.

The Free State in profile

Despite being the third largest province, the Free State has the second smallest population; in 2003 its population stood at 2 735 585, that is, 5,9 per cent of the national total. This share has been dropping at a remarkably constant rate since 1951, when it stood at 9,1 percent of the national population. The Free State also has the second lowest population density (with 21,1 persons/square kilometre), behind the Northern Cape. It has a higher than average proportion of Africans, but the smallest proportion of Indians.⁸

The most significant changes relative to 1999 are the drop in the share of national population, and the associated fall in the population growth rate. Both factors indicate some migration out of the Free State, a trend also evident since the 1950s (see box, *Migration patterns in the Free State*, page 6). The Free State also has the lowest fertility rate of all the provinces, and a relatively high infant mortality rate.

Social indicators

CDE’s review of social indicators for the province yielded the following salient characteristics:⁹

Education: In 2003 the Free State scored better than most provinces in terms of educational indicators. Of the eight indicators for which comparative statistics are available, it was in the top half of the rankings and better than the national average in terms of no fewer than six, namely adult literacy, proportion of adults with no schooling, pupil to teacher ratios, matric and university entrance pass rates, and pu-

There is a failure at local levels to develop a common, unambiguous, and pragmatic agenda and language of development

Case study data

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

- Primary and secondary data derived from the census, the Demarcation Board, and other sources, which were analysed to place Bloemfontein and Welkom in the context of other South African cities.
- Data derived from primary research into business trends in the cities, based on patterns of enterprises opening and closing.
- Perspectives on economic trends, development strategies, and governance issues, based on stakeholder interviews with a sample of 50 civic and 50 business leaders.

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pils per computer. It fared worse than the norm in terms of under qualified teachers, and adults with higher education. The Free State has improved its ranking in terms of matric pass rates from second lowest in 1999 to fourth in 2003 (80 per cent). Although the pass rate dropped to 78,7 percent in 2004, Free State's ranking improved to third. However, this encouraging development is countered by the findings of a 2004 survey that Free State comes a close second (to Gauteng) in the number of discouraged matriculants who have given up looking for work. Eight per cent of Free State matriculants are in this position, compared with a national average of 5 per cent.¹⁰

Health: The Free State fared slightly better than most provinces in terms of immunisation cover (fourth) and the proportion of people without medical aid (fourth). However, in both cases the figure compares unfavourably with the national average, and arguably to have 80 per cent of the provincial population without medical aid is far more significant than the fact that five other provinces are worse off. The Free State had a significantly better ranking in terms of residents per nurse (32,5 in 1998, ranked third), and residents per public sector doctor (2,4 doctors to 10 000 people in 1998, ranked fourth). On the other hand, the province displayed very high rates of HIV infection among women attending antenatal clinics (30,1 per cent against a national average of 24,8 per cent) and people suffering from TB (61,4 per cent, against a national average of 57,3 per cent).

Living conditions: While the Free State's performance in terms of most living condition indicators improved between 1999 and 2003, serious backlogs remain in basic infrastructure as the following 2003 figures make clear: 49 per cent of rural households have no electricity, 77 per cent of households do not have a tap in their dwelling, and 53 per cent are without a flush or chemical toilet. Although the province rates poorly in terms of the number of 'subsidy' houses built or under construction since April 1994, its performance has been about average when comparing the number of houses to total population. In terms of most other indicators, the province fell into the middle third of rankings.

Poverty: The incidence and extent of poverty seems to be increasing in the Free State relative to other provinces. Household income is third lowest (unchanged

The contribution of agriculture to the Free State's economy has declined steadily between 1981 and 2001

Migration patterns in the Free State¹¹

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

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since 1996), and per capita income sixth lowest. From 1999 to 2003, its position on the Human Development Index (HDI) worsened from third to fifth, and its Gini coefficient – a measure of equality in the distribution of income – from fourth to fifth. However, the most telling statistic is the proportion of individuals living in poverty. In 1996 the Free State had the third lowest percentage among the nine provinces, and was lower than the national average; by 2003, it had slipped to sixth place, with 51,9 per cent of people living in poverty, against a national average of 46,2 per cent.

The economy

By 2003 the Free State had a lower GGP per capita, a smaller manufacturing sector, and lower annual household incomes than the national average, which reflected a general slippage in the rankings since 1999. On the positive side, it had a higher than average proportion of economically active people of working age, and scored relatively better in terms of unemployment (under both strict and expanded definitions), albeit showing high absolute figures. This reflects a decline in the Free State's traditional economic bases in mining and agriculture.

