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SKILLS@WORK: Theory and Practice Journal

This independent, interdisciplinary journal is dedicated specifically to skills development and related areas such as local economic development (LED). These are emerging fields of research and knowledge in South Africa: the journal therefore provides an important forum for the publishing of scholarly articles and case studies that are of interest and relevance to researchers and practitioners. A further aim is to provide an ongoing stimulus for learning and teaching in these fields, particularly for local graduate students and young researchers in academic institutions and research centres. Although the focus is primarily on South Africa, regional and international perspectives are also encouraged.

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SKILLS@WORK AND REGIONAL LOCAL ECONOMIC DEVELOPMENT

The question has been posed, 'Why have several volumes of *Skills@Work* been dedicated to Regional and Local Economic Development (RLED)'? This is a very good question, because it takes one to the essence of the problematical situation in South Africa, namely our high unemployment rate, and particularly the problem faced by many out-of-work young South Africans who, given the demographics of South Africa, consist mainly of black youth.

Put very simply, unless we can grow the economy, we cannot absorb labour. The economy grows through the expansion of current business with the challenges of retention, retraining, promoting and recruiting when it comes to staff. Regional development is usually spurred on through the development of business into the value chains of globalised industry. On the other hand, Local Economic Development, as government policy, also places emphasis on communities which, for one reason or another, are not easily accommodated in this process of globally driven growth. Here comparative advantage becomes an issue. In South Africa we are going through a phase led by a policy of New Growth, articulated in the National Development Plan (NDP) and taken forward through the developing policies of the various government departments with a particular interest in economic development. In particular, policies promoting new business development nodes through Industrial Development Zones (IDZs) and incubators are currently popular.

No matter what vehicles are promoted, from infrastructure development, incentivised policy frameworks and business promotion, work requires appropriate skills. Skills for work are usually divided into those requiring higher order theoretical constructs (usually associated with Universities) and application skills (where higher technological appreciation is necessary). There is also the essential level of operator skills. All work today requires a more appreciative understanding of the rapidity of change, the importance of innovation and the essential nature of relationship skills linking producer and consumer dynamics.

Ultimately, RLED is dependent on appropriate skills. In previous journals, as with this volume, there is an emphasis on the emergence of the RLED professional and the skills base he/she requires to be a broker of new opportunities that lead to decent jobs. While it is critical to provide this emerging profession with the intellectual and professional skills required by RLED professionals, it is also important to emphasise the skill sets required in the emergent economy. This edition takes us a step nearer to this goal and alerts us to the need for a future volume which will allow for various perspectives of the 'learning to earning' implications that are embedded in RLED development.

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GUEST EDITORIAL: A SYSTEMS-BASED APPROACH TOWARDS SUSTAINABLE ECONOMIC DEVELOPMENT IN RURAL AREAS OF SOUTH AFRICA

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ABSTRACT

This paper examines rural entrepreneurship and the driving factors that advance small enterprise development in South Africa. The authors' combined literature and field research in an attempt to create a framework for rural economic development.

It is premised that rural economic environment should be advanced through strong public-private sector community initiatives and networks. Such a systemic framework could allow SMMEs to tap into mainstream economic activities, allowing trade within the larger economic communities, thereby creating interactive economic communities (clusters).

The paper is constructed of six sections dealing with a review of Local Economic Development policy, and identifying the possible driving factors required in establishing opportunity-orientated and wealth-creating local economies. The paper concludes with recommendations and a model for reviving rural Local Economic Development.

Keywords: Entrepreneurial Development, Enterprise Development, Independent Development Plan, Local Economic Development, Small, Micro and Medium Enterprises, Social Capital, Social Entrepreneurship.

INTRODUCTION

This paper examines the inherent factors that relate to economic development in rural areas with a special focus on the creation of a supportive environment. It focuses on small business as the locus of opportunity-generation and value-creation, the heart of employment creation and a contributor to wealth and job creation.

The paper is based on a combination of literature and field research with small business owners and LED officials in the near Cape Town area. The authors identified six factors that drive entrepreneurship.

The paper starts with a basic assessment of the effectiveness of the South African economy in supporting entrepreneurship and SMMEs. This is followed by an analysis of the impact of current Local Economic Development policy. Next we evaluate the need for local economies to generate viable opportunities for SMMEs. We also discuss the value of opportunity-driven training and skills development, we identify important economic infrastructure requirements and we discuss our evaluation of the funding environment. We conclude by offering recommendations on how to enhance rural economic development and suggest an implementation model for consideration by policy makers.

RESEARCH PROBLEM

The investigation aimed to answer such questions as:

- What factors currently influence their success or failure?
- To what extent does LED policy and rural economic strategy support them?
- What drives sustainability that contributes to large-scale economic growth and eradication of impoverishment in rural areas?

METHODOLOGY

This paper is the result of a combination between a literature study and a qualitative study conducted amongst a group of rural entrepreneurs, using a structured questionnaire focused on their development history, and attempting to address their success within their supporting environment. Interviewees included current SMME owners in selected rural areas around the Cape Town metropolis, as well as with four LED officials.

OVERVIEW OF ENTREPRENEURSHIP DEVELOPMENT IN SOUTH AFRICA

In an effort to identify factors that influence rural entrepreneurial culture and the creation of sustainable opportunities, jobs and wealth, and to establish a framework for effective support of entrepreneurship and SMMEs, we conducted a literature review on international and South African practice regarding promoting entrepreneurship and SMMEs.

The entrepreneurship imperative

The Global Entrepreneurship Monitor (GEM) report of 2012 rated South Africa poorly with regard to Total Early-Stage Entrepreneurship Activity (TEA), giving it a rating of 7.3% compared to an average of 14.3%. The report also shows that 67% of entrepreneurs are necessity-driven compared to 35% who are opportunity-orientated (Herrington, 2012:21). South Africa has consistently ranked in the lower half of countries included in the GEM since 2001. An important aspect of the 2012 GEM report is a focus on the proportion of SMMEs that survive for longer than 3.5 years. In this regard, SA is also not performing well in comparison to other countries (Herrington, 2012).

Table 1: South Africa's entrepreneurial performance comparison

BRICS countries				**South Africa**
Brazil 14	China 12	India 36	Russia 2	2
Sub-Saharan African countries				
Nigeria 16	Botswana 28	Uganda 36	Ghana 38	

Source: GEM report, 2012

The Organisation for European Community Development report on rural entrepreneurship (OECD, 2008) also found that rural areas lagged behind national average economic growth rates in Europe and Asia. Weaker economic performance, leading to rural decline, is driven by persistent out-migration of younger and better-educated people (leading to low productivity), lower educational attainment (leading to low skills levels), lower average labour productivity (leading to lower wages), resulting in lower levels of public service provision. Rural economies also often lack advanced economic infrastructure, limiting prospects for growth (Ward and Brown, 2009).

Policy

Official government policies also have an important impact on the promotion of entrepreneurship and SMMEs and therefore need to be stringently evaluated. In its document on Policy Guidelines for Implementing Local Economic Development in South Africa (2005), government acknowledged Local Economic Development as an important component in economic growth and spelled out a number of measurements to enhance it. However, Hindson and Vicente (2005:5) highlighted a major flaw with this legislation, in that it 'failed to address the question of the competitiveness of the formal economy in the context of the increasing pressures of economic globalisation'. More fundamentally, local economies were subject to powerful new forces resulting from South Africa's opening to economic globalisation, forces that entrenched inherited spatial patterns, cross-cutting government's efforts to integrate prosperous and impoverished localities and regions.

To illustrate, a government investigation at the Nala Local Municipality stated as follows on LED strategy: 'The concerns raised by the stakeholders pertained to lack of business opportunities, lack of job opportunities, lack of access to land, lack of equity in the awarding of municipal tenders, lack of economic financial support to small businesses, non-functionality of the Unit in the Municipality, and lack of a clear LED strategy' (NCOP[1], 2010).

Another major flaw is the lack of attention to the connections between growth in the developed economy and sustainable opportunities for the poor in the underdeveloped economy. More generally, the (policy) document gave inadequate attention to the core LED questions of rural enterprise and market development. Sheykhi (2005:3) contends that the focus in rural areas should be on generating income and employment rather than on poverty alleviation. Confusion also exists over the target groups, processes, institutional arrangements and tools of Local Economic Development.

Another important constraining factor for LED lies in the fact that LED initiatives are carried out within the confines of local political structures. This (often) leads to a lack of co-ordination with private local enterprise, leading to failure in creating links between LED initiatives and local economic communities and value chains.

The following table, based on research done in the UK, emphasises the correlation between the availability of resources (support) and business success.

Table 2: Entrepreneur needs versus access to support services available

Resource	Rated as important	Rated as satisfied
Access to finance	84%	65%
Access to skills and expertise	82%	63%
Access to staff	81%	23%
Access to general resources	79%	22%
Access to technology infrastructure	71%	21%

Source: Goldstuck (2008)

Feedback (structured interviews) from owners of SMMEs

The results of our own structured questionnaire with a number of SMME owners around the Cape Town area revealed the following results:

- 80% of the ventures were started without outside financial assistance.
- 80% sold products in the local economy only.
- 20% sold products in a neighbouring economy.
- 90% sourced some materials from local suppliers.
- 25% had to source from outside of the local economy.
- 40% produced items to be marketed locally.
- 90% indicated a desire to sell more locally.
- 70% confirmed the existence of a support network, while 10% indicated that they actually used this network.

[1] National Council of Provinces (NCOP)

- 25% indicated that they knew where to source business-related support.
- 100% supported the use of a mentor, but did not know where to find one.
- 90% expressed a need for sector-specific training and assistance.
- 50% thought local (economic) infrastructure assisted their business operations.

In summary, the interviews provide evidence to the following challenges regarding the effective development of small business in rural areas:

- Local authority policy and support was viewed as inadequate, especially with regard to start-up ventures.
- Networking with other entrepreneurs and groups was very low key.
- Training, financial and marketing information could not be verified.
- Local businesses did not exploit all demand and supply needs.
- Insufficient support had resulted in inadequate opportunity recognition and exploitation.

FACTORS THAT DRIVE SUSTAINABLE ENTREPRENEURIAL DEVELOPMENT

Entrepreneurial failure is often ascribed to a number of factors such as poor infrastructure, insufficient financial support (capital), leadership issues, politics and appropriateness of locally adopted support measures (Zaaijer and Sara, 1993; Adato, Hoddinott and Haddad, 2005; Peredo and Chrisman, 2006). The subsequent sections will focus on a number of identified driving factors needed to support entrepreneurship and SMMEs in rural areas effectively.

Driving factor 1: Building strong Public-Private sector partnerships to support and drive LED initiatives

Local Economic Development (LED) is described as a process where government and communities manage resources together with the private sector to advance economic development (Zaaijer and Sara, 1993:3; Hindson and Vicente 2005:5). LED's role, to assist the economy to become a more competitive entity, is factored into the National Framework for Local Economic Development for the 2006-2011 policy and mandate for LEDs. The effectiveness of the NSDP is questioned, as it implies that local economies will survive and thrive in the advent of Black Economic Empowerment (BEE). According to Dewar (1998), some serious limitations exist with regard to the implementation of the above mandate. As a result, LED initiatives have typically been driven by community-based projects and NPOs, with the private sector not always achieving partnership status. By default of an effective local economic stimulation system in rural communities, a self-reliant, bottom-up development is encouraged. As a result, many projects which intend to address enterprise development inadvertently create survivalist businesses instead of real value-creating businesses.

Creating economic growth through SMMEs

Internationally, LED has moved away from attracting investment into an area to retaining and growing local SMMEs. This approach emphasises the strong link between existing businesses and new ventures. Eastern European regions, as developing economies, are challenged to convert to competitive market economies. Instead of relying on foreign investments, LED in these countries has assisted in identifying opportunities for local investment and the creation of modern SMMEs (Pretorius and Blaauw, 2005:3). According to Hindson and Vicente (2005:11), the trend is to take municipal areas as the spatial focus of LED and to seek to create 'robust and inclusive local economies' within all of them.

Building strong public-private partnerships

The development of markets relies heavily on involving the private sector (existing businesses) as part of a 'dual-logic' approach to economic growth, while government's focus is on developing infrastructure. This links strongly with the concept of public-private partnerships. Public-private partnerships have been instituted in South Africa in larger developments, but not in smaller entrepreneurial projects.[2] A refocus of this type of partnership could positively influence the pillars of Local Economic Development.

The importance of supporting a manufacturing platform (value creation)

Rural industries have been damaged seriously as a result of intensified and global competition. It is self evident that a local economy will not survive in isolation. To survive, local rural economies need to be tied into wider value chains, manufacturing tradeable items and linking with other (regional) economies. This goal is, however, subverted by a tendency towards non-competitive incentives such as economic quotas and income re-distribution (Neves, 2009).

The growing of a sound manufacturing base relies on inter-business linkages between established business and SMMEs. To enhance this, the development of basic skills amongst the rural workforce is critical for industrial and high-technology development (Toomey, 1998:201). This implies that companies should adopt innovative ideas and systems to pioneer 'dual-logic' opportunities for manufacturing and distribution. A development policy that purposefully ties skills with opportunities could begin addressing much of the decline experienced.

Identifying suitable rural economic growth areas

It is recognised that not all rural areas will be suitable to tie in with such a growth strategy, due to a wide range of factors. It is important for local government to focus on strengthening a free market flow, based on demand and supply. The advantage of tying SMME activities to definite opportunities and markets is that it can increase their commercial viability, quality and competitiveness (Mahoney and Van Zyl, 2002).

Another major challenge for rural development in South Africa is to move beyond once-off projects (eg public works programmes to create employment and opportunities for small businesses) and move towards complementary private investment in economic activities geared by commercial markets and growth (Hindson and Vicente, 2005:21).[3] Such opportunities can become attractive, especially when unique local resources are important and local production increases marketability, and where transport costs contribute little towards the value chain (Beyers and Nelson, 2000; North and Smallbone, 2006).

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[2] To date only one successful project has seen the light, according to City of Cape Town LED department.

[3] One of the few successes impacting rural growth was an intervention in Stutterheim (Eastern Cape) in the early 1990s (Mahoney and Van Zyl, 2002).

Offering of special incentives

Although government initiatives do exist to encourage investment and development, this needs a radical overview. North and Smallbone (2006:55) studied the incentives people received when they settled and started a new business in rural UK. The study underlined the fact that the drawing of established entrepreneurs to underdeveloped rural areas contributed significantly to local economic growth.[4]

Driving factor 2: Building local social entrepreneurial capital and opportunities

Entrepreneurial capital implies a broader context of community development, which focuses on the identification and development of real opportunities, including skills development and mentorship. Social capital consists of the stock of resources embedded in the landscape, biodiversity, local customs, quality of life etc, emphasising the connecting of internal and external drivers (Nel, 1999:5), giving rise to optimal utilisation of community resources. It takes on a systems thinking approach in identifying an entrepreneurial agenda at local level.

Social capital is important in improving trust and understanding, as well as economic and social inclusion within a community. Strong, effective network links are required within the community to ensure that the key stakeholders (entrepreneurs) receive local support. It implies local independence to leverage all resources, and local political will to see value creation succeed. Social capital cannot supersede entrepreneurial capital; it can only enhance it.

Peredo and Chrisman (2006) suggest that communities that are rich in social capital are better positioned to identify opportunities and to co-ordinate resources required to seize these opportunities. This self-reinforcing nature of entrepreneurship in a community helps explain why some rural areas are more prosperous than others. Individuals in areas without entrepreneurial role models or entrepreneurial culture are less likely to assimilate the uncertainty and risks of venture creation.

Entrepreneurial capital is founded on two fundamentals.

- First, the proper stimuli are needed in a community in order to unleash entrepreneurial activity. Enterprise development as a solution is one thing; it is quite another to alter local conditions and mindsets to make entrepreneurship attractive and feasible.
- Second, entrepreneurial activity that occurs must lead to the creation of substantial enterprises. By this we mean that the ventures created must be innovative, adding new value to the community rather than duplicating or replacing the products or services offered by existing ventures in the circular flow (Schumpeter, 1934).

Driving factor 3: Building strong enterprise supporting networks

Business networks offer many opportunities for overcoming the scale and capability limits inherent in rural businesses. Winter (1995:27) states that 'the level of economic success and dynamism achieved by SMMEs is roughly proportional to the degree to which the enterprises are embedded in institutional support systems one level up'.

[4] Clem Sunter encouraged government to create better tax breaks to encourage entrepreneurs to start new businesses, while labour laws need to be simplified to make it easier for small companies to take on new employees. He also suggested that the black economic empowerment scorecard be replaced by one that encourages big business to support emerging companies (Business Day, 10 April 2011).

Smaller communities, with their highly developed social networks, may offer a multitude of resources such as volunteer labour, access to infrastructure, technical information and advice relevant to enterprise development.

In this regard, the northern Italian region of Emilia Romagna provided a prototype, duplicated in other EU countries, for networks of SMMEs to enhance competitiveness. As a consequence of the initiatives in rural communities of this region, the number of vertical, horizontal and complementary business networks has increased dramatically in the past two decades (Keeble, 1997; Murdoch, 2000).

Strong business networks can expand the ways in which a community can innovate with limited resources, partly by co-operation, but also by stimulating the emergence of new and complementary enterprises. Internationally, regional economies have benefited through connecting/linking SMMEs into (especially) the manufacturing sector (Hindson and Vicente 2005:14).

Economic clusters

Hindson and Vicente (2005:15) propose that networks could be compared to economic clustering processes, incorporating non-government entities such as businesses, producers, consumer associations and specialist service providers. This underpins the need for a selective approach – 'smart specialisation' – building on evident local strengths and opportunities, and avoiding industries and technologies where there is little potential for local development.

The National Spatial Development Perspective (NSDP) also suggested a more economically functional categorisation of spaces into economic clusters for the purpose of tackling poverty alleviation in rural areas. However, municipalities fighting to stay liquid will not drive LED, and hence the objective of effective local business associations to drive economic upliftment becomes problematic (Hindson and Vicente, 2005:15).

A case for social entrepreneurship

A case study from Stutterheim in the Eastern Cape highlighted the role of social entrepreneurship in creatively solving social and economic problems and overcoming institutional barriers. The Stutterheim Development Forum report subsequently stated that '... community self-reliance and economic growth are the most crucial issues for the survival of small towns and rural communities …' (Nel and McQuaid, 2001:16).

Co-operatives as a tool to promote social entrepreneurship

Government institutionalised the co-operative as a sustainable business model to support Black ownership and economic participation. It is argued that the co-operative, together with its LED partner the NGO sector, is the ground stock for creating unviable small businesses. Accordingly, the following legislation was gazetted:

- the Cooperatives Act of 2005, which addresses support for enterprise development (SMMEs) in co-operation with other government agencies
- the Enterprise Propeller Act, which, aligned with the Cooperatives Act, acts as an incubator for SMMEs

In addition, the National Youth Fund (NYF) was established. This incorporates the Youth Cooperative Programme and overlaps with similar programmes.

Unfortunately, the co-operative approach led to gross mismanagement of obligations of prospective entrepreneurs and, by default, created social grants rather than sustainable enterprises. In this regard, a COPAC (Cooperative and Policy Alternative Centre, 18) assessment of co-operatives found that:

- municipal and political bureaucracy and ineptitude stifled effective cooperatives start-ups
- training and production was not co-ordinated (eg post-training mentorship)
- There was no comprehension on the 'free market economic model', encouraging co-operatives to be run as political entities.

The COPAC report questions instruments such as SAMAF (SA Micro-Finance Apex Fund), which has the objective of alleviating poverty and unemployment, rather than enterprise development and capacity-building. In our view, this approach inhibits the building of entrepreneurial initiative, through:

- lack of partnerships with the community that supply the value chain
- business not acting as a link between the community and the market
- Businesses not investing in development of community partners.

The research underpinned the fact that many LED projects have limited sustainability. It appears that LED has taken on a mainly political agenda, failing in its entrepreneurship agenda in spite of adequate (public) funding available.

A more independent co-ordination between public initiatives and private entrepreneurial activity could fill this gap.[5] In an interview with the mayor from Midvaal, he indicated that 'real Local Economic Development does not happen in isolation, there must be ways of using local resources to extract maximum local benefit, which occurs only when it is driven by the private sector'.[6]

The above example extenuates that local government is not in a position to create sustainable new employment on its own. This illustrates the fundamental requirement, that institutional support remains a key issue that hampers enterprise growth in South Africa.

Driving factor 4: Training and mentorship support

Ladzani and Van Vuuren, (2002) who researched the contribution of SMMEs to economic development, found that a lack of concerted training efforts contributed to SMME failure. This includes the lack of pre- and post-training services (coaching and mentorship) and the training content. An (opportunity influenced) assessment of potential entrepreneurs and trainer expertise play an important role in reducing failure rates, increasing profits and growth (Orford, 2004:10; Ladzani and Van Vuuren, 2002:157-160). There is thus a clear correlation between (applied knowledge and skills) training, mentorship and business success.

COPAC also emphasises that a lack of training affects confidence with regard to governance, financial management and funding (COPAC, 2006:38). COPAC concludes in underlining the vital link between support for enterprises by professionals (coaching and mentorship) via skilled mentors and current businesses (COPAC, 2006:39).

However, it seems that the service mechanism often used by LED initiatives through non-business oriented service providers (NGOs) appears to be flawed (Toomey,

5 The authors have tried to examine the funding of LED and entrepreneurship, but a record of this is not public knowledge.
6 Business Day, 22 July 2010

1998:206).[7] A mechanism to involve trainers, coaches and mentors with real (relevant) business experience thus needs to be supported.

Driving factor 5: Development of economic infrastructure

Economic growth (LED) is closely linked with the increase or decrease in infrastructure capacity (Bodhanya, 2009). He states: 'this indicates that while a locality may stimulate economic growth through encouraging start-up ventures, growth could be short-lived and self-limiting if the increased demand for products and services is not met with increased capacity to satisfy the demand' (Bodhanya, 2009:1). The International Council for Small Business conducted research amongst SMMEs (2008:5), and their findings showed a higher correlation between resources and SMME competitiveness when:[8]

- Proper technology infrastructure was available (45%-48%).
- Business experts such as mentors were available (33%-72%).

Research in South Africa, however, has shown that public support for entrepreneurial activity is hampered by poor quality services and lack of reach (Orford, 2004:12).

In an associated study, Hindson and Vicente (2005:4) found that, 'Cooperation between government, local businesses and NGO sector was often weak or non-existent and non-state actors felt sidelined from most government initiatives.' Although there is a link between basic infrastructure development and enterprise development, the link between business infrastructure and LED is not always explicitly stated in most IDPs or LED strategies (Davies, 2006:36).

In this regard, parastatals play essential roles in their control over key parts of the economic infrastructure. Their decisions about investment have far-reaching effects on local efforts. They impact on LED and SMMEs ability to manoeuvre creativity towards opportunities. We argue that for LED to start addressing its stated goals, local government needs to focus on supplying and maintaining relevant economic infrastructure.

Driving factor 6: Effective mechanisms and resources of funding

Effective funding mechanisms are seen as the main source of opportunities for LED promotion and sustainable economic development. The disparity lies with the fact that the various funding mechanisms are not understood by recipients, especially initiatives controlled by local government agencies. We argue that when the demands and requirements of the local economy are not fully grasped, the funding mechanism will not have a sustainable impact. Another fundamental issue is that promised (financial) support (through government agencies) to start-up ventures, are not freely instituted as marketed.

There are several government departments and agencies that provide for funds, grants and incentives for enterprise development. Together with private sector funding, the multiple channel option creates confusion on the ground. Contributing to the confusion is the lack of differentiation between social welfare programmes and enterprise development programmes (Orford, 2004:18). Mensah and Benedict (2010:159) confirm

[7] Also supported in an interview with Hilary Joseph, LED Area Co-ordinator, City of Cape Town.

[8] The German Department for Technical Cooperation (GTZ 2004) is currently undertaking a 9-year study to affect the LED policy in South Africa. This is based on its assessment that there is a lack of competence, capacities and concepts, leading to communities not being equipped to implement LED. As a result Local Economic Development cannot be harnessed. In its objective it foresees that a participative and competition-based approach must be taken.

that, unconditional hand-outs do not alleviate poverty in the long-term; they often lead to dissatisfaction, violent protests and social impoverishment.

This approach runs counter to important international trends, in which LED promotion is closely associated with political decentralisation, where local stakeholders and local resources determine opportunities, and where local governments play an enabling (resources, funding) role.

Ladzani and Netswera (2009:236) comment that SMME information delivery to rural areas is (often) inadequate, and government agencies need to facilitate capacitation, support campaigns and outreach programmes. A SMME Survey found that 63% of small businesses rated general government incentives as either very bad or bad, and 54% rated the impact of support structures is either very bad or bad (Orford, 2004:19). Together with an enabling social capital framework, we argue that local government, together with tertiary academic institutions, must have dedicated and researched resource programmes available.

ANALYSIS AND CONCLUSIONS

The socio-economic well-being of a community is closely aligned with the level of economic activity in the community. Many factors influence this. Competitiveness is a dynamic quality that requires governments to be bold and opportunity-oriented in creating a supportive and stable business environment.

While macro-economic policy has been successful in stabilising the economy since the mid-1990s, it has failed to secure sufficiently high rates of economic growth or to reduce unemployment and poverty. Taking that SMMEs create roughly 60% of all employment, and that 75% of impoverished people find themselves in rural areas, the promotion of entrepreneurship and SMMEs is a crucial component of creating wealth in rural areas. According to the GEM report, the environment within which entrepreneurship is encouraged is not seen as enabling enough.

To achieve this, the authors argue for a policy where the private sector leads Local Economic Development, in partnership with local government. With the private and public sector not being able to absorb all work seekers, high unemployment and a shrinking manufacturing base, our research findings support a review.

Our research showed that successful rural areas vigorously pursue possibilities to attract entrepreneurs and access external markets in order to expand the competitiveness of their economies. Such actions often involve going beyond the formal mandate and resources of local government. Economic development requires close co-operation with other stakeholders, especially the existing business community, and training and support institutions.

The research further shows that public support for enterprise development in South Africa is hampered by poor service quality and lack of reach. The authors argue that this is not because of lack of effort or investment, but rather that local government needs to radically rethink the way in which it supports small businesses. [9]

This demonstrates a clear need for structural and ideological changes in LED practices. It emphasises the need for preparation before any entrepreneur or SMME is supported financially, and that support should include applied mentorship which fits the training intervention as well as the context (opportunity orientation) of the business at stake.

[9] It should be noted that Cape Town (Western Cape) featured consistently in the bottom three with regard to entrepreneurs' satisfaction levels. This supports findings obtained during interviews for this paper.

The authors argue that the current LED policy and practice in South Africa needs radical restructuring, especially in the case of rural entrepreneurship. The research further showed that:

- There is a lack of co-ordinated policy with regard to rural enterprise development in South Africa.
- Integrated policies with regard to manufacturing and services that focus on poverty alleviation rather than entrepreneurship tend to result in unsustainable business practices.
- Creative linking of rural economies with urban economies is important for creating economic growth.
- A committed community linked through proper support and infrastructure could lead to sustainable entrepreneurship, contributing to real economic growth and wealth creation.
- Current manufacturing policy and activities in rural areas contribute mainly to local consumption only.
- Inexperienced and expensive mentors and service providers (including government agencies) are not able to add value to the process.

Further research and program development is necessary to promote economic growth and development, with special focus on recognition and exploiting sustainable value chains.

A CONCEPTUAL FRAMEWORK AND MODEL FOR CO-ORDINATING EFFECTIVE LED INITIATIVES

Based on the above qualitative evaluation, the systemic enterprise development model suggested in Figure 1 is suggested.

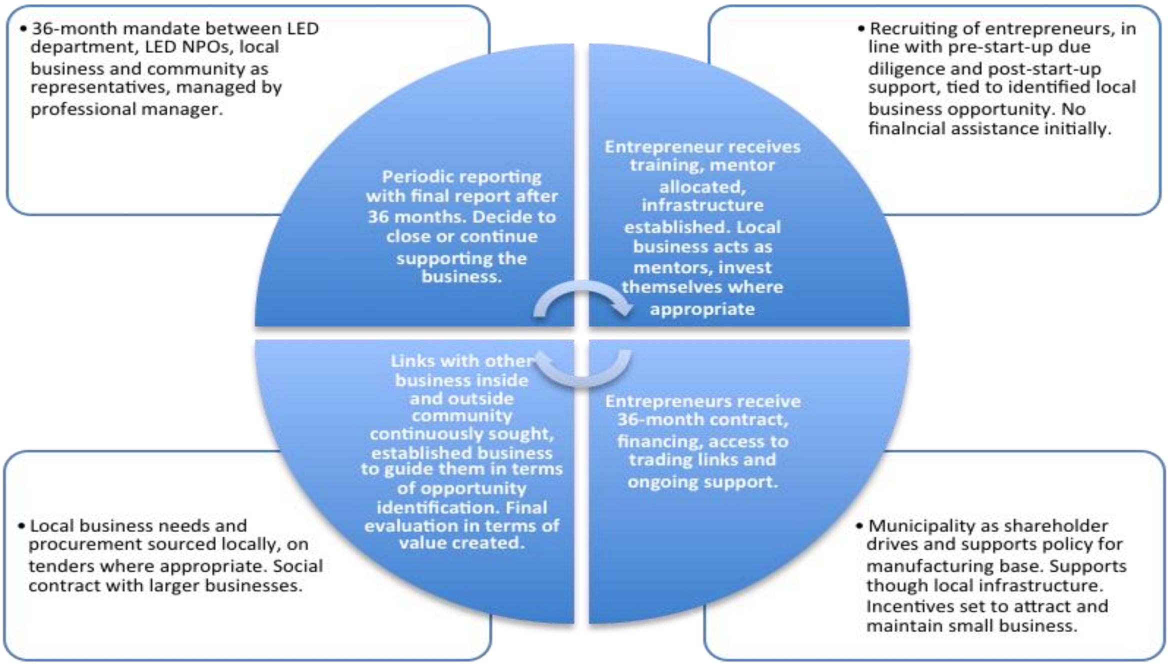

Figure 1: Proposed implementation structure/process for effective rural enterprise development

The authors acknowledge that the recommendations have been done in terms of an ideal platform, and that certain political decisions and their implications cannot be catered for. The authors believe that by studying and applying the recommendations included in this article, many of the rural areas could again become strong generators for socio-economic growth.

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SECTION I:
THEORY

PROMOTING LOCAL ECONOMIC DEVELOPMENT THROUGH MULTI-LEVEL PARTNERSHIP ARRANGEMENTS IN EUROPE

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ABSTRACT

This article provides an overview of how Local Economic Development (LED) is promoted through partnership in Europe. Endorsed by European Union Structural Funds as well as other agencies and support structures, partnership is viewed as an important vehicle for addressing unemployment and social exclusion, promoting social innovation and improving governance. Within this context, emphasis is placed upon the integration of LED within regional and national partnership strategies, which are illustrated by the different multi-level arrangements in place in Austria, Ireland, Germany and Sweden. Although diverse in nature, several common issues can be identified across these models that enhance LED: active engagement of local stakeholders, use of an intermediary to assist relationship-building, balancing accountability with flexibility and review and exchange of learning from the experience of working collaboratively.

Keywords: Employment, Europe, Governance, Local Economic Development, Partnerships, Social Inclusion

INTRODUCTION

> Local development is intrinsically associated with a multidimensional concept of change bringing together economic, social, cultural and environmental dimensions; with innovation across and in the spaces between these dimensions. It may be seen as a method which helps improving quality of life, supporting or accelerating empowerment of ordinary people, developing or preserving local assets, overcoming market failures, strengthening cohesion, and defining and delivering grass-root development projects. (European Commission, 2010:10)

This paper shares emerging lessons from Europe on the promotion of partnerships for Local Economic Development (LED) and the multi-level linkages necessary to support them. Drawing primarily upon information from the Community of Practice on Partnership in the European Social Fund (COP)[1,2] and the Organisation for Economic Co-operation and Development's Local Economic and Employment Development Forum on Partnerships and Local Governance (OECD LEED Forum),[3] the authors provide an overview of the rationale for the 'partnership principle' in Europe and its implementation via Structural Funds and other bodies. This is followed by an analysis of arrangements that promote co-operation between actors at local, regional, national and transnational levels, with examples from four European Union (EU) Member States. A set of common issues is identified across the models that assist integrated approaches to the multi-dimensional problems faced at local level. The paper concludes by reinforcing the importance of coordinated development strategies that take local needs and capacities into account.

THE PARTNERSHIP PRINCIPLE IN EUROPE

> Partnerships have become increasingly common as a governance tool to: link up policies at the local level; connect local actors with other governance levels; stimulate initiatives; increase effectiveness and efficiency in the use of resources; enhance policy outcomes; and develop strong capacities at a local level. (Vienna Action Statement OECD, 2010:1)

Partnership has emerged as a central priority in the socio-economic development strategy of the EU. The European Commission, the European Parliament, the Committee of the Regions and the European Economic and Social Committee have published a number of resolutions, opinions and white papers that call for the strengthening of the 'partnership principle' in the implementation of Structural Funds.[4] The partnership principle is centred upon the premise that issues such as employment and social inclusion are too complex for single institutions to resolve on their own, and that co-operation between public authorities, social partners and, more recently, non-governmental organisations (NGOs) and civil society organisations, is necessary for job creation, competitiveness, economic growth, improved quality of life and sustainable development.[5]

According to the European Commission (2009:xix), the implementation of the partnership principle,

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1 A transnational network of ESF Managing Authorities which operated between 2007 and 2011.

2 Community of Practice on Partnership in the ESF (COP) Available at http://partnership.esflive.eu/ Accessed 7 February 2014.

3 See http://www.oecd.org/cfe/leed/forumpartnerships.htm

4 See, for instance, European Economic and Social Committee (2010).

5 See http://ec.europa.eu/esf/main.jsp?catId=54

> … has contributed to progress towards the reduction of inequalities and discrimination; it has contributed to innovation, especially as ways of working together have sometimes been profoundly changed, and transfer of knowledge and experience took place between partners. It has contributed to transfer and mainstreaming, especially as partners became able to speak a common voice in key policy areas and therefore to influence policy. (European Commission, 2009:xix)

The encouraging nature of these findings explains why partnership has been proactively promoted in the EU, and why the Commission believes that it is central to the achievement of the five EU 2020 targets (European Union, 2011:11).[6]

As well as Structural Funds such as the European Social Fund (ESF)[7] and the European Regional Development Fund (ERDF),[8] the partnership principle is also supported by a range of initiatives working outside these regulatory bodies, including the OECD LEED Forum, and different national, sub-regional and local programmes for growth and employment. The OECD LEED Forum, for example, supports partnerships that are: (i) multi-level — with partnership decision-making involving stakeholders from national, regional and local levels; (ii) multi-sectoral — involving stakeholders representing various policy areas and economic sectors/branches, and governmental as well as non-governmental actors interested in improving co-ordination between the labour market, education, and economic and social policies at a local and regional level; and 3) (iii) multi-dimensional — applying integrated approaches to multi-dimensional problems (OECD LEED Forum on Partnerships and Local Governance).

In the ESF, regulations for the 2007-13 planning period stipulate both the involvement of diverse groups of stakeholders in the governance mechanisms of Operational Programmes (OPs), and the provision of financial support for multi-actor projects (European Commission, 2006b). OPs are thus tasked with ensuring broad consultation, oversight of their programmes by multi-stakeholder Monitoring Committees, and delivery through initiatives involving national, regional and local authorities, educational and training institutions, NGOs and the voluntary sector, as well as social partners such as trade unions and work councils, industry and professional associations, and individual companies. In the draft ESF regulations for 2014-20, emphasis on partnership is reinforced by calls for the mobilisation of regional and local stakeholders to achieve the Europe 2020 Strategy and its headline targets.[9] In the ERDF, meanwhile, partnerships are promoted '... among all the relevant territorial and socio-economic partners, and in particular regional and local authorities, as well as any other appropriate body during the various stages of implementation of the operational programmes co-financed by the ERDF' (European Commission, 2006a).