The contribution of agriculture to the Free State's economy (measured in terms of GGP¹²) has declined steadily between 1981 and 2001; the sector recorded negative growth rates between 1991 and 1996, and again between 1996 and 2001. This decline is reflected in a net loss of some 55 000 jobs in agriculture between 1980 and 2001. There are tentative indications that these trends may have been arrested very recently, and there is no doubt that agriculture remains an important employer. The Free State still maintains some national comparative advantages in agriculture (especially in niche growth areas such as game farming and horticulture). However the weakness in virtually all other economic sectors in the region may be making agriculture stand out by contrast.

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

While 'non-traditional' sectors – manufacturing, financial services, and services – have grown, they have not done so quickly enough to make up for the decline in mining and agriculture.

Politics in the Free State have been more unsettled and uncertain than is good for a province with such pressing and formidable developmental needs

Politics

Politics in the Free State have been more unsettled and uncertain than is good for a province with such pressing and formidable developmental needs. The Free State has a history of political monopoly. Under the apartheid parliament, no opposition party – whether of the liberal opposition or the extreme right – could win a constituency there and dent the National Party's supremacy. Since the advent of democracy,

the ANC has won massive majorities in the Free State; 77.4 per cent in 1994, 80,79 per cent in 1999, and 82,05 per cent in 2004. Thanks to proportional representation these victories have not been turned into a literal monopoly in the provincial legislature, but they reflect an overwhelming (and growing) preponderance of political power in and around the executive.

However, the ruling ANC has not been able to capitalise on this near-monopoly of political power to provide consistent leadership and stable, credible government and administration. The story of provincial and municipal government and administration in the Free State has been one of a rapid turnover of leaders, the regular eruption of personality clashes in the press, and, more recently, popular discontent that has led to protest action.

- The province has had four premiers in a little more than ten years, and there have been clear indications of friction between national and local ANC leaders over who should hold the post.¹³ This friction is frequently interpreted (though never yet thoroughly analysed) in terms of two competing centres of power in the provincial ANC: the 'North', and the 'South'.¹⁴
- The second half of 2004 brought numerous press reports of clashes among top bureaucrats and elected representatives, which threatened effective governance and once again caused the intervention of the national ANC.¹⁵ Tensions continued into 2005 and escalated with the assassination of the head of the premier's policy unit, Noby Ngombane, who had been central to many of the clashes in the bureaucracy.¹⁶
- In September 2004, 4 500 protesters closed the N3 highway from Johannesburg to Durban at Harrismith in the Free State to highlight their anger at poor service delivery as well as corruption and nepotism in the local council; one protester died of wounds inflicted by a rubber bullet. This protest was followed by similar ones at Vrede, Memel, and Warden in the eastern Free State three weeks later, and sporadic outbreaks of violent protest continued and spread into 2005 to embrace townships near Cape Town, Secunda in Mpumalanga, and Port Elizabeth, among others.¹⁷
- Partly in response to these demonstrations, the Free State provincial government announced in October 2004 that it was taking over four municipalities (among them Motheo, which includes the provincial capital, Bloemfontein, and the site of ongoing factionalism),¹⁸ on the grounds of mismanagement, corruption, and a lack of financial management skills.¹⁹ However, reports in January 2005 indicated that residents were unimpressed by the results of the provincial takeover,²⁰ and this seemed to be confirmed by ongoing protest action in the affected areas.²¹

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

Bloemfontein has fared better in a time of challenging economic change than its counterpart Welkom

A tale of two cities

Secondary cities are cities just below the population size (one million) and functional complexity that qualify conurbations for metropolitan status. One study that has focused on South Africa's secondary cities comes to a somewhat downbeat verdict on their situation: 'Issues of chronic poverty and unemployment, job creation, infrastructure provision, small business development, and education and skills development are probably true for the majority if not all of secondary cities and towns in South Africa.'²² While the overall verdict is doubtless sound, the situations and performances of different urban areas vary greatly, as the following profiles of Welkom and Bloemfontein should make clear.

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

- From 1996 to 2001, the Goldfields experienced negative economic growth and was the worst performer of 19 urban areas.
- In terms of formal employment growth, performance was again negative, and at or near the bottom of the range (18th out of 19 in 2001, 17th in 2002, and 18th in 2003).
- Not only did the Goldfields have the highest proportion of people living in poverty in 2003 of the 19 areas, but that proportion was over 10 per cent greater than the next poorest performer (Pietermaritzburg).
- In terms of annual per capita income, the Goldfields was not only last, but it was the only one of the 19 cities and towns in which annual income per capita was less than R10 000; the 2003 figure of R9 619 a year was only 66 per cent of the next lowest (Vanderbijlpark).²³

In the five years between 1996 and 2001, the white population of Bloemfontein declined by almost 5 per cent a year on average

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

- Positive but sluggish economic growth, averaging out at about 0,8 per cent between 1996 and 2003: in the three measured periods, Bloemfontein was 11th, 17th, and 12th respectively out of 19 urban areas.
- Fluctuating formal employment growth, from a low of -5,1 per cent in 2001, through 0,5 per cent in 2002 to 3,6 per cent in 2003, corresponding to 16th, 15th, and 9th places
- Only five other urban areas had smaller proportions of people living in poverty than Bloemfontein's 25,2 per cent in 2003
- Only six of the other 18 urban areas had higher annual per capita income in 2003.²⁴

It is clear from these figures that Bloemfontein has fared better in a time of challenging economic change than its counterpart Welkom. Doubtless its position as services, educational, and administrative centre for the province, and legal centre for the whole country, has allowed it to build a relatively secure endowment of skills and social capital, not to mention access to public spending. However, its relatively

sluggish performance in terms of economic growth and employment creation plants the suspicion that the city may be no more than holding its own in an era when cities have to compete and do more than live on their accumulated assets. This and other possibilities will be explored in the case studies that follow.

Bloemfontein in profile

CDE's research in Bloemfontein yielded the following salient points:

A comparison of the 2001 and 1996 census results shows it is a city where:

- total population is rising;
- the African proportion of the total population is rising;
- other population groups are static;
- whites are leaving; and
- overall unemployment continues to rise.

Of these features, the decline in the white population is the most arresting. It is generally accepted that census 2001 under enumerated certain constituencies, including whites, for which corrections were later made. Despite this, the relative and absolute declines in white numbers are striking: in the five years between censuses 1996 and 2001 the white population decreased by almost 5 per cent a year on average. If the adjusted census data are accurate (which is debatable), and this trend were to continue, there would be no whites left in Bloemfontein by 2016. This is unlikely to happen because there are significant institutions (especially legal and educational) as well as investments (especially property) in Bloemfontein that are relevant to them. However, the point is worth making simply to underline the decline in white numbers in recent years. The loss in the white population is partly attributable to intra-national relocation (particularly retirees moving to the coast), and partly to international migration (particularly younger whites moving to metropolitan areas or abroad).

At the same time as these population shifts have been taking place, there has been a spatial redistribution of growth: The main features of this has been a disjuncture

The hopes of civic leaders were very heavily centered on local, provincial, and national government intervention

Bloemfontein and Mangaung: population, employment, and economic growth²⁵

In the 1996 census, Mangaung Municipality (which includes Bloemfontein) had a total population of 603 704 which was made up as follows: Africans, 467 193 (77 per cent); whites, 100 978 (16,7 per cent); others, 32 430 (5,4 per cent). The 2001 census recorded the following population figures: Africans, 534 453 (82,8 per cent); whites 78 049 (12 per cent); others, 32 039 (5 per cent).

Between 1996 and 2002 the city achieved annual compound economic growth of 1 per cent. For 2001/2, the figure was 0,4 percent, and for 2002/3, 1.1 per cent.

Between the 1996 and 2001 censuses, the numbers of unemployed in the Mangaung urban area rose from 75 290 to 104 935, and from 30,97 percent to 39,48 percent of the workforce. In the same period, the number of employed people fell from 167 798 to 156 829.

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between private and public growth initiatives. In this sense, enterprise formation, private development, and investment are now taking place almost exclusively in the western and northern suburbs, while public spending priorities are largely in the neglected former black townships of the south east, and the official integrated development plan (IDP) prioritises the rehabilitation of the CBD. The overall development prospects are clouded by a sense of marginalisation – of being a ‘branch’ economy – with little truly local capital formation, which is compensated for by pockets of growth and excellence primarily in legal, academic, and other professional fields. These and continuing public sector opportunities that come from being a provincial capital help to underpin the economy, but employment opportunities are restricted and outweighed by in-migration and population growth

As part of the study, CDE conducted a survey of business openings and closures during the previous two years. Slightly (11 per cent) more businesses opened than closed in the period, mainly suburban enterprises with low employment take-up, over 80 per cent of them in the retail, personal, and commercial services fields. The most obvious deficit was in manufacturing. At one time there was significant foreign investment in manufacturing in the Bloemfontein / Mangaung region, particularly to the east. But most low-wage manufacturing enterprises to the east of the city (such as in textiles) have recently relocated to Lesotho, whose labour regime is less regulated, and where other South African policy requirements such as BEE do not apply. Moreover, manufacturing skills in the city have also been substantially eroded over the past decade, with the biggest job losses in any category recorded between censuses 1996-2001 being 6 000 in the ‘crafts and tradesman’ group of employees. In context, this figure is very substantial.