Partnerships have also been set up to reduce territorial imbalances between and within regions, rural and urban areas. In the 2007-13 planning period, partnerships between different stakeholders were supported through the European Territorial Co-operation objective in: 53 cross-border co-operation programmes along internal EU borders; 13 transnational co-operation programmes covering larger areas such as the Baltic Sea, Alpine and Mediterranean regions; an interregional co-operation programme and three networking programmes covering all EU Member States.10 Territorial cohesion is promoted by EDRF-funded programmes such as the European Grouping for Territorial Co-operation (EGTC) and the new Community-Led Local Development (CLLD) initiative in

[6] The five targets for the EU in 2020 are: Employment (75% of the 20-64 year-olds to be employed); R&D (3% of the EU's GDP to be invested in R&D); Climate change and energy sustainability (greenhouse gas emissions 20%, or even 30%, if the conditions are right, lower than 1990, 20% of energy from renewables, 20% increase in energy efficiency); Education (Reducing the rates of early school leaving below 10%, at least 40% of 30-34–year-olds completing third level education); and, Fighting poverty and social exclusion (at least 20 million fewer people in or at risk of poverty and social exclusion). See: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm and http://ec.europa.eu/europe2020/index_en.htm

[7] See http://ec.europa.eu/esf/main.jsp?catId=45&langId=en

[8] See http://ec.europa.eu/regional_policy/thefunds/regional/index_en.cfm

[9] See http://ec.europa.eu/esf/main.jsp?catId=62&langId=en

[10] See http://ec.europa.eu/regional_policy/co-operate/co-operation/index_en.cfm

which four EU Funds are working together to support bottom-up local development strategies.[11] Cohesion policy also encourages regions and cities from different EU Member States to work together and learn from each other through joint programmes, projects and networks.[12]

The European Commission's guidance principles for 2014-20 offer advice on how to organise participation of relevant partners in the different implementation stages of the EU Common Strategic Framework Funds (European Commission, 2012b). The principles are intended to provide the basis for a European Code of Conduct on Partnership (ECCP), which will establish minimum requirements for national authorities and ensure high quality involvement of all partners. An increasing focus on the potential of partnership to foster social innovation and good governance is also emerging. The 2011 Communiqué on Partnerships in the ESF, for example, observed that: '[p]artnerships should be used to foster social innovation, stimulate change and mobilise reforms' (COP, 2011a).

The need to work in more strategic and innovative collaborative arrangements has been reinforced by the depth of the socio-economic crisis that Europe currently faces. LED, labour market and social policy are confronted with particular challenges that clearly cannot be met by a few institutions working on their own. These challenges include: the concentration of unemployment among target groups such as young people, older persons and migrants; gender segregation in the labour market; and shifts between industries, economic sectors and regions (European Commission, 2012a). Partnership, as a means of assisting integrated approaches to complex problems on the ground, is thus acknowledged as being more necessary than ever and reflected in calls for stronger involvement of local and sub-national levels in collaborative arrangements (European Union, 2011:11).

MULTI-LEVEL PARTNERSHIP ARRANGEMENTS

> Local development may be seen as part of a multi-level territorial policy which makes room for an articulation between i) a strategic regional level (regional development programmes) and ii) a more operational level where projects are implemented by partnerships. (European Commission 2010:28)

The European Commission has emphasised that the achievement of EU 2020 goals requires the active involvement of stakeholders across all the geographical levels of the EU (European Union, 2012:17-18). Delivery of EU policies, it is urged, should involve: the local level (municipalities, neighbourhoods, and districts, etc.), the regional level (counties, federal regions, etc.), the national level (EU Member States) and the EU-level (all Member States). However, in practice, policy objectives are often unaligned and local voices are not integrated into EU policies. To address this situation, the Committee of the Regions has set up a Monitoring Platform to help mobilise and involve regional and local authorities in debate at the EU level.[13]

Partnerships clearly have much to offer this geographical linking process. In addition to supporting the integration of stakeholders' views into policy design and implementation, partnerships often implement multi-level arrangements involving two or more geographical regions. By matching and clarifying the demands of different levels and closely integrating local activities within regional and national level strategies, partnerships are well-placed to make connections between policy and practice, and ensure that policy objectives are aligned between all levels of governance.

[11] See http://enrd.ec.europa.eu/themes/clld/
[12] See http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm
[13] See http://ec.europa.eu/regional_policy/what/europe2020/index_en.cfm

As Table 1 demonstrates, a range of different partnership connections exist. (Solid connections between different geographic levels are indicated in light grey.) These linkages may be forged formally, through contracts and institutional avenues, as well as informally, through dialogue and communication channels between bodies at different levels.

Table 1: Commonly practiced multi-level partnership arrangements

EU-Level (EU)	EU	EU	EU	EU	EU	EU
National level (N)	N	N	N	N	N	N
Regional level (R)	R	R	R	R	R	R
Local level (L)	L	L	L	L	L	L

At best, policy objectives are aligned between all levels of governance (type c). These arrangements are often created when area-based partnerships are funded by both the EU and national means, in compliance with the co-funding requirement stipulated in the principle of subsidiarity within the Structural Funds.[14]

In only a small number of Member States have territorial partnerships been established through a bottom-up process and then linked to national programmes and strategies. In consequence, grassroots initiatives often lack connection to policies, programmes and strategies at the national and EU-levels (types a and b). Although one of the main concerns about using a bottom-up approach is that projects may not be in line with national frameworks (COP, 2012:17-18), evidence suggests that following through on locally promoted approaches enables coherence with real needs, deeper stakeholder engagement and increased possibilities for long-lasting change and sustainability. At the same time, clearer roles, tasks and functions are made possible since they are defined by all partners from the start (ibid). Examples of type b arrangements also comprise national programmes entirely funded by national means. Even though policies are aligned with regard to EU objectives and priorities, Member States in these cases often provide support to partnership actions from national budgets with the intention of reducing administrative burdens.[15]

Other multi-level arrangements refer to actions initiated from the top down that do not link to the local level (types d, e and f). These may fail because they leave out key implementation actors and considerations from the ground. The perceived advantages of a top-down approach relate to time considerations, common rules and clear structures for working together, as well as better linkages to national resource planning (COP, 2012:17-18). The provision of a strong framework for action and the assumption that, 'top-down approaches go further in setting co-operation conditions than partners would voluntarily do' are additional advantages. However, there is also recognition that top-down approaches may be detached from realities of target groups with reduced commitment from local partners, a tendency to become bureaucratic and 'less freedom and space' to develop activities (COP, 2010a).

Partnerships are clearly better able to contribute to local development if strong multi-level arrangements are in place that guarantee the integration of grassroots concerns and viewpoints. The OECD confirms that government must ensure, '... effectively-functioning channels of communication within multi-level governance arrangements that are open to inputs from the bottom up' (OECD LEED Forum on Partnerships and Local Governance, 2010:3). As top-down approaches appear to be regarded as simpler and more straightforward to develop (COP, 2012:18), EU Member States should thus make efforts to design policy frameworks that enable ample space for integrating local voices

[14] See http://europa.eu/legislation_summaries/institutional_affairs/treaties/lisbon_treaty/ai0017_en.htm

[15] See for example the Perspective 50plus partnerships for older workers in Germany which have been set up beyond the Structural Funds, http://www.oecd.org/cfe/leed/37729545.pdf

in setting objectives for local development strategies. At the same time, as countries in Europe strive to lead their economies out of the recession and into sustained economic recovery, against a context of tight budgets, LED should be linked to a common strategy with clearer prioritisation and stronger collaboration across different policy areas (OECD LEED Forum on Partnerships and Local Governance, 2010:2). In order to foster LED via area-based partnerships local level concerns must additionally be incorporated throughout relevant programme cycles.

MULTI-LEVEL PARTNERSHIP APPROACHES IN PRACTICE

The key features of four partnership models in Austria, Germany, Ireland and Sweden have been outlined here in order to illustrate how different multi-level collaborative approaches are used to promote LED in Europe (see Table 2 below). Tailored to specific and dynamic country contexts, each model has sought to enhance local level participation, promote social innovation and ensure that policy objectives are aligned between different levels of governance (see type c arrangements, Figure 1).

Table 2. Key multi-level features of partnership models implemented within selected EU Member States

Country	Partnership model	Key multi-level features[16]
Austria	Territorial Employment Pacts	First implemented in 1999, TEPs are regional partnerships contracted by government in the 9 regions of Austria to better link employment policy with other policies in order to improve the employment situation at regional and local levels. Some partnerships, operating under the umbrella of the provincial TEP, have also been set up at a local level. Recognised as an EU best practice, TEPs have always engaged in multi-level exchange. The co-ordination unit 'Kooo' was established by the Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection to support countrywide TEP processes and ensure regular knowledge transfer regarding the practical application of political decisions. In 2004, following the establishment of the OECD LEED Forum in Vienna, TEPs intensified their co-operation with partners in other countries (eg the 'Centrope project', between the Vienna TEP and public authorities in Györ (Hungary) and Bratislava (Slovak Republic)). The activities of these partnerships demonstrate commitment to joint project development and cross-border transfer of expertise.
Germany	'T model' of horizontal and vertical partnerships	The German partnership approach is multi-objective, multi-layered and multi-stakeholder. The National Strategic Reference Framework for the Structural Funds in Germany (2007-2013) seeks to promote synergies between the ESF and the ERDF, to ensure a strong focus on key priority areas, as well as to work at both national (federal) and regional levels. The partnership principle is being implemented by a number of federal programmes and initiatives in what can be described as a 'T model', incorporating so-called 'horizontal' and 'vertical' partnerships. Horizontal partnerships work at federal level with the involvement of five federal ministries to ensure joint planning and delivery during the whole programme cycle, with key stakeholders such as social partners, voluntary welfare organisations, NGOs and others. Vertical partnerships operate as multi-level partnerships initiated at federal level but addressing regional and local levels. These include projects such as 'Perspective 50plus' and the 'Local Empowerment Programme'.

[16] See Community of Practice on Partnerships in the ESF (COP), Partnership Practices, Effects and Opportunities (PEO) Key Lesson Report*s* from Austria (2011b), Germany (2010b), Ireland (2010c) and Sweden (2009).

Ireland	Local Development Companies	Ireland's long history of working in partnership has ensured the integration of 'local voices' in policy delivery through a cascade system of connections between national, regional and local levels. The partnership approach is often implemented through devolution of funding and service delivery to local partnership and community structures. Local Development Companies (LDCs) are local area partnerships established as independent companies limited by guarantee without share capital and have a clear framework within which to develop their activities. LDCs are funded by the National Exchequer, via the National Development Plan, through the Department of Community, Equality and Gaeltacht Affairs, the NGO Pobal and other sources.
Sweden	Regional Structural Fund Partnerships and co-operation projects	A rich tradition of co-operation in Sweden has been used to encourage diverse partners to drive and take responsibility for development. In order to link regional growth with labour market policies, a joint organisational approach was adopted for the implementation of the 2007-2013 Structural Funds with the ESF and ERDF working together through Structural Fund Partnerships (SFPs) in the eight regions of Sweden. SFPs are established by a law that stipulates their composition and tasks. They include politicians (who must form at least 50% of their membership) and other stakeholders, and are responsible for programme design, selection and funding of 'co-operation projects' that operate at national, regional and local levels. These multi-actor projects address employment and exclusion issues and are expected to work actively to promote gender mainstreaming, accessibility for people with disabilities and other cross-cutting issues, as well as to co-operate with projects and organisations in other Member States.

While the partnership models outlined above are clearly diverse in nature, four cross-cutting issues can be identified that play a crucial role in reinforcing LED through multi-level linkages. They include:

- Concerted efforts to ensure local target group engagement
- The work of partnership brokers to support and give voice to local concerns
- Enabling space for local level input by balancing partnership accountability and flexibility
- Using review processes to share experiences and promote learning.

Local target group engagement

The European Economic and Social Committee (2010) stresses that efficient implementation of actions depends on good governance and strong partnerships between all relevant territorial and socio-economic actors, in particular social partners and stakeholders such as NGOs. While social partners and NGOs are frequently involved in programme design and implementation, direct target group engagement in formally established Structural Fund Boards such as Monitoring Committees is missing. As LED activities frequently fail if designed at a distance, be it at a regional distance or a problem distance, in isolation and without the collaboration of local actors (see, for instance: Hoskins and Kerr, 2012:8; EQUAL Managing Authorities of Belgium, Austria, Czech Republic, Germany, Greece, Poland, Portugal, Sweden, 2006:2), an important task is to ensure that local actors and target groups are clearly positioned in partnership frameworks and focus areas. Valuing local know-how and expertise and including this in ongoing partnership processes ensures grassroots engagement in resolving societal problems and balances demands for geographical scale with local ownership. Partnerships that work directly with the target groups (sometimes via NGOs or intermediary 'broker' organisations) on a day-to-day basis can also integrate lessons into ongoing programmes.

The Irish model is centred upon unlocking local commitment and empowerment (COP, 2008:50-51; COP, 2010c; COP, 2012:19). In Germany, the Perspective 50plus project and the Local Empowerment Programme actively seek to connect at the local level. The Local Empowerment Programme, for example, was developed with the Federal Ministry of Senior Citizens, Women and Youth to work closely with people wishing to develop micro-level projects who have largely been overlooked within the framework of traditional interventions (COP, 2010b:10). In Austria, meanwhile, careful contextual analysis to assess how to bring marginalised groups into the labour market was based upon findings showing that institutional co-operation and the testing and development of innovative measures needed deepening (COP, 2008:35; COP, 2012:26). In Sweden, the promotion of political involvement in SFPs is viewed as endorsing their mandate to implement labour market changes. However, it is also recognised that a deeper partnership culture will be obtained through stronger links between SFPs and local co-operation projects (COP, 2009:10).

The role of partnership brokers

The models show that broker organisations play a vital intermediary role in integrating local concerns into partnership arrangements and enhancing top-down/bottom-up connections. In Austria, the independent organisation Kooo, which acts as a 'neutral' coordination body for the TEPs, has played a central part in assisting TEPs to better align objectives between local, sub-regional, regional, national and transnational levels (COP, 2011b:4-5). In Sweden, Thematic Groups which operate as units in academic institutions and ministries, national agencies and multi-sector forums have provided local co-operation projects with a structured support process to ensure the integration of cross-cutting issues into their work (Stott and Scoppetta, 2013).[17] In Germany, Gsub, one of the main intermediary bodies contracted by the Federal Ministry of Labour and Social Affairs, supports regional projects that promote local employment pacts (ibid), while in Ireland, the non-profit organisation, Pobal, plays a significant role in developing local capacity and support structures (COP, 2010c:5; COP, 2012:20; Stott and Scoppetta, 2013). The strategic assistance provided by these broker organisations also gives partnership stakeholders at different levels an understanding of 'the bigger picture' and clarity around the links between policy and practice in relation to EU Structural Funds. As a result of the broker's liaison role, national requirements are translated and made sense of at regional and local levels, and programme roll-out is given coherence (Stott and Scoppetta, 2013).

Balancing accountability and flexibility

As highlighted above, a tendency towards highly formal top-down approaches in partnership promotion is identifiable in most EU Member States (COP, 2012:17-18). Clearly the security of operating within a defined framework, with firm direction and guidance on appropriate approaches, is important to partnership stakeholders, particularly where financial management requires careful supervision. In Structural Fund programmes such as those administered by the ESF, for example, partnerships are commonly initiated through a top-down process. While this 'formal' approach is seen as providing clear structural procedures for local development, there is nonetheless a constant tension between ensuring that clear rules and procedures are in place to reinforce accountability and the need to find the space for creativity, local ownership and respect for the autonomy of different partners. In many Member States, even though the merits of a bottom-up approach are recognised, incorporating this focus into established top-down agendas has proved challenging. To address this situation, the Irish model has

[17] The Thematic Groups include Youth; Workplace Learning and Labour Market Transition; Inclusion in Working Life; Equality and Entrepreneurship.

incorporated the concept of 'Accountable Autonomy', which enables partner organisations to balance commitments to communities with full accountability to funders. Needs are met locally while responding to national policies and priorities, thus maximising impact and minimising waste and duplication (COP, 2010c:8; COP, 2012:19). In Germany, strong efforts have been made to ensure that partnership programmes are kept flexible and non-bureaucratic by using simple indicators to measure achievements (Stott and Scoppetta, 2013). In the Austrian case, an emphasis on innovation and ongoing evaluation processes are endorsed as ways of breaking down institutional silos, keeping structures dynamic and encouraging mutually reinforcing top-down/ bottom-up connections (COP, 2011b:11). In Sweden, there is acknowledgement of the need to balance accountability, in terms of priorities, funding cycles and reporting, with a flexibility that allows for holistic and creative project approaches at the local level (COP, 2009:10).

Review and exchange

Monitoring and evaluation systems that demonstrate the added value of working in partnership for partners, stakeholders and target groups can highlight and address gaps in the integration of local feedback into regional and national level reviews. In Sweden, where partnership arrangements are centred upon the promotion of learning environments, innovative activities and the achievement of strategic impact, an ongoing evaluation system has been adopted for both SFPs and co-operation projects from the start of their work. This system has enabled the identification of problems and challenges, as well as ways of addressing them, as they arise (COP, 2009:10). In Ireland a live IT, planning and monitoring system requires LDCs to input data on their progress at regular intervals and to allow corrective or remedial action to be taken to facilitate optimal partnership performance (COP, 2010c:8; COP 2012:20).

Efforts that link learning from review and assessment back into practice are also central to positioning the local level in wider frameworks. In the models shared here, great emphasis is placed on mutual learning through networking and exchange processes across projects and programmes at different geographical levels, often with the support of broker organisations (Stott and Scoppetta, 2013). In Sweden, as well as support for Strategic Impact and Learning (SPeL),[18] the Thematic Groups mentioned above, as well as other organisations that promote gender mainstreaming and accessibility, engage regularly with projects to ensure that positive results are fed back into practice (COP, 2010:8; COP, 2012:21). In Ireland, Pobal has been able to draw upon a challenging review and learning culture based upon strong case study and research strategies to assist effective partnership links to the policy evolution process (COP, 2009:8; COP 2012:21). In the cases of Austria and Germany, the knowledge gained through partnership analysis allows shared learning from successes and failures. In both these models, the broker organisations, Kooo and Gsub, have played a central role in ensuring a 'safe space' for dialogue and exchange that stimulates deeper learning about local needs and their assimilation into wider partnership frameworks (Stott and Scoppetta, 2013).

CONCLUSION

This paper has outlined some of the key lessons that have emerged in Europe with regard to the promotion of partnerships that support LED through an exploration of

[18] SPeL focuses on methodological support for projects, the stimulation of regional learning and additional dissemination of results

multi-level arrangements in four Member States. In order to assist mainstreaming and improve the impact of partnerships on policy, linkages and connections across local, regional, national and transitional levels clearly need to be further developed. This relies upon stronger integration of local needs and capacities in programme design and implementation, and greater awareness of the importance of developing joined-up local development strategies. As stakeholders at all levels can make an important contribution to improved LED, both EU and national level policymakers need to make greater efforts to draw up frameworks together with actors at local and regional levels and enable programme adjustments from the start. Local and regional stakeholders, meanwhile, should team up with partners from other economic sectors, government agencies and civil society organisations to solve complex problems jointly. In addition, all actors must be prepared to share lessons in order to align policies between spatial levels, make better use of synergies between programmes and avoid the duplication of failures.

Partnerships in Europe have made impressive contributions to the development of innovative local development strategies and the breaking down of institutional and organisational barriers that impede improved approaches for dealing with complex problems on the ground. To further enhance their potential for positive change, particularly in face of the current socio-economic crisis in Europe, stronger action is required to ensure that partnerships further integrate local voices throughout programme cycles and policy frameworks encourage robust co-operation across all levels of governance.

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CONSIDERING SMALL TOWNS RESEARCH AND LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

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ABSTRACT

Small towns are recognised as an important aspect of the development and transformation of the South African landscape, particularly in relation to meeting the economic development needs of rural communities. As such, there is a body of research that specifically addresses South African small towns and their development. This paper provides an overview of key research themes, including small town classification and the dynamics of change within towns, the policy arena which affects small town development, and the nature of Local Economic Development in small towns. Based on these themes and a consideration of the nature of local economic development, the discussion suggests a number of new areas for research. These additional research foci are needed to enrich the understanding of Local Economic Development in small towns as a basis for improving the likelihood of successful economic development.

Keywords: South Africa, small towns, local economic development, research agenda

INTRODUCTION

South Africa has approximately five hundred small towns (Xuza, 2012). Since they are nodes of population, economic activity and service delivery, these small towns have been recognised by many as being of central importance to the development and transformation of the broader South African landscape, particularly in relation to meeting the economic development needs of rural communities and the growing numbers of people in small towns themselves (Donaldson and Marais, 2012; Nel, 2005; Atkinson, 2008a, 2008b, 2009). Significantly, these towns form an interface between the understandings and practice of urban and rural politics, economies, communities and development processes and therefore require the application of a varied, multidisciplinary and innovative set of ideas and interventions to be fully understood and engaged with. In response to the recognition of the critical role of small towns within the development landscape and the conceptual challenges associated with their engagement, this discussion draws together thinking on Local Economic Development and recent research on small towns in South Africa. Firstly, the discussion will clarify the conceptualisation of Local Economic Development which underpins the consideration of small towns' research in this article. Secondly, a review of the literature on small towns in South Africa is provided in order to highlight the key themes of recent research, including a particular focus on considerations of economic development in small towns. Finally, the discussion draws on this review and the theorisation of LED presented to argue for a differentiated approach to researching and practising Local Economic Development in small towns in South Africa.

LOCAL ECONOMIC DEVELOPMENT

Local Economic Development (LED) is commonly used and well accepted in post-Apartheid South Africa, functioning as a development strategy which is supported by multiple policies and accepted as an important responsibility of local municipalities (Rogerson, 2006; Xuza and Swilling, 2008). However, as a concept, LED has come to encompass a wide variety of meanings which combine academic disciplines and a merger of policy and practices which at times emphasise different aspects of economic development and variable inter-relationships between a concern for community upliftment and for economic growth (Rogerson, 2006; Gerwel, 2011). For the purposes of examining small towns' research in the light of LED, then, it is necessary to clarify the conceptualisation of LED which frames the analysis.

Stohr and Taylor (1981:129, cited in Xuza and Swilling, 2008:263) have described LED as, 'a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector or with each other, to create new jobs and stimulate economic activity in an economic area'. Furthermore, Xuza and Swilling (2008:263) assert that LED is a means to 'respond to the resident community's basic needs' in a specific locality. Fray (2010:148) in the KwaZulu-Natal Department of Economic Development and Tourism's 'Toolkit for LED' defines Local Economic Development as, 'an approach by which local people continuously work together, and with other stakeholders, to achieve sustainable local economic growth and development that brings improved quality of life to all'. Thus LED seeks to build thriving, well managed, competitive, robust local economies through increased local participation and consensus about economic priorities and direction of economies. Creating awareness of LED processes, securing the involvement of local people and their resources in LED planning processes, getting commitment from local stakeholders and the formation of institutions and partnerships to support LED activities in an area are all seen as being important to the nurturing of local economies (Blakely and Bradshaw, 2003).

These conceptualisations of LED highlight the importance of local communities and the necessity of good inter-relationships between all key stakeholders in generating and sustaining economic development. Furthermore, the mobilisation of local resources is emphasised. As such, this article relies on an understanding of LED which is centred on stakeholders, their relationships and the development of local economies through the leveraging of local resources. The analysis of LED and small towns' research which follows is also built on the notion that LED is an approach which aims to address the poverty and marginalisation which reduces the quality of life of communities within South Africa.

SMALL TOWNS RESEARCH IN SOUTH AFRICA

This section of the article provides a critical review of literature on small towns in South Africa. It is our intention to outline the main areas of research on small towns as a step towards examining where the gaps might be for future research and whether alternative ways of thinking about LED in small towns is needed. The discussion is developed through an interpretive analysis of literature published in academic journals and books, published reports and from a few unpublished dissertations. Literature published from 2001 to 2012 was considered.

Based on the critical review, we argue that research on small towns in South Africa since 2001 can be categorised into a number of themes. Debates regarding the classification of small towns and interest in their dynamics of change are ongoing themes within the literature. Furthermore, there has been a focus on policies and strategies relating to small towns and the relevance of the broader national policy context to small towns. Economic development in small towns is a particularly important aspect raised within a broad spectrum of literature and incorporates a consideration of Local Economic Development and tourism in small towns. These themes are presented below.

SMALL TOWN CLASSIFICATION AND DYNAMICS OF CHANGE

Literature on small towns regularly debates the manner in which small towns are classified or categorised (Toerien and Marias, 2012). Debates incorporate the classification of small towns through population size, where they are seen as nodes of between 5 000 and 100 000 inhabitants, but this can range right up to population sizes of 500 000 (Toerien and Marais, 2012; Atkinson, 2008b; van Niekerk and Marais, 2008). Classification beyond size is viewed as the most useful means of critically engaging with a range of small towns and their development concerns, however.

According to Atkinson (2008b:6),

> In South Africa, towns can be classified in at least three ways: by function, by economic performance, and by historic economic legacy. The latter term refers to their situation in the erstwhile homelands of South Africa, characterised by traditional land tenure and predominantly subsistence agriculture, or by privately-owned land tenure and predominantly commercial agriculture.

Furthermore, in a recent study of small towns in the Western Cape (van Niekerk et al, 2010), researchers produced a classification of small towns that indicated their potential for development. In this instance, 'leader settlements' on one end of the scale had a very high development potential while 'struggling settlements' showed very low potential for development. Aspirant, stable and coping settlements were also classified (van Niekerk et al). These classifications provide a useful alternative for developing a critical sense of development and growth potential in small towns.

Wessels (2010), however, cautions against the tendency to classify small towns. Since there is such diversity and variance across towns in South Africa, their classification into a few broad categories runs the risk of over-simplification and the potential loss of nuanced understanding of problems and characteristics. The consequences of such an over-generalisation include the possible loss of variety within interventions and the danger that uniformity of solutions may lead to failures in the specific contexts of individual small towns.

Beyond their classification, much literature on small towns in South Africa discusses their dynamics of change. Many South African small towns have experienced population growth; however this can be coupled with either economic regeneration or decline (Nel, 2005; Atkinson, 2008a; Toerien and Marais, 2012; Xuza, 2012). Those towns experiencing population growth are associated with an in-migration of wealthy middle class professionals and/or retirees, as well as poor black communities who relocate from rural areas and from smaller settlements to medium-sized towns (Atkinson, 2008b). Where there has been economic decline in small towns, studies question the reasons for this decline and the consequent impacts for the rural hinterlands of these settlements (see van Niekerk et al 2010; van Niekerk and Marais, 2008; Nel, 2005). Nel (2005) argues that decline is most evident in many towns where their main function was either mining or transportation. Furthermore, where agricultural processes have changed, where economic activity has become dependent on fast and reliable communications technology, and where markets have shifted from smaller nodes to more regionalised service-centers, there has been a notable decline in small town economies (Nel, 2005; van Rooy, 2007).

Studies which engage with the consequences of these changes highlight the effects of population growth in towns which nevertheless have struggling local economies, limited service provision and a lack of sufficient resources (Rogerson and Rogerson, 2010; Nel, 2005). Wessels (2010) raises a concern for the dangers for small town economies which have become increasingly reliant on social grants and other forms of state welfare as a predominant form of income. This reliance can undermine small town vitality and development, as it nurtures non-accountability and dependency (The South African Local Government Association (SALGA), 2011). Furthermore, where towns are in decline, many formal jobs have been lost, skilled people have migrated away and poverty remains a chronic problem in many communities (Nel, 2005). Also, where changes in municipal structures and demarcation have occurred, small towns have experienced diminished institutional and financial capacity to directly address their challenges (Nel, 2005). Recently, research engaging with change in small towns has been framed by notions of the shifts taking place in rural landscapes as they become post-productivist – moving away from the traditional predominance of agriculture as the central form of economic productivity (Hoogendoorn et al, 2009; Hoogendoorn and Nel, 2012). Here the emphasis lies in considering how small town economies and livelihoods are changing to incorporate an economy based on second home development, tourism and the movement of a traditionally urban elite into small towns (Hoogendoorn and Visser, 2010; Baker and Mearns, 2012).

As well as a predominance of research on small town classification and change, small town research in South Africa often considers the relationship between policy and small towns.

POLICY AND SMALL TOWNS

Research regarding policy for small town management and development frequently centres on the dearth of policy to address these issues (Atkinson, 2008b) and the recent shifts to improve the focus on small towns within the policy arena (van Rooy, 2007). Gunter (2005) argues that in this regard a central problem is the inability of policy-makers to understand what small towns need, even as they identify that these places are 'in need'. However, Xuza (2012:344) believes that the 'large number of government policies aimed at promoting development have at least exposed the development challenges in small towns but at best ignored them'. Policy emerging at a national level thus often prioritises metropolitan areas and makes few provisions for strategies that will meet the needs of small towns (SALGA, 2011; Nel, 2001; Xuza, 2012). This often leaves small towns disempowered (Nel, 2001). Atkinson (2008b), for example, argues that even small business support strategies that may be used to facilitate economic development in small towns is primarily focused on metropolitan areas, with little implementation reaching small towns (Atkinson, 2008b).

However, there are some policies which are identified by researchers as useful for small towns. The Integrated Sustainable Rural Development Strategy (ISRDS) of 2000 is a national policy which is important for small towns, as it encourages and facilitates economic development in small towns (Atkinson, 2008b) and the 2006 Local Economic Development Strategy of the Department of Provincial and Local Government directs attention to economic development in small centres (Nel and Rogerson, 2007). Currently, where policy exists in relation to small town development, there is fragmentation, and small pieces of relevant policy must be drawn from policy and legislation which addresses a whole range of different issues, including tourism, LED, rural development and employment (Atkinson, 2008b; van Niekerk and Marais, 2008). Serious challenges exist for the application of these fragmented pieces of policy and nationally developed policies within small towns where the characteristics and abilities of small towns and the nature of the development policy equate to few benefits for implementation of policy and policy interventions in the small towns (van Niekerk and Marais, 2008; Paquet and Donaldson, 2012).

Despite the problems related to inadequate policy for small town development, much Local Economic Development activity is taking place within small towns. The following section focuses on research which addresses LED and small towns.

ECONOMIC DEVELOPMENT AND SMALL TOWNS

Researchers indicate that, for better or worse, Local Economic Development is viewed as a means of addressing many of the challenges facing small towns, particularly by responding to local development issues, while maximising new growth potential and competitive advantage (Reynolds and Antrobus, 2012; Nel and Rogerson, 2007; van Rooy, 2007 and Pio, 2008). Much of the literature on small towns is focused on their economic development problems and the potential for creating improvement in both the formal and informal economy. The discussion about research on LED and small towns which follows is organised into three main areas, namely challenges for LED, the practice of LED and recommendations for improving the chance of successful outcomes for LED. These three areas are elaborated on below.

Nel and Rogerson (2007:1) have argued that

> a set of severe challenges face LED in South African small towns and that LED policy needs to recognise these challenges and take on a specific focus on the needs of small towns. It is apparent that the less favourable resource endowments (natural and human), poor accessibility and relatively weak civil societies in these towns have undermined the viability of LED.

According to Nel (2005), small towns encounter challenges such as a lack of technical and financial resources, economic collapse, absence of sufficient services and poverty. Although there have been a number of changes within the economic state of numerous small towns in South Africa through tourism and agriculture, small towns are seen to continue to struggle with stable economic growth (Nel and Rogerson, 2007). Here the diversity of small towns and the small population and economic base on which they rely are an important consideration, in contrast to larger metropolitan areas which are significantly more robust due to their size (Atkinson, 2008b). Furthermore, the current economic conditions affecting small towns are considered to be important in determining the potential for improvement and economic success (Atkinson, 2008b). The challenging global economy, which has undergone significant change and, recently, extensive decline, is especially viewed as problematic when considering small towns that are reliant on the agriculture and manufacturing sectors for their prosperity (Atkinson, 2008b; Donaldson and Marais, 2012; Wessels, 2010).

The literature also indicates that institutional contexts produce challenges for economic development in small towns. The limited involvement of the local government in small town economies continues to affect their economic growth, while the inability to access support systems and government programmes in small towns hampers the development of capacity and the implementation of interventions (Pio, 2008). In many cases, small towns are simply too remote or cannot meet the stringent criteria of programmes (Atkinson, 2008b). Additional problems with the implementation of LED experienced by a number of small towns include weak project implementation and a lack of local community participation, which is usually derived from an inadequate availability of suitably skilled people and resources and a the consequent failure to engage communities in LED interventions and programmes from the outset (Pio, 2008).

The linkages between small towns and other spaces and scales are raised as a challenge facing economic development in small towns (Wessels, 2010). As Dewees et al (2003:52) state:

> LED represents a geographical intervention in which place and scale are critical and because communities are seldom, if ever, homogeneous and unified, the unique social and economic geography of each locality prevents a single formula being put forward to remedy development problems'.

Thus blanket policy and institutional arrangements as well as 'cookie cutter' LED interventions often fail to create sustainable economic growth and quality of life improvements within small towns.

In terms of the practice of LED, although there is much discursive advancing of poverty alleviation agenda for LED, researchers have found that much LED activity can be considered boosterist and investment-focused economic growth (Nel and Rogerson, 2005). As such, regularly utilised interventions include business and sector support, infrastructural investment, marketing of a specific area, the facilitation of special development zones and a focus on encouraging business expansion and retention (Nel and Rogerson, 2005; 2007). Alternatively,

> [O]ther LED strategies or focus points include finding new industrial or other economic forms of livelihood whereby the economy is diversified, exploitation of natural attractions and more general actions by towns to address unemployment and service backlogs through a variety of community-based schemes and public-works type programmes.' (Nel, 2005:15).

However, it is argued that there needs to be a combination of interventions which includes investment from outside small towns as well as internally produced development projects and interventions, especially since the seeking of economic growth through boosterist approaches are not suitable for every small town (Atkinson, 2008b; Nel and Rogerson, 2007).

There are many assertions that the growth of tourism is one of the most predominant means of economic renewal and development of small towns (Binns and Nel, 2002; Hoogendoorn and Visser, 2004; Van Staden and Marais, 2005; Donaldson, 2009). This is particularly true of places which have experienced the effects of change and decline in primary sector activities such as mining and agriculture and where localities are associated with sites or features of natural beauty, culture or history which can be leveraged to produce local economic gains (Binns and Nel, 2002). Tourism is viewed as an important means of job creation in small towns. Furthermore, the growth of the tourism sector in small towns is promoted because it encompasses the possibilities for the inclusion and upliftment of local communities. Tourism is also viewed as desirable because it frequently facilitates development which does not negatively affect the sustainability of local biophysical environments (Binns and Nel, 2002). In addition, tourism can foster economic revitalisation in towns where global economic changes have affected local economies. For example, redundant mining infrastructure can be used for tourism development in areas that have been subjected to mine closure (Marais and Atkinson, 2006).

Further to the research on the practice of LED in small towns, some literature focuses on addressing the ways in which it is possible to improve the success of LED in small towns. For instance, researchers note that leadership plays an important role in the practice of successful Local Economic Development of small towns. Van Rooy (2007) uses the example of the town of Seymour to highlight how charismatic leaders are significant to the launching of town LED initiatives. He argues that 'if strong leadership coincides with appropriate skills and capital, the impact can be substantial' (van Rooy, 2007:9). As such, local agents for change, whether representative of local business sectors, NGOs or the local government, are important for the successful practice of LED. Towns without such human and social capital are believed to experience diminished capacity for creating positive change (Atkinson, 2008b).

In addition, Atkinson (2008b) argues that to overcome the challenges facing economic development in small towns, it is important to think about linkages between formal and informal businesses and the need for provision of business support in pragmatic, accessible and efficient ways. Consideration of the relationships between small towns and their rural agricultural hinterlands and between small towns themselves is also imperative (Atkinson, 2008b; Wessels, 2010; Xuza, 2012). In addition, critical analysis of how small towns in South Africa fit into their regional, national and even global contexts is seen to be vital to understanding how to leverage economic gains and improved competitiveness (Wessels, 2010). Furthermore, the creation of local partnerships is recommended as a means to the formulation and implementation of successful economic development initiatives in small towns. SALGA (2011:2) argues that a successful LED strategy must be 'a joint initiative by private sector, public sector and civil society as ultimately all stakeholders benefit from a stable, sustainable socio-economic environment'. In turn, the building and utilisation of social capital, formal and informal relationships in small towns, community participation and capacity-building are described as key aspects of the successful practice of LED, with government, local businesses, civil society and traditional authorities all needing to be involved (Seethal, 2002; Simon, 2003; van Rooy, 2007; Pio, 2008).

Overall, researchers argue that to improve success, LED intervention projects and programmes should not be seen as a one-size-fits-all scheme for small towns and therefore caution against lifting strategies from one context and transplanting them into another (Atkinson, 2008a; Xuza, 2012). Some towns have better markets, others have better non-agricultural growth opportunities such as those of mining and tourism, and others have better natural resources (Atkinson, 2008). As such there needs to be careful consideration of market and institutional capacity and livelihood structures when LED interventions are designed and implemented (Dorward, 2006 in Atkinson, 2008). Furthermore, where government support of LED initiatives occurs in small towns, this support should be targeted to suit local characteristics and particular projects (Xuza, 2012)

Collectively, the themes of classification, the dynamics of change, inter-relationships with policy, and economic development concerns form the predominant foci of contemporary research on small towns in South Africa. The following section critically reflects on these themes in the light of conceptualisations of LED as prioritising roleplayers, relationships and local resources (Stohr and Taylor, 1981; Xuza and Swilling, 2008; Fray, 2010). Consequently, suggestions for alternative areas of research focus and critical practice in relation to LED in small towns are presented.

SMALL TOWNS AND LED – FURTHERING THE RESEARCH AGENDA

The following section builds on the overview of literature provided above to suggest a differentiated approach to engaging in LED in small towns. These research directions can enrich and improve our understanding and practice of LED in (and for) small towns; thereby facilitating more substantive and sustainable interventions.