The incidence and extent of poverty seems to be increasing in the Free State relative to other provinces

Civic leadership perspectives

Against this background, CDE interviewed samples of local civic and business leaders on patterns of decline and growth, hopes and fears, and strategic priorities.

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

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

These responses are cause for concern. Civic leaders believe in government, but do not understand how government might make a difference in practical terms. The expectation that business should create jobs is a welcome advance on the belief that government should do so, but does not take account of actual trends in business formation – which is in smaller enterprises, operating in areas of low labour but high skill intensity. On the positive side, at least in subjective terms, respondents reported that relationships between local government and the local business community were good. But clearly a gap in understanding exists. If current objective trends continue – for instance, jobless growth in the private sector, and affirmative action and a bias to-

wards township spending of the public sector – this subjective goodwill could decline. Some possible early symptoms of this emerge in the discussion of business leaders' perspectives below.

In terms of strategic priorities for local economic development, most civic leaders interviewed referred to either the Mangaung council's IDP, or its 'business plan/s'. However, the predominant attitude was one of faith in experts rather than engagement and appraisal of how the paper plan could be implemented.

When asked to state a single top priority, by far the most common response was around the theme of local communication and collaboration, presumably among the fragments of the formerly divided society. In practice this consists of continuing efforts at building local policy consensus, and minimising the coverage of disputes (especially in the media) among local interest groups.

This insistence on the need for leadership consensus perhaps reflects the widespread current South African predilection for putting process ahead of outcome – that is, insisting upon inclusiveness and consensus at the expense of sidelining the 'hard' issues and choices of local economic growth. We will return to this consideration in the conclusion, but in the interim we need to consider the strategies that have been prioritised in development planning for the city.

Business perspectives

Negative local economic trends noted by the majority of respondents included:

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

Positive trends noted by most business respondents included:

- tourism has grown around conference, events, and business niches, stimulating growth in the guesthouse sector of the hospitality industry;
- the construction industry is active particularly in suburban development; and
- university, education, and related activities have grown, with potential for further spin-off growth in and from this sector.

Most business respondents were prepared to report moderately positive relationships with local and provincial government, although most downplayed the role of government in development trends and prospects, stressing instead the roles of market and technological forces. Many expressed concerns about North / South divisions in the ANC and black / white political differences as undermining progress. When asked what one thing they would prioritise, 80 per cent of all business respondents gave responses that echoed those of the civic leaders: the building of leadership unity, a common development vision, or enhanced leadership communication were the key priorities.

Otherwise the business respondents made it clear that the conceptual framework

One trend in Welkom's recent history dwarfs all others: the decline in cost-effective gold mining

of business tends to differ from that of other community leadership, with a stress on market leadership and worries about local government spending priorities. While this was a common voice, it was not a united and certainly not a mobilised one. Few business respondents felt that the local chamber was anything other than a 'talk shop', and most did not know what its wider developmental programmes were. Overall, therefore, business people emerged as well informed, critical and insightful, but a relatively disorganised community on the margins of wider developmental initiatives.

Bloemfontein today

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

Yet in this respect Bloemfontein is not unique. This lack of synergy derives from a wider collective despondency about the nature of the challenges, and unfortunately the challenges of Bloemfontein are also the wider challenges of 'middle South Africa.' They include:

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

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

However, if economic growth is a central concern, the critical issues for Bloemfontein cannot simply be those of coping: they must be those of national and global competitiveness. In this respect the city has certain challenges in common with other South African cities and metropolises as well as similarly sized and located cities worldwide.²⁶

It is by no means clear that responsibility for local economic development should be vested in the Department of Provincial and Local Government

Welkom in profile

One trend in Welkom's recent history is so dominant that it dwarfs all others. That is the decline in cost-effective gold mining, which has meant the loss of the original economic base on which the town was founded. With the decline in the viability of several mines and decreasing labour intensity in mining generally during the 1980s and 1990s, Welkom has become a shadow of its previous boom town self. Estimates of job losses vary, and are based on different periods and different geographical areas, but the figure quoted by Pillay – 120 000 between 1990 and 1997 – appears credible.²⁷ These jobs have not been replaced by equivalent numbers in other sectors. The result has been that unemployment in the urban core of Welkom is about 20 per cent and it is surrounded by a thick and extensive belt in which the rate has increased to over 46,5 per cent (males 35 per cent and females 61 per cent²⁸). One effect of this has been substantial out-migration

with predictable knock-on effects, including house prices that have remained stagnant amid substantial rises in cities in the rest of the country. Some comparisons between the 1996 and 2001 census results help to throw the situation into relief (See box, *Welkom and Matjhabeng municipality: population, employment, and economic growth*, this page).