As evident from the research themes presented, much contemporary research regarding small towns in South Africa does not directly relate to local economic development. Where research is focused on aspects apart from LED, there are opportunities to draw these themes much more closely together with understandings of the practice of LED in small towns. For instance, the policy environment and challenges of small towns are significant to building a sound understanding of the localised characteristics, upon which LED implementation relies. Furthermore, lessons emerging from challenging experiences related to national policy implementation can usefully inform the processes through which LED policy should be best applied in small towns. More broadly, the characteristics of small towns which are described within specific case studies or gathered from this collective body of research is vital to building a critical, yet pragmatic, understanding of small towns upon which the design and implementation of LED interventions can rely. This is especially important given the variety of small towns in South Africa and the variety of factors associated with change in these towns.

In addition, where research is being conducted on LED and small towns, we need to build on our understanding and expand our critical thinking on specific aspects. Important new areas of research on LED in small towns should not simply pay attention to documenting the LED projects, activities, and general interactions, of stakeholder groups involved in LED initiatives within towns. Instead, these should penetrate more deeply into the micro-decisions taking place to facilitate LED, as well as the regular interactions within LED processes between actors and institutions in towns.

Blakely and Bradshaw (2003:211) suggest that within a context of LED, ‘communities are now the solid bedrock of production capacity based on human resources as the central feature of economic development.’ Thus assessments of LED in small towns which address the symptoms of poverty and low employment but which do not focus enough on the systemic and supporting mechanisms and contexts which prevail are inadequate. Future studies thus need to take a critical interest in the roles of leadership, accountability, social capital and trust. Analyses could extend to questions examining the identity and motivations of actors, as well as their interactions. Furthermore, investigation of how engagements between actors and both institutions and markets are likely to provide fruitful insights into how best to design and implement LED for specific small towns.

In relation to actors within small towns, the loss of human capital in towns which have experienced decline is a significant area of assessment for researchers. The implications of out-migration for LED need investigating. This is particularly important from the vantage point of how best to encourage the development of new skills and knowledge in small towns. The question of how to innovatively utilise a very small pool of human capital resources in order to maximally leverage economic growth from the capital which exists is a significant one. Moreover, research which promotes the retention and up-skilling of a youthful population who could expand the productivity of small town informal and formal economies is important for the facilitation of successful economic revitalisation. Research which addresses how to support and improve existing capacity for the enhancement of the local business environment and entrepreneurs is also needed, for example, action research involving the development of support systems for champions of young and emerging entrepreneurs in small towns is likely to yield an improved understanding of how best business support can be given in small towns. This is especially important in the towns which are most economically marginal and/or spatially isolated since these are places which are seldom reached by national policy interventions and programmes (Atkinson, 2008b).

Furthermore, rather than the current system of viewing LED as a separate responsibility of local municipalities (Xuza and Swilling, 2008) researchers should build an understanding of the ways in which the concept and purpose of LED can be woven into local development programmes already taking place. This will require a deeper understanding of the champions, leaders and entrepreneurs that facilitate LED, the social capital within small towns and the nature of partnerships which can leverage economic development in an integrated manner. Inter-relationships through partnerships, networks, organisations and governance systems should be much more readily incorporated into the research on LED and small towns (see for example Hardman, 2011). This is especially important in research which attempts to address questions of how and why LED interventions in small towns have limited success or are unsustainable.

Such critical thought should be integral to developing innovative means of building individual capacity, social capital and partnerships that can benefit small towns in the longer term. Moreover, questions regarding the utility of good local knowledge and the extent of local capacity to derive unique and/or adapted solutions to economic development problems should be addressed.

In terms of actors and their inter-relationships, there is likely to be utility in extending the methodologies of research on small towns and LED. Diverse data collection methods and multi-method approaches will allow for insights to be gained that otherwise might not be. Currently, much research on small towns and LED is conducted through an 'outsider' positionality with the use of observation and interviews, questionnaires and documentary analysis. As Gerwel (2011) has recommended for LED research in general, there are gains to be made by the use of action research and practitioner-based research where the small town stakeholders participate or where the LED practitioners are the lead researchers in projects. This will lead to the building of critical understanding and capacity while research is being undertaken and will also improve the prospects for direct and extensive feedback of the learning gained through research.

Research which addresses intensely localised aspects of LED practice and thinking is able to meet the call for consideration of the diversity of small towns and the limitations of overarching policy which will inevitably be unable to address the specifics of individual localities. With the use of innovative methodology, researchers and practitioners will be more likely to critically examine the contexts and characteristics of individual towns as a first step towards formulating the specific kinds of interventions that will most benefit local economies and create the potential for ongoing local economic development. However, even as rich case studies are needed, researchers should avoid falling into the trap of generating case study after case study without utilising the lessons from each case to contribute to broader debates and the expansion of theoretical understandings of LED and of small town economic development (Ramutsindela, 2007).

Aside from the possible directions of research highlighted here, we would suggest that there are other spaces to be researched. Currently, most case studies on small towns and LED are located in the Eastern Cape and Karoo, the Western Cape and the Free State. There is thus an opportunity to widen the basis of understanding to small towns in other provinces, such as KwaZulu-Natal, Mpumalanga and the North West. This is particularly the case given the wide diversity of rural hinterlands and provincial and regional contexts in which small towns in these provinces undertake development.

CONCLUSION

This paper has provided an overview of the main areas of research currently being undertaken in relation to small towns in South Africa. Although there is a rich diversity of research, the focus here has been on the main themes of study, namely, small town classification, the recent changes taking place in small towns in South Africa, as well as the policy environment which affects small town development. Furthermore, the paper has addressed the theme of Local Economic Development in small towns from the perspective of challenges, practices and the recommendations for solutions to economic development problems. Building on the basis of these aforementioned themes, the final section of the discussion has drawn attention to a number of prospective research areas. It has been argued that research on small towns which does not focus specifically on LED remains useful for consideration of LED in small towns as it enriches an understanding of the context within which LED is positioned. These areas can be effectively drawn into research to enhance the theorisation and practice of LED in small towns. Importantly, where LED is the focus of small towns' research, there is a need to extend the area of investigation to include consideration of human and social capital, micro levels of decision-making and the 'everyday' inter-relationships between actors in small towns. Furthermore, alternative research methods which foster deeper engagement with practitioners in small towns are suggested. It is envisaged that these extended approaches to research will foster a richer understanding of Local Economic Development in small towns which can contribute towards improved LED success in these important nodes within the South African economy.

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ADVANCING DEVELOPMENT BY STRENGTHENING THE HAPPINESS OF WORKERS AND ENTREPRENEURS AT THE FIRM LEVEL

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ABSTRACT

Most people choose to work and make money, either by working for themselves as entrepreneurs or by working in firms as employees. Local Economic Development and economic growth is the outcome of our pursuit of well-being, enabling us to be happy. High levels of economic growth and development generate more income, which in turn enables people to buy more goods and services and lead an improved quality of life, therefore adding to subjective happiness. While most individuals seek to earn more money to lead a fulfilled life, not everybody is happy. This study examines what makes people happy. On the basis of a sample of 300 individuals, of whom 70 are small business entrepreneurs, a regression analysis indicates that income is a significant predictor of happiness. However, it explains only about 8% of the variation in subjective happiness. Demographic attributes, education and a positive working environment are found to be significantly associated with subjective well-being. Development can be enhanced if we have a happier and more productive environment for workforce and entrepreneurship.

Keywords: Happiness, income, GDP, work environment, consumption, education

INTRODUCTION

The pursuit of economic growth or development and a better life for all is the focus of considerable policy interest in South Africa and in most other countries. Growth may be necessary but not sufficient for development. For the expansion of Local Economic Development, one cannot rely purely on the private sector or the public sector. The economy consists of 'individuals' who are employed in both sectors, and as Sen (2010) points out, happiness is an important pillar for human life; thus promoting happiness is good for local and national economic development and good for economic policy. It is essential to acknowledge that happier individuals are more productive. The happier entrepreneurs are, the more productive they become, which leads to expansion of their businesses and results in more jobs being created. Growth and development cannot take place unless there is an expansion of entrepreneurship, manifested in the formation and development of large, small, micro- and medium-sized enterprises (SMMEs). An increase in entrepreneurial activity advances local economic development by employing local resources, which includes labour and produces goods and services in a regional context. High economic growth rates entail an expansion in a country's national output (GDP), whereas economic development is broader as it encompasses GDP as well as improvements in the material well-being of the people and structural transformation. Improvements in the levels of GDP lead to increased income, which in turn results in increased consumption and utility, and ultimately make people better off (Kenny, 2005).

Economic growth and development generate numerous benefits to the economy and human welfare in terms of enhanced output, product choice, employment and income generation, as well as improvements in quality of life and household happiness. It is thus no surprise that economic growth is perhaps the most closely watched national statistic in relation to a society's economic well-being (Mankiw, 2010). As individuals are becoming wealthier, the expansions in GDP per head, beyond a certain threshold level of income, enable the basic needs to be suitably met. However, this does not necessarily mean that the whole society becomes happier. Expansions in GDP are often obtained by factor substitution, replacing labour by capital for productivity gains, and this can lead to unemployment. Studies show that unemployment contributes negatively to subjective well-being and unhappiness (Layard, 2011).

Further stress at work often extends to the family environment, which negatively affects well-being. Some people work long hours to gain extra income, often at the expense of leisure and family time, to the detriment of personal health. In order to enhance economic development and individual happiness, we need entrepreneurship that provides employment opportunities to labour and generates favourable internal work conditions for employees. Entrepreneurship does not exist in a vacuum, however: the internal environmental conditions within the firm are under the control of the entrepreneurs, but the external environmental conditions are beyond their control. The external conditions often affect the entrepreneurial expansions and retard the process of growth and development and impinge on happiness. As individuals seek higher incomes to make ends meet, environmental factors impact adversely on the happiness of the society (Human Development Report [HDR], 2011; Wilkinson and Pickett, 2010).

The following are examples of such factors:

- high levels of crime
- corruption
- absence of property rights
- inadequate law enforcement
- insecurity
- pollution
- drug abuse
- breakdown of families.

On 15 August 2006, Minister Mufamadi launched the framework for 'Developing Local Economies'. The concept of Local Economic Development is continually evolving, with the latest emphasis being on 'New Institutionalism', which focuses on strengthening networks and building social capital. It is these networks which are primarily concerned with supporting creativity and an entrepreneurial culture through both knowledge and innovation (National Framework for Local Economic Development, 2006). Small businesses are considered the backbone of the economy, which in turn stimulate economic growth, which creates job opportunities, providing incomes and reducing poverty (Business Development Service, 2012). The principles identified as the guide within the framework set out by the Department of Provincial and Local Government of the Republic of South Africa state: 'People are the single greatest resource, and including all citizens in development and increasing their skills leads to increased opportunities for stimulating local economies'. (National Framework for Local Economic Development, 2006). Although the Business Development Services include training, additional services are required for the functioning of an effective business (Business Development Service, 2012). It is also of paramount importance to focus on individual 'drive', that of either the entrepreneur or the worker within an organization, and the fact that through the interaction of their activities and those of others in the broader society, local economic development nudges forward.

This paper seeks to examine the link between the happiness of the entrepreneurs and that of the workers. To facilitate healthy Local Economic Development, one needs to understand the basic elements which affect the relationship between an entrepreneur and a worker. In addition, the paper examines

- whether the level of happiness of an entrepreneur as a self-employed person differs from that of a salaried-income worker
- whether income, gender and education are related to subjective well-being
- whether environmental conditions at work have an impact on happiness.

The paper consists of four parts. The first section examines the literature on happiness. The second examines the research methodology and the third presents a discussion of the findings. This is followed by some recommendations on how to augment happiness.

ON THE ECONOMICS OF HAPPINESS AND SUBJECTIVE WELL-BEING

In order to enhance the happiness of the members of society, an understanding of 'happiness' and its contributing factors is important. Happiness is a slippery concept, not defined in a consistent way in the literature (Porter, 2011). Aristotle believed that economic wealth enables the development of philosophy, the arts and virtuous activity, and he regards happiness as an expression of the soul in virtuous activities. To Layard (2011:12), happiness means 'feeling good –enjoying life and wanting the feeling to be maintained'. He regards happiness as synonymous with subjective well-being (SWB). Individuals are said to have high SWB if they experience high life satisfaction and frequent pleasant emotions such as joy and affection, and only infrequently experience unpleasant emotions. Easterlin (2001) views happiness interchangeably as subjective well-being, satisfaction, utility and welfare. Veenhoven (1993) defines happiness as the degree to which an individual judges the overall quality of his or her life as being favourable. The definitions of these three social scientists are applied to this study.

We all have the potential to be happier individuals and to make others happy too. Happier people are usually charitable and co-operative. High income earners can augment their own happiness and that of poorer people too, through their benevolent actions and donations of money to the latter. The marginal significance of a Rand gained in utility to the poor is more than a Rand forgone in utility to the rich.

In enhancing our personal happiness, there is an externality effect, in that we bolster our feelings of self-confidence and self-esteem and simultaneously the positive emotions of others. Happy people smile more often, live longer and report themselves to be in better health and have happier relatives (Porter, 2011).

It is thus no surprise that in the Kingdom of Bhutan, in the Himalayas, the policy-makers pursue economic well-being as a development goal in order to maximise gross national happiness. Similarly, in 2008 the former French President, Nicolas Sarkozy enlisted two Nobel Prize winners in Economics, (A Sen and J Stiglitz) and Jean-Paul Fitoussi as co-chairs of a commission to measure people's well-being over time rather than GDP. Their report stressed that well-being or happiness is multidimensional. It includes factors such as:

- material living standard
- income distribution
- health
- education
- social connections and relationships
- governance
- political voice
- personal activities
- work
- security (Naftziger, 2011).

Traditional economic theory assumes that consumers rationally spend their income in order to maximise their utility. With a higher level of income, more goods can be consumed, more utility gained and more needs satisfied, thus enhancing human happiness. From this perspective, 'more is better', as more income enables the attainment of greater utility or satisfaction, which in turn contributes to greater happiness. Like John Stuart Mill, Jeremy Bentham (1789), who associates utility with happiness, argues that an individual's conduct as well as government policies should be directed toward promoting the greatest happiness for the greatest number of people and minimising pain.

The behavioural school, in particular Daniel Kahneman (2011), the Nobel Laureate in Economics in 2002, treats happiness as a subjective issue that is measurable through surveys. Frey and Stutzer (2002:405) argue that in evaluating happiness in relation to income and non-income factors, it is sensible in Economics to rely on the judgments of people, as they are reckoned to be the best judges of the overall quality of their own lives. This approach allows subjects to report on how happy or satisfied they are with their lives and lets them decide on their own meaning and subjective assessment of happiness. Stutzer (2001:37) asserts that the measures of subjective well-being have a 'high consistency, reliability and validity', as well as a high stability over time (Konow and Earley, 1999). Thus, using survey responses of some 450 000 Americans, Kahneman and Deaton (2010) have found that their emotional well-being does not significantly improve once a threshold income of about $75 000 is reached. However, their sense of satisfaction with life increased continuously with income gains (Porter, 2011). Similarly, Diener, Kahneman, Tov and Arora (2010) found a strong correlation between life satisfaction and income per capita of nations.

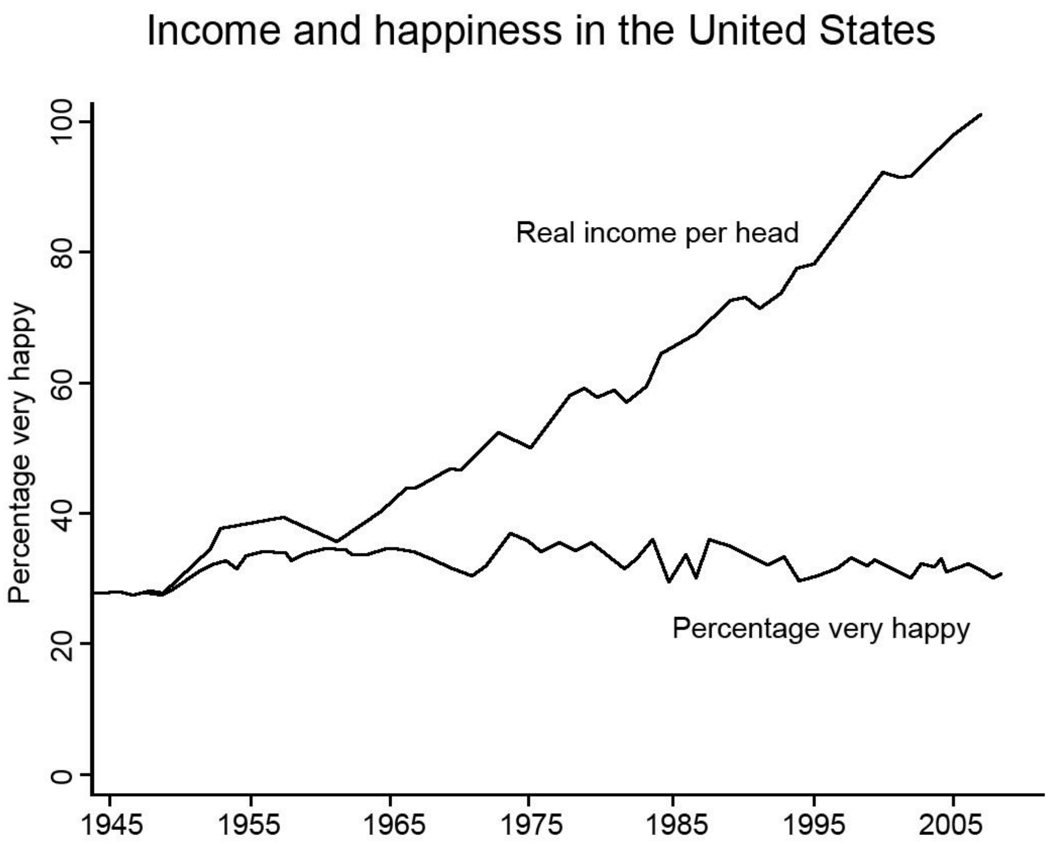
LIFE SATISFACTION, HAPPINESS PARADOX AND LOCAL ECONOMIC DEVELOPMENT

People with higher incomes are generally happier than those with lower incomes. Inequality has negative effects on reported happiness (Graham and Felton, 2006). Inequality increases the social distance between different groups of people. Although South Africa is in the medium level in terms of human development (ranked 123rd of 187 countries), its perceived well-being or overall life satisfaction index, over the period 2006-2010, is at 4.7, which is below the average (4.9) of that development group (Human Development Report, 2011). The well-being index ranges from 0 (least satisfied) to 10, which is the most satisfied. This clearly reflects the need to consider measures that enhance happiness of individuals in the local development agenda. Societies high in trust and low in income inequality tend to be happier and safer (Wilkinson and Pickett, 2010). In the case of South Africa, which has an appallingly high crime and inequality level, Powdthavee (2011) found that burglaries, crimes and the murders of loved ones have an extremely detrimental effect on people's happiness. In monetary terms, the effect of crime is so high that it can cost as much as R97 000 per month to compensate an average person for being a victim of crime in the country.

Higher income raises the happiness of the poor in regions where people live below the breadline. It is for these people that local development initiatives should be organised with the objective of empowering them by providing opportunities to earn a sustainable income, individually or as a group, to enhance their happiness. This becomes more possible when they can venture into small or informal firms as emerging business entrepreneurs, or co-operative entities and create opportunities for others to join them as emerging social entrepreneurs or workers.

Evidence in both Western and non-Western societies indicates that although there is a positive relationship between income and individual subjective well-being within countries at a specific point in time, there is no strong evidence that people become happier on the whole as per capita income increases over time (Oswald, 1997; Easterlin and Angelescu, 2009; Layard, 2011). In richer countries, higher income does not seem to 'buy' higher happiness once a threshold level of income is reached (Frey and Stutzer, 2002). As the graph below (Figure 1) shows, there has been no significant increase in happiness over an almost 50-year period in the United States, despite the significant increase in income. This may seem like a paradox.

Easterlin (2001) argues that absolute income matters to individual happiness up to a point, but once basic needs are met, relative income matters more for happiness. Further, as people earn higher incomes, their aspirations change. They feel unsatisfied with what they have and, driven by consumerism, they wish to possess more material goods to increase their status in society or emulate celebrities. They often contract debt beyond their means to 'keep up with the Joneses'. This passion for materialism leads to what James (2007) describes as the 'affluenza' virus, or what Frank (2009:65) refers to as the 'luxury fever'. It is partly against this background that the National Credit Act was introduced in South Africa in June 2007 as a way of protecting consumers from incurring debt that they could not afford.



Source: Layard, 2011:30

Figure 1: Happiness and real Income per head over time

In South Africa, the Gini coefficient, a measure of income inequality, increased from 0.596 in 1995 to 0.63 in 2002, and to 0.68 in 2009, making South Africa the most unequal society in the world (The Economist, 20 October 2012:22). If some individuals' income is increased, this may increase their spending power and make them happier. However, raising everyone's income does not raise everyone's happiness because, in comparison to others, income has not improved. When assessing their level of happiness, people compare their particular situation with those in the 'reference' group (Easterlin, 2002). This makes relative income, as mentioned above, a key element of happiness. When people adjust their reference group and expectations upwards, this impinges on their happiness.

CAPABILITIES, RELATIONSHIPS AND HAPPINESS

So far we have stressed that happiness is related to income growth. Happiness is also influenced by one's activities, education and social relationships. Most people prefer to work and earn money ethically through value-adding activities. People with more education tend to be more capable or productive at work. Research indicates that people with more capabilities and freedom tend to earn more and are happier than those with fewer capabilities (Sen, 2010).

The quality of relationships one has at work, in the community and in the family environment has a bearing on individual happiness. People derive a degree of their satisfaction from how they feel at work. Individuals with better family ties and religious commitments, with children and friendships and a good working environment are happier than others where these elements are lacking. Further, married people with children tend to be happier than single, divorced and widowed persons (Oswald, 1997; Frey and Stutzer, 2002). Couples have the ability to positively enhance each other socially, emotionally and financially. Social relationships thus keep individuals less isolated, better supported, more bonded and thus happier (Putman, 2000; Wilkinson and Pickett, 2010).

RESEARCH METHODOLOGY

Relevant data on the levels of self-reported happiness of the surveyed entrepreneurs and employees as well on their socio-economic and demographic attributes was obtained by administering a questionnaire in central Pietermaritzburg, capital of the KwaZulu-Natal province. The sample consisted of 300 subjects, selected by judgmental and convenience sampling. It comprised:

- 70 entrepreneurs, randomly chosen from a list of the small firm entrepreneurs, obtained from the Pietermaritzburg Chamber of Commerce
- 230 employees randomly chosen from various business firms and government departments.

The unit of analysis was the entrepreneur and employee. Their happiness levels were measured using a Likert scale, ranging from 1 to 5, with lower values indicating 'not very happy' and 5 indicating 'extremely happy. To avoid any bias and to ensure a fair representation of the workforce, the employees of the surveyed entrepreneurs' firms were not selected.

The data was analysed using SPSS. The relationship between income and happiness and work environment and socio-demographic attributes were examined using regression and correlation analysis, and the differences in happiness levels between the groups of respondents were examined using the t-test.

The sample size is rather limited (170 female and 130 male respondents), perhaps a limitation of the study. The marital status of individuals in the sample was as follows:

- 94 single
- 167 married
- 32 divorced
- 7 widowed.

The ethnicity of the respondents was as follows:

- 68 Black, including one entrepreneur
- 17 Coloured, including 2 entrepreneurs
- 49 Indian, including 7 entrepreneurs
- 166 White, including 65 entrepreneurs.

The age profile was as follows:

- 64 in the 18 to 30 group
- 115 in the 31 to 45 group
- 91 in the 46 to 59 group
- 30 between 60 and 75.

RESULTS

The majority of the people surveyed reported to be happy.

- Only 8.6% reported being 'not happy at all' or being 'not very happy',
- 34.3% reported being 'fairly happy',
- 40.3% reported being 'very happy'
- almost 17% reported being 'extremely happy'.

Their gross monthly income ranged from R1 000 to R18 000 and over. The distribution was as follows:

- 10.7% of the respondents fell into the R1 000-R2 000 group
- 8% fell into the R2 001-R4 000 group
- 29.3% fell into the R4 000-R10 000 group
- 23.3% fell into the R10 001-R18 000 group
- about 29% earned over R18 000.

The level of education of the respondents ranged from grade 4 to the postgraduate level. Of the respondents,

- 10% had an education level between grade 4 and grade 11
- 41% had a matric pass
- 26% had a diploma
- 12% had a university degree or tertiary education
- 11% had a postgraduate education.

Happiness, marital status and gender

Of the respondents, 43% were male and 57% were female, as indicated earlier. Women reported an average happiness level (3.54) that is marginally lower than that of the men (3.68). Although the average happiness level of the males was higher than that of the females, the difference was not found to be significant ($t = 1.23$, $p = 0.219$). The male and female respondents experience about the same mean level of happiness.

Of the surveyed subjects almost 56% (167) were married 11% (32) were divorced, with the remainder being single or widowed.

- Married people are reportedly happiest, with a mean happiness score of 3.72.
- Single people had a mean happiness score of 3.51.
- Divorced people had a mean happiness level of 3.37.
- Widowed people had an average happiness score of 3.

The results indicate that the surveyed married individuals are happier than their divorced counterparts and the result is significant ($t = 1.934$, $p = 0.05$). This perhaps reflects the importance of having a fulfilled married life as critical to happiness, and the dissolution of a union as a potential cause (or result) of unhappiness, as also argued by Layard (2011) and Oswald (1997). Indeed, according to the World Values Survey on happiness, a disruption or dissolution of a union can lead to a fall of 8 points (on a scale of 10 to 100) in happiness of individuals (Layard, 2011).

DISCUSSION OF RESULTS

Happiness and education

The relationship between education and happiness was examined using Pearson correlation analysis. The correlation results indicate that there is a significant and positive association between subjective well-being and education ($r = 0.159$, $p = 0.006$), reflecting that educated people are happier than their less-educated counterparts. Further, educated people are likely to be more productive and have a higher level of income than those who are less educated.

A t-test was done to examine the difference between average happiness between those who have a matriculation education and those who have a lower level of education. Those with a matric education had, on average, a higher level of happiness (3.57) than those with a lower education level, in the grade 4-11 category (3.03). The difference was significant ($t = 2.51$, $p = 0.01$). This strengthens the result that human capital is significantly related to human happiness.

Happiness of entrepreneurs and workers

Entrepreneurs are individuals who take considerable risks in venturing and managing a business. They identify gaps in the market, raise capital, hire labour and harness the necessary inputs in order to produce a good or service to meet the changing needs of customers and the competitive market. They need to comply with layers of bureaucracy and conform to various legislation and tax obligations. Although they may earn a flexible residual income, after all payments are made, they have a stressful mode of life, unlike the worker who simply avails his services to an employer in return for a 'stable' income. Given the differences in functional role and responsibilities of the two sets, it is expected that the mean happiness levels of the employee and entrepreneur would not be same. In this study, the average happiness score of the self-employed individuals was higher (3.94) than that of the workers (3.5). The t-test indicates that the difference in happiness level between the two groups was significant ($t = 3.807$, $p = 0.000$). This tends to suggest that the self-employed entrepreneur is, on average, happier than the wage-employed person, although the former is bearing considerable risks and shouldering greater responsibilities.

Happiness and Income

Economic literature indicates that there is a positive relationship between happiness and income, especially in low-income and developing countries. The relationship between the two variables was examined by a simple regression equation in which individual happiness (H) was the dependent factor, absolute monthly income (Y) was the independent variable, 'a' was the intercept term and 'e' the residual term, as indicated below. This approach is consistent with Powdthavee's 'Happiness Equation' (2011)

$$H = a + bY + e$$

The regression results indicate that income is a significant determinant of happiness (b= 0.285, Adjusted R-Square = 0.078, p= 0.000, F-value = 26.43). The model explains about 8% of the variation in happiness, and tends to suggest that a 'unit' change in income (in thousand) is associated with a 0.285 increase, on average, in happiness score, and all else being equal. This result tends to agree with those of other researchers, such as Stutzer (2001), Ng (2006) and Mahadea and Rawat (2008).

Working environment and happiness

People earn an income by working for themselves or by working for others. More hours spent at work means having less leisure time. The nature of work environment is important in influencing subjective happiness. In this study, the relationship between happiness and being treated fairly was examined using Pearson correlation. The correlation results indicate that being treated fairly at work has a statistically significant effect on one's happiness (r = 0.405; p = 0.000). This reflects that while income is a predictor of happiness, the work environment in which one works is equally important in contributing to one's happiness. In a positive work environment, there is a warm atmosphere, so that individuals are treated fairly, their contributions to the firm are valued greatly and they are given the opportunity to help others, to share personal ideas with others in a team and to experience personal growth, all networking to promote happiness. Happy employees stimulate productivity and they are less frequently absent from work. Individuals who have a positive work environment are prepared to take on additional commitments for the advancement of the firm or to display what Frey and Stutzer (2002:114) refer to as 'enthused organizational citizenship behavior'.

POLICY RECOMMENDATIONS

There is not just one determinant that exclusively explains subjective well-being. Happiness is a subjective issue with multidimensional leanings. Income has an influence on happiness, but it is not the only factor of significance. Higher income may enable an individual to buy material goods that enhance his utility and satisfaction. Money can 'buy' happiness, especially for low-income earners and poor people whose basic needs are not adequately met. As Kahneman (2011) puts it, being poor makes one miserable, but being rich may enhance one's life satisfaction. People can enhance their happiness and life satisfaction if they can devote more time and energy to building and nurturing relationships at work and in the family, as well as develop social networks that promote well-being.

Employers can create more fulfilling work environments for their employees that allow them the space to contribute ideas for personal development and enterprise growth. Any action will contribute to our happiness, as long as it is performed in a spirit of loving devotion, care and goodness. As Sheldon and Lyubomirsky (2009) state, there is no happiness at work or elsewhere without good actions. Economically, having a positive work environment within the firm engenders work satisfaction for employees.

Education is significantly associated with happiness. It is important for policymakers to implement measures that allow for adequate access to education for all citizens, enabling them to enjoy a better quality of life. Expansion of human capability through education, learnership and training enhances welfare and augments income and productivity, as well as human happiness (Sen, 2010). A higher education, with employable skills compatible to market needs, not only affords one a higher salary, but it also permits the purchase of many pleasures and enhances an individual's self-esteem, which all contribute to increasing one's level of happiness or experienced well-being (Kahneman, 2011).

For enhanced happiness, high economic growth levels are necessary for employment and income generation provincially and nationally. Unhappiness stems from unemployment and high income inequalities (Oswald, 1997; Layard, 2011). For South Africa, Hinks and Gruen (2007) found that being unemployed has a negative impact on happiness. Some commentators argue that instead of GDP, GNH (gross national happiness) should be a goal of development. This is a holistic approach that encompasses all functioning aspects of life (Sen, 2010). To generate more output growth, however, we need to enhance the level of vigorous entrepreneurship and entrepreneurial capacity so that more employment opportunities can be created. In this regard, the external environmental factors have to be more propitious to encourage more entrepreneurs to venture into business and to create more income and employment opportunities, upon which happiness and development largely hinge.

CONCLUSION

The key role-players in Local Economic Development, together with other members of society, need to take cognisance of the fact that development encompasses an increase in not only material wealth but also human welfare. Happiness is a virtuous activity which is developed over time and is attained by not only one's own personal achievement but also by identifying the role one has played in 'the activity' of achieving another's happiness. Every individual has the potential to be a happier person, although not every person can be an effective entrepreneur. Income and relationships or social capital are important for our happiness and well-being. Being educated, self-employed or employed in a good working environment, married with children, and happiness are all related. Having children exhibits a positive relationship with the happiness of individuals. Married individuals are happier than divorced or single people. While some choose material happiness through sense gratification in the mode of passion, others choose happiness through virtuosity and local development or community actions associated with the mode of goodness. This may be a matter of individual taste or choice. Good choices enhance happiness and sustainable development. 'Happiness is that ultimate goal because, unlike all other goals, it is self-evidently good' (Layard, 2011:113).

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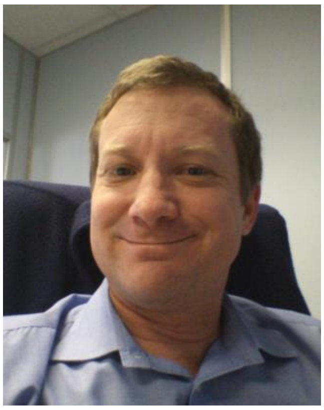
SECTION II:
PRACTICE

MUNICIPALITIES ARE GROWING HORNS: A PRACTITIONER'S REFLECTION ON THE OUTCOMES OF THE WESTERN CAPE LED MATURITY ASSESSMENTS



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ABSTRACT

This article examines how the LED Maturity Assessment described by Lawson (2012) in a previous volume of this journal has been applied in the Western Cape Province by a partnership between the Western Cape Department of Economic Development and Tourism and SALGA Western Cape. Analysis of the data emerging from the assessment, which has now been undertaken in two consecutive years, suggests that three of the assessment factors in particular are fundamental to the effectiveness of Local Economic Development systems *viz* leadership and governance, facilitation and participatory processes. Some Western Cape municipal perspectives are also presented that outline the impact resulting from addressing these three issues in particular. The author suggests that approaching Local Economic Development from the systems perspective that underpins the LED Maturity Assessment tool is a significant indicator of progress in the theory and practice of LED in South Africa.

Keywords: Local government, capacity, governance, participation, facilitation

Ngora inlingino nanine; ndobagi nalobehe ngoba. (Nuba-Tira)
Cows are born with ears; later they grow horns. (English)

INTRODUCTION

For many years LED practice in South Africa, particularly within municipalities, has been operating 'without horns'. Introduced post-1994 as an explicit local government mandate, LED has often been misunderstood by those implementing it, and has struggled to find direction and traction among both politicians and officials (Rogerson, 2009; Lawrence and Hadingham, 2008). As a consequence, its impact has frequently been limited and, in many cases, counterproductive. Despite numerous attempts to influence practice by refining the supporting policy environment, LED practice continues to underperform (Rogerson, 2009; Lawrence and Hadingham, 2008). Various commentators such as Cunningham and Meyer-Stamer (2005), Trah and Rucker (2007) and Lawson (2012) have suggested that what is required is a systematic means to identify problem areas, understand the linkages between the poorly performing parts of an LED system and make targeted interventions that enable change.

The LED Maturity Assessment is a practical approach to assessing the capability (ie the capacity and the ability) of a Local Economic Development system to deliver sustained employment and enterprise growth. The assessment tool is organised around 33 factors seen to be fundamental to successful LED success (Lawson, 2012). These factors are framed within an overarching framework that considers both the regional economic system and the local system of Economic Development. This framework is depicted in Figure 1.

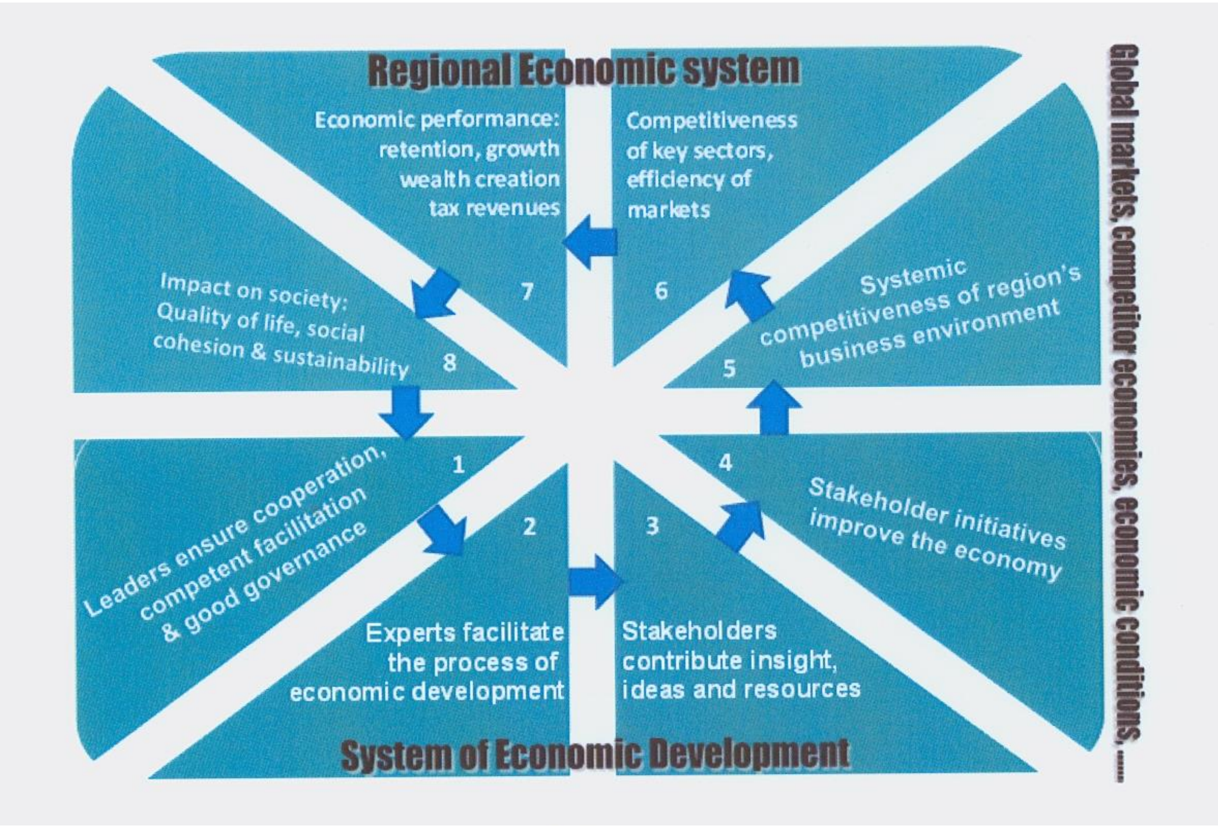

Figure 1: Framework for factors critical LED success (Lawson, 2012)

Lawson's (2012) previous article in this journal provides a more detailed exposition of how the assessment tool is conceptualised and the systems thinking that informs it.