According to census figures, in the five years to 2001 the numbers employed in mining declined dramatically from 178 096 to 95 687, and the numbers of unemployed rose by 37 per cent to 83 181. The total enumerated population also declined by 14,4 per cent. However, it is widely accepted that inter-census comparisons need to be treated with caution, and town leaders point out that the official figures on total population decline may be misleading. They say that in many newer informal settlements, there is a sizeable proportion of residents from neighbouring countries (many former miners) who for obvious reasons would seek to avoid official enumeration. Despite this caveat, it seems likely that Welkom is experiencing out-migration on an unparalleled scale for a large South African town. Indeed, Welkom is an anomaly among South African towns in terms of its origins, current demographic trends, and the extent and rapidity of its decline.

CDE repeated the exercise of charting business closures and openings over a two-year period in Welkom. Unlike in Bloemfontein, more (10 per cent) business closed than opened, although research in other South African cities (and indeed globally) suggests that this situation may reflect the ‘creative destruction’ of business dynamism rather than terminal decay. Nevertheless, the following broad trends might be inferred from the evidence:

- There has been a particularly high level of turnover in retail enterprises, suggesting tight margins and trial and error by new entrants to a static or declining market.
- Most businesses opening (or closing) are small in size, with average sizes of some five employees.
- Closures have been particularly high among retail and producer services enterprises.
- Openings have been most noticeable in the transport and ICT areas.

This proliferation of smaller businesses in Welkom (as elsewhere in South Africa) appears to be driven by a number of forces.

Business emerged
as well-informed
but disorganised
– on the margins of
wider development
initiatives

Welkom and Matjhabeng municipality: population, employment, and economic growth²⁹

In the 1996 census, Matjhabeng (which includes Welkom) had a total population of 476 927, which was made up as follows: Africans, 395 849 (83 per cent); whites, 66 913 (14,03 per cent); others, 14 212 (3 per cent). In the 2001 census the total population was 408 170.

Between 1996 and 2001 the Matjhabeng municipality achieved annual compound economic growth of –3,07 per cent.

Between the 1996 and the 2001 censuses, the number of unemployed in Matjhabeng rose from 60 333 to 83 181. In the same period, the number of employed people fell from 178 096 to 95 687.

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Firstly, some growth, especially in the numbers of service-oriented enterprises, appears to be driven by elements of the policy environment. Affirmative action, labour legislation, and lower marginal small business tax rates as opposed to income tax rates fall in this category. These pressures have led to some of the more entrepreneurial of former corporate managers (especially whites) choosing to 'set up shop' as smaller concerns, in return for higher material rewards (and of course higher risks). The continued growth of producer services enterprises in Welkom, despite the contraction of the mines, tends to reflect this pattern.

Secondly, some of the growth in numbers of smaller enterprises is partly a result of 'push factors' – forced retrenchments by corporate businesses, and/or the lack of significant hiring by either government or business. This is consistent with worldwide trends, though it may be considered by some as 'enforced' enterprise formation, as opposed to genuine innovation or entrepreneurship. This tendency is likely to be especially strong in the Welkom case, and is probably reflected particularly in the continued growth of new, small retail stores (where costs of entry are low), and in the growth of the informal sector.

Thirdly, some of the new firm formation is a product neither of retrenchment nor of a former corporate management response to a changing policy environment. Instead, it is an extension of a fairly long-standing culture of entrepreneurship, particularly among younger people with family backgrounds linked to small business. In the Welkom case, this is unfortunately probably the minority of cases of new business formation, but appears evident especially in the transport and ICT sectors, which seem to be particularly favoured by Afrikaner youths.

It is time for local chambers to put political priorities behind them, and bring economic and developmental priorities to the fore

Civic leadership perspectives

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

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

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

- Decline occurs because of a negative attitude towards black government. Some members of the community are negative about their place.

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

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

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

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

Business perspectives

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

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

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

Future hopes are projects like the International Cargo Airport at Welkom. A project of this magnitude could save the area. ... The obstacle is to

In the vast majority of urban areas, effective economic leadership has failed to emerge over the past ten years of democratic rule

convince government that we need a Coega initiative to support this area.
Labour laws and the new mining legislation need to be relaxed.