The assessment tool was developed in 2008 in response to a need identified by the Gauteng Provincial Government to better understand the practice of LED in Gauteng municipalities. Further development of the assessment tool was commissioned by German Technical Co-operation (Gesellschaft für Technische Zusammenarbeit (GTZ), now Gesellschaft für Internationale Zusammenarbeit (GIZ)), and applied in Mpumalanga as part of the assessment of the GTZ Mpumalanga Rural Development Project, and parts of the Eastern Cape in 2009 as part of the end of phase monitoring of the GTZ LED Project.

The assessment tool evolved further when in 2011 the Regional and Local Economic Development unit in the Western Cape Department of Economic Development and Tourism (DEDAT) took the decision to use the LED Maturity Assessment as a diagnostic tool to assess the state of LED in the province’s municipalities. It was intended that the outcomes of this assessment would be used to inform and enable the targeting of DEDAT’s support- and capacity-building activities in municipalities. The Western Cape office of the South African Local Government Association (SALGA Western Cape) came on board as partner to support the undertaking of the assessment. The initial assessments of Western Cape municipalities took place in the 2011/2012 financial year by Lawson working with DEDAT and SALGA Western Cape officials. These assessments were repeated in the 2012/2013 financial year using the same approach. The initial assessment in 2011/2012 was done in 27 municipalities, while 29 (out of 30) municipalities participated in the second round of assessments in 2012/2013.

The 2012/2013 assessment of Western Cape municipalities was the first instance of the assessment tool being applied in consecutive years, and this enabled DEDAT to clearly identify areas where changes in LED practice have occurred, as well as gain some insight into what might be driving this change.

RESULTS OF THE WESTERN CAPE-LED MATURITY ASSESSMENT 2012/2013

As indicated earlier, the results of the Western Cape LED Maturity Assessment for the 2012/2013 year are particularly interesting, as there is a previous assessment against which performance can be compared. One of the most striking outcomes in this regard is the progress that some municipalities have made over a twelve-month period. It appears that even the process of undertaking the assessment is in itself a valuable intervention that creates the space for local officials and politicians to reflect on and refocus their LED practices.

Figure 2 below provides a high level overview of the outcomes of the 2012/2013 LED Maturity Assessment in the Western Cape. Municipalities are not identified in Figure 2 for confidentiality reasons; however, the same symbol for a municipality is used in both graphs, making it possible to track a municipality’s relative change. On average, municipalities improved by 7.5%, although this masked some small movements as well as some remarkable improvements (Lawson, 2013).

Improvements in LED at WC municipalities

	Jan 2012	Jan 2013	Var.
Strong	1	2	+1
Functional	5	12	+7
Progressing	11	8	-3
Weak	8	4	-4
Dysfunctional	2	3	+1

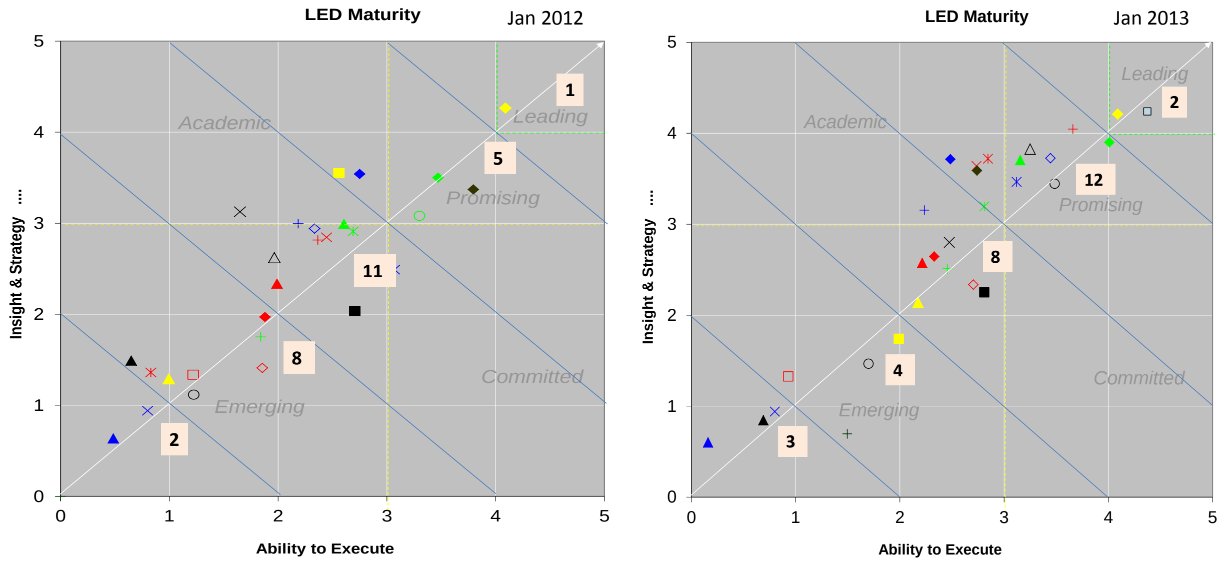

Figure 2: Improvements in LED practices in Western Cape Municipalities (Lawson, 2013).

Three of the 33 factors considered in the LED maturity assessment appear to be common to better performing municipalities:

- LED leadership and governance
- LED facilitation
- A participatory approach to LED (Lawson, 2012; Lawson, 2013).

Scores in these factors are high in strong performers, and weak in the lowest performers. The application of a regression analysis described by Lawson (2012) confirms the correlation of these three factors to the efficient functioning of the LED system. Lawson (2012) even goes as far as to suggest that if a municipality can perform in these three areas, then the other factors will fall into place.

Each of these factors will now be examined in more detail, with a particular focus on the perspective of LED professionals in three Western Cape municipalities where addressing these issues has resulted in significant change. To provide some context to the three municipalities, the table below provides a comparative overview of their salient features.

Table 1: Overview of George, Theewaterskloof and Breede Valley Local Municipalities.

	George (Eden District)	Theewaterskloof (Overberg District)	Breede Valley (Cape Winelands District)
Size[1,2,3]	5,191 km^2	3,232 km^2	3,833 km^2
Major towns[4]	George, Haarlem, Herolds Bay, Uniondale, Wilderness.	Botriver, Genadendal, Caledon, Grabouw, Greyton, Riviersonderend, Villiersdorp.	De Doorns, Rawsonville, Touws Rivier, Worcester.
Population[5]	193,672	108,790	166,825
Average household size[6]	3.4	3.5	3.7
Economically Active Population[7] (% of total popn)[8]	130,348 (67.3%)	75,464 (69.4%)	111,569 (66.9%)
Unemployment rate[9] (District unemployment rate)[10]	20.7% (22.4%)	14.3% (16.5%)	14.4% (14.2%)
Key sectors: % contribution to municipal GDPR[11] (Annual average growth: 2000 – 2011)[12]	Finance, insurance, real estate and business services: 25.1% (5.4%) Wholesale and retail trade, catering and accommodation: 16.4% (3.2%) Manufacturing: 13.9% (2.4%)	Finance, insurance, real estate and business services: 30.1% (13%) Agriculture, forestry and fishing: 21.3% (-0.4%) Manufacturing: 15.4% (5.1%)	Manufacturing: 19.6% (2.8%) Wholesale and retail trade, catering and accommodation: 15.9% (3.6%) Finance, insurance, real estate and business services: 14.5% (2.6%)

LED LEADERSHIP AND GOVERNANCE

The 'LED leadership and governance' component of the assessment shows the highest correlation to successful implementation of LED activities. However, the analysis also reveals that it is also one of the most neglected factors with only three Western Cape municipalities doing well in this area (Lawson, 2013). The need to strengthen leadership and governance goes beyond elected officials and is also applicable to the municipality's administrative leadership and the local business sector (Lawson and Martin, 2009).

The implication of this is that municipalities 'don't know what they don't know' and therefore proceed with LED interventions on the basis of assumptions that are not tested or necessarily true. Fundamental to LED leadership is the development of a clear understanding of how the local economy works in order to recognise opportunities and identify the key levers to realise these opportunities (Lawson and Martin, 2009). This avoids situations where individuals' egos rather than common sense dominate and

1 (George Local Municipality, 2013)
2 (Theewaterskloof Local Municipality, 2013)
3 (Breede Valley Local Municipality, 2013)
4 (Provincial Treasury, 2013)
5 (Statistics South Africa, 2013)
6 (Statistics South Africa, 2013)
7 (Statistics South Africa, 2013)
8 Own calculation
9 (Statistics South Africa, 2013)
10 (Statistics South Africa, 2013)
11 (Provincial Treasury, 2013)
12 (Provincial Treasury, 2013)

ensures that viable projects are identified based on a real understanding of the economy and which can then realistically be implemented.

It also enables LED interventions to move beyond targeting short-term gains to looking for long-term impact. A focus on legacy rather than what can be done in the short term is a step up in terms of leadership, particularly for senior municipal officials and councillors whose priorities often do not extend beyond the five-year duration of their contract, or the electoral cycle respectively.

George Municipality, one of the top performing municipalities in the Western Cape, provides numerous examples of this mature approach to economic leadership. The Thembalethu Square development, a ZAR70 million private investment and George's first 'township mall' had been on the cards for almost seven years, but had not managed to get to the development stage. To make matters worse, the area where it was to be built was not included in the initial 2010 Economic Revitalisation Policy, which would automatically have made it eligible for support under the municipality's investment incentives policy. Through open communication channels with the Mayor and Mayco members, the developer was able to submit a special application to Council, which was subsequently approved. As a result of the 'bigger-picture' outlook of officials and politicians, the mall has since been constructed and to date has created 300 new permanent positions in the retail sector (Bunding-Venter, 2013).

George Municipality has also recognised the importance of a functional LED unit and has approved a new structure in which the LED unit is located in the office of the Municipal Manager. This affords recognition of LED as a strategic service and enables it to be more influential in providing support and input into municipal decisions relating to Economic Development (Bunding-Venter, 2013).

Breede Valley Municipality has also benefitted from a focus on developing its LED leadership capability. One of the outcomes of the GENESIS LED Strategy process in 2011 was the establishment of a committee of influential and knowledgeable people from the municipality and the private sector who can provide input on decisions and policies affecting Economic Development in the municipality. This approach has enabled the development of an understanding of issues and constraints that serves as a basis to break down the barriers between government, business and community. It has also allowed for the alignment of key private and public sector actors behind a common vision and facilitates the unblocking of bureaucratic procedures paving the way for implementation (January, 2013).

Theewaterskloof Municipality believes that it owes much of the impact that its LED activities have had in recent years to the high level buy-in of the municipal manager, as well as the administrative and political leadership of the municipality. Without this top-level support of the top leadership who actively promote Economic Development in the municipality, LED programme achievements would not be so notable (Dibden, 2013).

FACILITATION OF LED

The 2011/2012 assessment found that only three Western Cape municipalities had put in place LED processes that could be rated as effective (Lawson, 2013). By the time of the 2012/2013 assessment, this had improved to ten municipalities (Lawson, 2013). Between them, DEDAT and SALGA Western Cape provided facilitation support to eight of the ten municipalities that improved in this respect. However, the real credit for this improvement has to go to the individual municipalities who, following the 2011/2012 assessment, reviewed their approaches to the facilitation of LED and made changes to enhance and improve this aspect of their capability.

The strengthening of the facilitation capability enables the mobilisation of stakeholders around sound LED processes, which is likely to improve the success rates of LED interventions and eventually result in more vibrant and robust local economies (Lawson and Martin, 2009).

The importance of strong facilitation was highlighted during the Participatory Assessment of Competitive Advantage (PACA) process undertaken by George Municipality in 2012. The facilitation skills brought by the process co-ordinator and passed onto the local team (consisting of representatives from the municipality and the business sector) enabled the development of an accurate picture of local economic dynamics. In particular, this enabled misconceptions regarding the role and contribution of tourism to the local economy to be clarified. Although this resulted in a better understanding of the local economy and a more balanced LED strategy, the municipality's LED manager has suggested that this has not yet resulted in the re-allocation of municipal resources to other more important sectors of the economy (Bunding-Venter, 2013).

Furthermore, although the process co-ordinator approach resulted in a significant transfer of facilitation skills, further support in this area is required, particularly with respect to increasing the number of people in the LED unit who are able to actively facilitate LED processes (Bunding-Venter, 2013).

In addition to recognising that effective LED is an outcome of shared responsibility between the private and public sector, Breede Valley Municipality has taken the view that facilitation capacity is also an important capability for specialist sector and industry organisations. The presence of facilitation capacity in these organisations means that dependency on the municipality (and by implication its budgets and resources) is reduced, and these organisations are enabled to play their role in Economic Development (January, 2013).

Theewaterskloof Municipality also attributes the success of their LED programme in recent years to the appointment of a skilled facilitator as part of a Development Bank of Southern Africa (DBSA)-funded programme, a critical success factor. In addition to playing a key role in skills transfer, the facilitator as an external resource (ie someone from outside the municipality) was able to enter LED processes as an 'honest broker', which assisted in securing participation of stakeholders who were sceptical of the ability of the municipality to play a meaningful role in Economic Development.

PARTICIPATORY PLANNING AND STAKEHOLDER MOBILISATION

The idea that development interventions should take place in a participatory manner is an idea that has perhaps been over-emphasised in South Africa since 1994, with the result of increasing 'participation fatigue' among key stakeholder groups. This fatigue has been exacerbated by the fact that participation approaches have generally been weak, resulting in poor outcomes and limited implementation. Furthermore, low levels of trust between public and private stakeholders have further constrained beneficial outcomes from participatory processes (Lawrence and Hadingham, 2008).

The use of proven participatory and stakeholder mobilisation methods are critical to the development of focused strategies and programmes focussed on implementation (Ruecker and Trah, 2007). Since 2010, both DEDAT and SALGA Western Cape have been at the forefront of promoting the use of these methods in the Western Cape. The application of participatory processes such as PACA, Genesis, local red-tape reduction and business retention and expansion visitation programmes, all of which emphasise the primacy of the participatory process, appear to have contributed to more successful outcomes, as well as enhanced stakeholder co-operation, better LED leadership and more effective facilitation.

In addition to ensuring that LED processes provide essential input into strategies and programmes, participatory approaches are key to mobilising stakeholders for implementation, as George Municipality discovered when they undertook their PACA process in early 2012. In addition to inspiring LED stakeholders to take action, the participatory nature of the process enabled buy-in to the outcomes of the strategy and created platforms for engagement with key economic stakeholders which did not previously exist (Bunding-Venter, 2013). One of the more notable examples of this type of platform was the hosting of a business breakfast in January 2013 which saw robust engagement between business, municipal administrative and political leadership. One of the positive outcomes from this engagement was the initiation of the facilitation of a possible multi-million rand expansion and re-investment by a large local manufacturing concern. The municipality was also alerted to the possible future closure of another large manufacturing entity and has since taken steps to counteract the impact of the planned closure (Bunding-Venter, 2013).

Breede Valley Municipality had a similar experience during the implementation of its GENESIS process. The engagements and interactions between business and the municipality during the various participatory components of the process laid the platform for the development of a city improvement partnership with organised business (January, 2013). The municipality's LED manager is of the opinion that this partnership would not have seen the light of day had it not been for the engagements and the methods of participation that took place during the GENESIS process (January, 2013).

CONCLUSION

For a long time Local Economic Development has arguably been the ugly sister of municipal functions. Its practice has taken a number of well-meaning, albeit misguided and ultimately ineffective, detours along the way. The shift towards a more competiveness-orientated approach to LED cohered around partnerships, and with a participatory focus has resulted in significant progress in terms of delivery.

Although part of this improvement in LED practice has taken place as a result of the advocacy efforts of support organisations such as SALGA and provincial departments of Economic Development, much of the credit for this change must go to municipalities who have realised that business as usual is not an option that will result in any meaningful change. Einstein is reputed to have said that 'insanity is doing the same thing over and over again and expecting a different result'. Aided by tools such as the LED Maturity Assessment, municipalities have been able to identify where their challenges lie, apply new thinking to LED problems and try new approaches. Dare we say that municipal LED is finally growing horns?

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CASE STUDY: LOCAL ECONOMIC DEVELOPMENT (LED) IN THE AGRICULTURAL SECTOR: ILLOVO AND THE SEZELA MILL CANE SMALL GROWERS' RENAISSANCE

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Abstract

The 'Small Growers' Renaissance' project was established in the 2007/2008 sugarcane growing season in partnership between the Ugu Municipality, the Sezela Small Growers Association, government, the Gijima funding agency and Illovo Sugar Ltd. It involved re-establishing five hundred hectares of sugarcane plantations on land which was owned by small-scale sugarcane farmers and located within the Umzumbe, Umdoni and Vulamehlo Municipalities of KwaZulu-Natal. The project provides a useful learning opportunity: a real example of the implementation of LED in an agricultural setting is viewed through the lens of the case study, together with its complexities and challenges.

Keywords: local economic development; agriculture; poverty reduction; sustainable development; sugar industry; Illovo Sugar; Gijima; Ugu District Municipality; Small Growers' Renaissance; KwaZulu-Natal, South Africa.

Background

Sugar farming is part of a large, global industry and is produced in more than 180 countries. Annual production internationally is in excess of 168 million metric tons (USDA, 2011), of which approximately 70% is produced from sugarcane and 30% from sugar beet (Agrocourier, 2004). Table 1 illustrates the production of sugarcane by the top ten sugarcane producers in the world in 2008, the year the Small Growers' Renaissance project commenced. South Africa’s figures are shown for comparative purposes.