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

We must look at ourselves for initiative – there is no 'superhero' that will solve our problems. They tend to steal our ideas, and hawk them all over the show. Development funding is available at various institutions, but the right jockey for the project and even certain stages of the project is critical.

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

Despite the conventional wisdoms:

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

At key stages in a city's life, leadership can make all the difference

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

Summary of key findings

The most important empirical findings on the two cities can be summarised as follows:

Bloemfontein's population is growing, and its composition is changing. Economic

growth is stagnating and unemployment is rising in conjunction with a 'brain drain' of young educated people.

In Welkom, both population and confidence are shrinking. In terms of most economic indicators, it is (or is the leading part of) the worst performing urban area in South Africa, a feature mitigated slightly by some economic dynamism in selected 'new economy' areas.

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

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

However, such planning has been slow to produce results in Bloemfontein and Welkom, as the comparative performance figures for urban areas, with which this section began, bear witness. Under these circumstances, it will be necessary to investigate what will give substance to these plans (or other growth-oriented equivalents) and convert stagnation and decline into growth. Preliminary causes for concern are the lack of synergy between the public and private sectors, the fragility of public sector capacity, the weakness of private sector actors, the different priorities of public and private sectors, and the lack of a common understanding and language of growth between them.

Under current conditions there is little prospect of achieving the kind of growth that is needed in either of the two cities under review

What should be done?

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

- **Why does development occur where it does?**

It is important to understand the factors that drive development in the 21st century. Some places grow because they have natural resources or lifestyles that attract investors and entrepreneurs. These are the lucky places, like Welkom 40 years ago, Johannesburg a century ago, or Cape Town or the Garden Route today. Some places grow

because they perform an important economic function at a particular time in technological development – Chicago at the heart of the American Midwest, Bloemfontein in the mid-20th century as an important service centre to agriculture and a central railway junction for the country. For both these kinds of places, growth has to be well managed and far-sighted, and leadership and institutions need to plan for when resources dry up or technology changes. South Africa's apartheid history acted as an enormous obstacle to the development of such leadership in most places, and in the vast majority of urban areas effective economic leadership has failed to emerge over the past ten years of democratic rule.

However, some places develop despite their lack of natural attraction or specific economic function. They do so because of visionary leadership and effective co-operative programmes of development. An interesting and inspiring example for South Africa is Atlanta, Georgia, in the United States. Here is a city that has no natural economic attraction or physical features, and was a fairly minor railway junction in the early 20th century. What Atlanta did have was vision, leadership, confidence, and brash boosterism. It declared itself to be an international convention centre city seven years before it had a licence for an international airport, and it actively recruited the large headquarters of multinational companies through providing a business-friendly environment and the energetic and compelling reality of black and white leadership committed to Atlanta's growth and receptivity to international and local business. Today Atlanta is a world-class city – not without problems – but nonetheless a world-class centre of growth and opportunity for millions of people.³⁰

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

- **Leadership makes all the difference**

At key stages in a city's life, leadership can make all the difference. This can come from different parts of the city. Sometimes it is a powerful and determined political leader, sometimes it is a civic leader or a business leader, but ideally it is a coalition of people who together provide broad-based leadership to make a difference. What these people generally share is a commitment to the city and its people, and a determination to implement a plan for its future that will drive expansive economic growth. The question then becomes: why is South Africa struggling to produce effective urban leadership in most of our cities and towns? And what can be done to cultivate local leadership? Roles for local economic leadership differ, but those in the public and private sectors should complement each other. At present there is confusion where there should be synergy, and, above all, we lack a pragmatic, common development language and understanding. What can be done to establish such a language? An important starting point would be for the national ANC govern-

The voice and needs of the local communities of Bloemfontein and Welkom are not heard in national debates

ment and business to communicate the lessons they have learned about working for economic growth at the national and international level to their counterparts at the local and provincial level. It is clear from CDE's research that the national ANC leadership's insights into the market and the importance of working with business have not filtered down to local level.

- **Can Bloemfontein or Welkom do it alone?**

Our research into the two leading urban areas in the Free State in 2004 confirms work that was done by CDE in the second half of the 1990s on South Africa's small towns, and work done early in the 1990s on a selection of secondary cities across the country.³¹ Although there has undoubtedly been progress over the period since – formal desegregation and formal political rights are two key examples – the essential development challenges remain the same as those identified previously, and in certain instances they have deepened.

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

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

However, the issues facing the two cities are different. With respect to Welkom, a number of salient features emerge. Here is a town with a declining population, and dwindling resources. Its leaders have some creative ideas for future development, but have felt let down by take-up and implementation of them by provincial government. Two sharply contrasting views highlight the seriousness of Welkom's predicament. Some argue that while for years Welkom's mines and the companies that own them have paid enormous national taxes, the benefits for the local population have not been commensurate to this contribution and therefore, now that the decline is setting in, national resources should be contributed to this particular place. Others take the view that cities and towns prosper and decline, and sometimes – in extreme cases in respect of extractive industries – there is very little that can be done to prevent that. National and regional policy-makers should then try to give migrants from that city the skills they need to prosper elsewhere in the country, rather than waste resources and effort on trying to rebuild a place whose rationale is exhausted and will not come again, whatever anyone does. It is a complex argument, but certainly one worthy of discussion.

Bloemfontein is a different kind of city. Its population is growing, almost entirely because of an influx of poorer people. At the same time there is an exodus of more skilled people who are needed to cope with dramatic changes in economic dynamics. To face challenges on all these fronts, determined and visionary leadership is required in order to stop the city's decline and find a new path to prosperity for all. A good start has been made in the city's planning, but there is as yet no agreed programme of action and priorities that provide a feeling of confidence in local players

What is required is a national education / information campaign aimed at local political leaders about the realities of economic growth in the 21st century

themselves or outsiders that a new role and vision for this city can be forged by its citizens, black and white.

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

Decentralisation as a proclaimed political strategy requires a devolution of resources and rights, together with responsibilities. It is useless to tell Welkom to ‘pull itself up by its own bootstraps’ when one reserves provincial and national political rights to ignore or overrule whatever a local growth coalition proposes. It follows that if we are serious about local urban development and the prospects for economic growth that is driven by local actors and interests, we have to revisit the powers and responsibilities of local governments. One of the weaknesses of South Africa’s new democratic system of representation is the fact that we only have proportional representation in parliament, and no constituency representatives. The voice and needs of the local communities of Bloemfontein and Welkom are not heard in national debates about regional strategy, priorities, local development needs, or the impact of national legislation on those particular places. This is a serious weakness, which has a negative impact on prospects for development and growth. What can be done to rectify these systemic problems?

Policy proposals

The constraints and difficulties outlined above are formidable. However, important things can be done now that should substantially improve development prospects in the two cities, the Free State as a whole, and other urban areas across the country. These are discussed in order, from the more local to the more national in scope.

In Bloemfontein/ Mangaung

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

In Welkom / Matjhabeng

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

These recommendations should be more generally applied to the large towns, cities, and regions throughout the country

The role of provincial government

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

The role and responsibility of business

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

The role of national government

A number of different activities are rightfully the domain and responsibility of the national government:

- **Communicating downwards**

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

- **The effect of laws on local communities**

The implications of national policies, laws, and regulations on local communities and towns and cities need much greater consideration. For example, current South African laws and regulations have resulted in Bloemfontein losing a large number of factories to Lesotho, whose government has created a much more pro-business environment. The fact that most new enterprises either in Welkom or Bloemfontein

When the cabinet says that jobs will be created predominately by the private sector, they need to point out what this means for urban political leadership in the heartland

are of limited size (in terms of employment) is probably the consequence of these same laws and regulations.

- **A national urban strategy**

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

- **The language of partnership**

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

- **A Cities Development Fund**

This is one component of a national urban strategy that would immediately assist Bloemfontein and Welkom. At present the national funds available to local governments are consumption- and not production-centred. By contrast, the Cities Development Fund should be a pool of money for which cities can compete based on economic criteria, especially concentrating on the economic dimension of leverage (see box, *A Cities Development Fund*, page 24).

- **The roles of national departments should be redefined**

Like many other developing countries, South Africa has tended to assign responsibility for local urban areas to a (national) department of local government. This has been found in many other countries to be an error. It is by no means clear that responsibility

A new local leadership approach, emphasising boldness and a shared language of growth, is what is now required

A Cities Development Fund

The management and efficient use of financial resources for development could be improved by the creation of a Cities Development Fund, for which cities could compete on the basis of specific economic criteria.

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

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

- Short-term economic growth impacts: increased incomes of construction workers involved in capital projects, and the multiplier effect on local business derived from increased spending by these employees.
- Long-term economic growth impacts: the establishment or expansion of enterprises which would create new permanent jobs; increase profits, rates and taxes; and have a multiplier effect through spending on goods and services from other enterprises.
- Displacement effect: the local development impact of a project must be calculated. If part of the profits or jobs created result in profit or job losses in other sectors within the local economy (displacement effect), this must be deducted from the total efficiency of the project.
- Leverage effects: public sector CAPEX projects might stimulate subsidiary CAPEX projects by other entities. One could say that public sector CAPEX 'leveraged' other CAPEX projects into operation, and development efficiency will include the additional growth impact (minus the displacement effect).
- Externality effects: this is the 'spillover effect' of a project beyond its development objectives in terms of unpriced benefits (positive externalities) or uncompensated costs (negative externalities).

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

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National public and private sector leadership needs to collectively signal that the country can develop mutual understanding and trust across racial and public–private sector divides

for local economic development should be vested in the Department of Provincial and Local Government. Urban economic growth is central to the future of Bloemfontein and Welkom, and this is an issue of concern to a number of national government departments. A method or mechanism needs to be found to involve more directly the central economic and infrastructure departments in what have hitherto been termed issues of local government. One example of the implications of this approach would be a joint initiative by the Department of Trade and Industry, the Department of Transport, and the Matjhabeng Council to implement its airport/IDZ project. This could also be a model for the operation of the Cities Development Fund.

Summary of policy proposals

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

Specific recommendations in respect of the heartland include:

- An intensive political and information campaign by senior government economic ministers directed at local political leaders / officials about the realities of economic growth in the 21st century and the importance of creating an enabling environment for private sector investment
- The development of an economically based national urban strategy (led by the President's office) that provides guidelines on how to deal with rapid urbanization; more effective management of cities and towns so as to maximize their economic potential; and how to manage the timing, sequencing and balance between the infrastructural requirements for economic growth and long neglected basic service provision.
- A competitive Cities Development Fund, as part of an overall urban development strategy, would be a way for government to stimulate energy, ambition, and initiative in our cities, and get a return on national investment.
- National business organisations should make growth their number one priority, and recognise that growth means more than the metropolises, and is crucial to smaller cities and larger towns.
- Responsibility for diffused growth has been unduly concentrated where capacity is weakest, in local government or in inappropriate national departments; stronger roles for the key national economic departments and more facilitative provincial government are needed
- A training programme managed by experienced business organisations is needed for cities and towns: this should foster understanding of economic growth, competition, and building growth coalitions, and it should be aimed not just at officials and politicians but at business people too.
- A research programme on the conditions for strengthening local growth coalitions in South Africa, suggesting strategies to promote partnerships of this sort.

Civic leaders believe in government but do not understand how government might make a difference in practical terms

Concluding remarks

All the research evidence suggests that a new local leadership approach, emphasising boldness and a shared language of growth, is what is now required. The government's policy of decentralisation is placing a heavy responsibility for development on local government institutions and businesses. However, the deficient capacities

of many municipalities are well documented, and there is a greater need than ever for active involvement by key national role players in both the public and private sectors in supporting and enhancing local initiative. The government has recognised this by sending task teams to support 'failing' municipalities, but the challenge is broader than this, and cannot be restricted to ad hoc national interventions in especially beleaguered towns, in the Free State or elsewhere.

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

In his internationally famous work entitled *Exit, voice and loyalty: responses to decline in firms, organisations and states*³², the economist Albert Hirschmann points out that people's responses to perceived decline in an environment or organisation are largely a product of the extent to which they are personally affected by the decline, and their assessments of the costs and benefits of alternative courses of action. He categorises these as 'exit', 'loyalty', and 'voice'. Cost and benefit calculations in turn lead individuals to assessments of the likely efficacy of such actions, given their personal objectives. Very often it is the most able who find the least cost and most benefit in the exit option, whatever the specifics of the declining organization or locality.

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

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

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

We thus reach a seemingly paradoxical conclusion. If local communities are to enjoy self-sustaining, synergistic economic development, with widely shared positive

The predominant attitude was one of faith in experts rather than appraisal of how paper plans can be implemented

outcomes, a change in the rules of the national game will be required. Pre-eminent among these will be the following:

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

It is outside the major metropolitan areas, in the places that are 'halfway to everywhere,' as Free Staters wryly describe themselves, that development policies are most rigorously tested, and their deficiencies or even absence exposed. The national developmental agenda for several years now tended to preach decentralisation, but practise centralisation. It is also a script that preaches the need for 'inclusive participation,' for example in IDPs, but in practice is often distrustful. Active, critical business or community involvement in local development issues tends to be discouraged at the expense of those in a (public sector branded) 'loyalty' camp. This, incidentally, was also the conclusion reached by government officials, business people, and academics who attended a CDE Round Table on local government in November 2003.³³

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

Expectations
are low, actions
correspondingly
modest. The
ambitious – black
and white – vote
with their feet

Endnotes

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Designed and produced by Riaan de Villiers & Associates

Printed by The Bureau, Johannesburg

Cover photographs:

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ISSN 1815-2937



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