Table 1: Global Sugar production: top 10 producers in June 2008

Country	Production (Tonnes)
Brazil	514 079 729
India	355 520 000
China	106 316 000
Thailand	64 365 682
Pakistan	54 752 000
Mexico	50 680 000
Columbia	40 000 000
Australia	36 000 000
United States	27 750 600
Philippines	25 300 000
South Africa	19 300 000
Rest of the world	263 600 967
Total	1 557 664 978

Source: Food and Agricultural Organisation of United Nations: Economic and Social Department, Statistical Division (FAO, 2008).

The growing of sugarcane tends to be a labour-intensive process. Specially selected and treated pieces of sugarcane stalk are used to plant. Once the sugarcane has grown it can be harvested by mechanical harvesters or by manual harvesting using cane cutters, but the planting process remains a fairly labour-intensive process that does not lend itself to mechanical solutions.

The sugarcane will then re-grow up to 10 times, but with each re-growth, the quality and volume of sugar produced is reduced. Each time the same growth is utilised, it is called a “ratoon”. The harvested sugarcane is then transferred to the sugar mill where it is processed.

In South Africa, sugarcane is the biggest source of sugar, with very little sugar beet being planted. The little that is planted is used for the production of ethanol. Sugar is manufactured by six milling companies, with fourteen sugar mills operating in the cane growing regions (SASA, 2012). The area relevant to the Small Growers’ Renaissance project utilises the Sezela Sugar Mill, which is owned by Illovo Sugar (a strong multinational company operating in 6 southern African countries). The Sezela Sugar Mill is located in the Ugu District Municipality. According to information compiled by the Sezela Cane Growers’ Association (SCGA, 2012), the Sezela Mill is one of the largest of the 14 cane mills in South Africa and is able to crush at a rate of approximately 10 000-12 000 tons of cane per day. Feeding the mill requires a fleet of 70 trucks, hauling 24 hours a day, 7 days a week. This means that approximately 2.1 to 2.3 million tons of cane are milled per 37 week season, the equivalent of 70 000 to 75 000 truckloads. Ten tons of sugarcane produces approximately 1.25 tons of brown sugar. Approximately 285 000 tons of sugar is produced annually by processing approximately 2.28 million tons of cane. Sezela generates approximately 8 000 permanent jobs and a gross income of approximately R750 million rand per annum from all sugarcane and sugar-related products.

Sugarcane has been grown for many years in the Ugu District Municipality. Prior to the end of the Apartheid era in 1994, much of the available land for sugar farming was held by large commercial farms, and was owned predominantly by whites. Since then, issues of land redistribution and land claims have been at the forefront of discussions about the future of the sugar industry. Hotly debated topics have included the following:

- the possibility that large farms would be broken up into smaller units
- whether sugar could be grown with good economic returns on small plots of land, as well as on large farms
- whether it is wise to encourage farmers to have one main crop, given the fact that sugar needs to be processed and not simply sold at a market
- what impact global markets could have on local prices
- what training would be needed for the farmers.

Land redistribution, or land reform, has been

> … pursued through four processes. These are: restitution (returning land or providing a cash equivalent) to people dispossessed under apartheid; redistribution (transferring more land to black owners); tenure reform (modernizing land tenure rules and access to land ownership); and providing funding and other resources to support the emergence of black farmers. (CDE, 2008:16)

CDE reports that land reform, in spite of considerable resources and efforts, is widely seen to be proceeding slowly. There is uncertainty about the long-term ownership of large tracts of arable land, which has an adverse effect on long-term planning or investment. According to CDE, the sugar industry supports directly or indirectly about a million people, including growers, employees and family members; therefore, uncertainty about the industry's long-term future is a cause of concern. Disharmony between policy and business practices may lead to the industry moving to other countries where conditions are more advantageous.

Regarding the size of sugarcane farms, evidence suggests that economies of scale of larger farms are needed in order to complete globally CDE (2008, p. 41) states that 'the SA Cane Growers' Association reported in its October 2007 newsletter that small-scale grower tonnage delivered in 2006/7 was half of that in 1997/8'. According to Baiyegunhi and Arnold (2011:4961), 'On the average, farmers have been unable to fully cover their production costs. This is due to increase in input prices without a corresponding increase in the price of sugar …'

The population of Ugu is estimated at 800 000 people living in an area of 5 044km², making it one of the smallest districts in KwaZulu-Natal, but with a high population density, particularly within the coastal municipalities (SSA, 2007:11). According to the Integrated Local Economic Development (LED) Strategy (Ugu District Municipality, 2008:14), there is a significant variation amongst the six local municipalities, namely Vulamehlo, Umdoni, uMzumbe, Umuziwabantu, Ezinqoleni and Hibiscus Coast Local Municipalities.

In 2004, the number of households in the whole district was over 170 000, with well over 60 000 in rural areas (Ugu District Municipality, 2007:13). These households were scattered over large areas of mostly rural, trust land. Given the high unemployment rate at the time (50% in the coastal districts and more than 70% inland), drastic steps needed to be taken to ensure that the livelihoods of people could be dramatically improved. The inland, less prosperous, rural municipalities were particularly in need of LED interventions.

One idea that was mooted was to start a project in the agricultural sector, as it was already established and had significant potential. An added advantage was that both commercial farms and subsistence farming on rural trust land were already productive to varying degrees in commodities such as macadamias, broilers, sugarcane, timber, bananas and vegetables. The Ugu District therefore examined several possibilities for agricultural development. In the case of sugarcane, it was found that the Sezela Mill, which was owned by Illovo Sugar, was significantly under-utilised. This provided a favourable opportunity for development, because there would be a ready market for sugarcane for as long as the mill functioned and the price of sugar remained reasonably constant. It was deemed unlikely that the market for cane would fall because, in addition to its being used for sugar, cane is used for the production of bio-ethanol (Ugu District Municipality, 2007:25) and it is clear that the production of bio-ethanol and biogases could become a real option in the future.

There were other issues at stake, however, which had the potential to affect the sustainability of a new project, namely:

- global conditions
- production quantities
- land reform uncertainties.

One challenge was that land intended for agriculture was also being sought for other developments such as industry and housing. It seemed likely that a dispute over scarce resources would be inevitable. Another issue was whether the growing of sugarcane on a relatively small piece of land could indeed provide a living income for a family. At the time, much of the sugar output in the country came from large commercial farms which had the necessary infrastructure, namely:

- mechanisation
- labour forces
- transport facilities
- access to credit.

Could a small grower produce enough to earn a living without the benefit of the infrastructure of commercial farms? Or would the income derived only be a supplement to other sources of income?

In spite of the challenges, the advantages of the project seemed to outweigh the disadvantages. A number of models of how to set up a farm, raised by the Sezela Cane Growers Association (SCGA), were therefore considered, including the following:

- *Freehold grower model*: 80-150 hectares (ha) is under cane, which allows for part-time farming.
- *Communal land farm model*: This has the advantage of being a community effort utilising rural trust land.

A further impetus for the project was that, at the time, successful communal land farming models were being implemented in other parts of the country, the Liguguletfu Cooperative in Mpumalanga being one example (The Miracle of the Liguguletfu Cooperative, No date). Although the challenges of implementing a co-operative or communal land farming model are many, they are not insurmountable if managed properly. There is also a major advantage inherent in the close involvement of many farmers and the community.

Four years prior to the start of the Small Growers' project, commercial growers had the most land and the best yield, since they were well established and possessed the infrastructure required to be commercially viable. Table 1 compares the hectares available to small scale and commercial farmers in 2004.

Table 2 Analysis of sugarcane farmers and size of farms in 2004

Farmers	Race	Hectares
Small Scale Growers	Black	4335
	Indian	378
	White	643
	Total	5356
Commercial Growers	Black	8114
	Indian	578
	White	22949
	Miller cum planter (MCP)	5902
	Total	37 543

Source: Sezela Cane Growers Association (SCGA, 2012)

Prior to the commencement of the Small Growers' project, small-scale farmers were assisted to set themselves up and to plant sugarcane on their land. The initiative was not successful, however. Farmers did not retain any of their profits, so were unable to re-plant and manage their ratoons once it became necessary to do so. In addition, they were unable to purchase newer varieties of sugarcane with higher yields, better quality sugar and shorter growing times. As a result, these farmers became less and less competitive over time. Ultimately, this led to the demise of their enterprises. This posed a threat to the sugar mills, however. Because sugar mills run for only a limited period of time each year (around 30 to 40 weeks per annum, depending on the size of the crop in the area that year), the loss of farmers could mean reduced production for the mills. Under certain circumstances, this could cause the mills to operate at a loss, especially if the market price of sugar were to drop.

By the time the Small Grower's Renaissance project was established in the 2007/8 growing season, the output of the industry had been in decline for a number of years. This was driven by multiple variables, including

- international pricing and market access issues
- competition from other sugar-producing countries
- a slow land reform process
- unfavourable climatic conditions
- growing property development pressures on cane land.

The key challenge for the sugarcane industry in South Africa then (as now) was how to maintain competitiveness in relation to other world-class producers and industries.

Questions facing the stakeholders at the time included the following:

- With so many external factors at play, should impoverished farmers farm only a single crop?
- What would it cost to establish a small-scale growers' project?
- Would it be sustainable after funding was complete?
- Would it yield a basic income from the farmers' most important asset, their land?
- How should the farms be structured most effectively?
- What would be the implications if the Sezela Mill closed, due to a drop in production?

After due consideration of all the above challenges, the decision was taken to go ahead with the new project, and a partnership was established between Illovo Sugar, Ugu Municipality, the Sezela Small Growers Association, government and Gijima. The project had already attracted the keen interest of the small-scale farmers and of political leaders. At the second congress of the Sezela Cane Growers in March 2008, Finance and Economic Development Member of the Executive Committee (MEC), Dr Zweli Mkhize, stated that through the Small Grower Renaissance project, a partnership between Illovo and small growers, 500ha of sugarcane in Umdoni, Umzumbe and Vulamehlo was to be re-established in order to halt the decline in production volumes of sugarcane (Mkhize, 2008:3).

It was hardly surprising, therefore, that from the outset the project generated high expectations from both Illovo Sugar and local farmers. Each body had its particular motivation for wanting to become involved.

The major stakeholders and their motivations

Illovo Sugar

The sugar industry in South Africa sees itself as serving the community, as shown by the following statement:

> The social programs and the government/private sector joint projects that have been facilitated and implemented by the sugar industry bear testimony to the industry's conscious commitment to the socio-economic and welfare upliftment of its employees. (Maloa, 2001:1)

At the outset, Illovo Sugar stated that one of its motivations for becoming involved in the project was the opportunity to serve the community in the Ugu District. The company identifies itself as:

> ... a leading global, low-cost sugar producer and a significant manufacturer of high-value downstream products. The group is Africa's biggest sugar producer and has extensive agricultural and manufacturing operations in six African countries. Downstream products include furfural, furfuryl alcohol, Agriguard, diacetyl and 2.3-pentanedione, BioMass Sugar, ethyl alcohol and lactulose. Illovo is listed on the JSE Limited. It is a subsidiary of Associated British Foods plc which holds 51% of the issued share capital. (Illovo Sugar, 2012)

At a business level, the project provided an opportunity for higher volumes of sugar to be processed at the currently under-utilised Sezela Mill.

The small-scale farmers

As would be expected, the motivation for small-scale farmers to become involved in the partnership differed from that of Illovo. According to the Sezela Cane Growers Association (SCGA, 2012), there are 4 000 growers farming 43 000 hectares of sugarcane, of which there are approximately 5 300 small scale growers, scattered over large areas, and 37 500 commercial growers. The unemployment in the area is estimated at 70%. Historically, subsistence farming on the plots of lands has been inadequate in supplying a basic livelihood for a family.

Gender also plays a role for the small-scale farmers, as much of the work is done by women. The men are often away looking for work, with the result that women have to take care of not only the family, but also the farming. The small growers therefore saw the project as providing an opportunity to supplement their income, while still being able to take care of the families. They were also being given the opportunity to acquire skills in sugarcane farming and in farm management.

In summary, the project offered many positive outcomes.

- For the community, potential benefits included:
  - an increased and steady income for households as the market for farmers' sugarcane was assured
  - a decrease in poverty
  - an improvement of farmers' technological knowledge with respect to the farming of sugarcane, including the various ways in which a farming business could become more sustainable.
  - addressing concerns about the poor educational levels in the district and the corresponding lack of skills, a result of the project's emphasis on skills development.
- For Illovo Sugar, the project offered the prospect of an increased yield in sugar for processing at its previously under-utilised Sezela Mill and of fulfilling its stated purpose of contributing to the community.

The Small Growers' Renaissance project was therefore very attractive to all parties and seemed like a 'win-win' situation for all concerned.

The launch of the project

In 2008, the project's offices were established in Umzumbe Municipality, which has an estimated population of 200 000 in an area of 1 259 km². The project was implemented by Illovo Sugar Ltd, along with the Local Grower Council and Mill Cane Committee. Donor funding was provided by the Gijima Fund, for the purchase of new varieties of sugarcane for replanting, which offered better quality sugar, greater yields and a 12-month growing cycle.

Illovo Sugar Ltd was the main contractor for the project, but sub-contracted out to small contractors within the community in order to stimulate local economic development. The small contractors were responsible for approximately 60ha of planting, with 40ha to be planted in the Umzumbe area and the balance of twenty hectares in the Cabhane Area. The rest was managed by Illovo. In total, the project created approximately 28 000 man days of labour per annum. There were 255 intended beneficiaries of this project, holding land ranging from half a hectare to five hectares.

Training and preparation of the land was central to the success of the project. Illovo therefore provided assistance for the farmers in terms of training, equipment, financing and field preparation. When the crop was ready to be brought to the mill, Illovo provided the transport.

The phases of the project

The first phase of the project began in the 2007/08 season, and the second phase during the 2008/09 season. Planting seasons are limited to from August/September to February/March each year.

In the first year of the project, the 2007/8 growing season, unforeseen increases in the price of fertiliser and diesel effectively reduced the amount of cash available for planting, since the budget had already been fixed. Gijima and all other stakeholders were approached and agreement was reached to reduce the area to be planted by 40ha, down from 500ha to 460ha.

Within the boundaries of the Umzumbe municipality there were five sub-areas that were to be planted, namely Umzumbe, Zamani, Mtwalume, Cabhane and Kwahlongwa. In the Umdoni municipality there were 3 sub-areas that were to be planted, namely Umzinto, Braemar and Wincanton. The third area was the Vulamehlo municipal area. Here there were three sub-areas, these being Vukani, Amandawe and Amahlongwa. Each area was allocated a fixed number of hectares to plant.

Growers wishing to have their fields planted put their names down on a list, and selection was then done according to a strict selection criteria policy agreed by all stakeholders. Growers had to sign Planting and Ratoon Management Agreements with Illovo Sugar in order to ensure the sustainability of the project. These farmers earned a modest income after the first crop was harvested.

Implementation challenges

The challenges that arose during the course of implementation were both expected and unexpected and included the following:

- *Costs*: These were higher than expected due to fertilizer and fuel price increases. In 2008, the cost of fertilizer and fuel rose unexpectedly. From one year to the next, the increase was exceptionally high and adversely affected the budget.
- *Timing*: The timing of planting had to be reconsidered as the farmers' time did not fit in with the production schedules.
- *Delays in application*: The considerable delay between receiving each farmer's application and implementation caused problems for the project.
- *Geographic spread*: The farmers were spread out over large areas, from Vukani to KwaHlongwa. This was problematic both in terms of support and in transporting the product to the mill.
- *Climatic conditions*: right at the start of the project, floods caused damage to roads and crops. This was unexpected and costly. The drought that followed was equally problematic.
- *Staffing*: the need to have trained staff was a challenge at the beginning of the project.
- *Limited planting season*: The August-December time frame for planting was very short.

- *Beneficiaries' expectations*: At times, these differed from the project's objectives. There was a need to have clarity early on, so that the expectations were based on the objectives. Modifications could then be considered, as the project was intended to be a partnership.
- *Continued funding*: Illovo reported that continued funding would be needed to make the project sustainable over time.

Impact of the project

Table 3 provides figures showing the number of tons produced in each section from the start of the project (2007/8 growing season) to the end of the project (2008/9 growing season).

Table 3: The project's impact (end 2009)

SECTION PLANTED	PLANT AREA	TONS 07/08	TONS 08/09	GIJIMA
Vukani	34.54	114.80	144.13	2590.50
Umzinto	27.37	1182.06	2705.90	2052.75
Braemar	22.89	626.76	755.43	1716.75
Wincanton	29.03	867.76	361.50	2177.25
Amandawe	7.35	329.89	331.58	551.25
Amahlongwa	18.92	0.00	0.00	1419.00
Mtwalume	83.05	1340.61	738.58	6228.75
Cabhane	57.59	846.36	868.89	4319.25
Kwahlongwa	47.19	385.39	0.00	3539.25
Umzumbe	61.23	521.29	398.33	4592.25
Zamani	62.93	241.74	0.00	4719.75
Total	452.09	6456.66	6304.34	33906.75

ASSUMPTION THAT: Recoverable Value (RV) = 12.5% FOR 8YRS			
RV PRICE	R1 701.90	R2 011.18	R2 270.39
REVENUE FOR PERIOD OF 8 YRS	R1 373 573.00	R1 584 895.00	R9 622 693.00

Source of RV data: SA Cane Growers (2011).

With regard to the small-scale farmers, the benefits are not easily identifiable or quantifiable after two years of operation, given the number of farmers involved. Once the project ended, it was assumed that farmers would continue planting, as they had learned how to manage a financially viable farm, they had improved the quality of their sugarcane stock, and they had the commitment of Sezela to buying their sugarcane.

The income for farmers during the life of the project is estimated to start at R5 000 per year, with income varying according to the size of the farm and crops being sent for milling (Illovo, 2010).

Conclusion

The implementation of the Small Growers' Renaissance project provides many opportunities for reflection – and raises some challenging questions.

Firstly, is it possible for small-scale farmers to create sustainable livelihoods in commodity markets? And is a single crop really the answer for these farmers? In certain cases around the world (FAO, 2005), governments have created a price stabilisation fund, which pays the small-scale farmer a fixed, agreed price, and absorbs the profits and the losses into the fund. Often the small-scale farmers enjoy this arrangement, until the price spikes and they do not see the excess profits accruing to them, at which point they perceive the fund to be unfair. However, governments cannot continually pay in – should such a fund be deemed to be necessary, it should self-fund itself from profits which offset the losses incurred.

Secondly, should small-scale farmers attempt to compete in markets where it is not possible for them to compete effectively? In every business a point is reached where it becomes profitable — or not, as the case may be. Economies of scale represent a major factor in the profitability and sustainability of all businesses — including those of the small-scale farmers. Again, this provides a challenge to government, particularly in the South African context, where land ownership is a contentious issue. Some questions raised by the case study include the following:

- Should the land be managed by large businesses?
- Should the farm be structured as a co-operative?
- Should it be owned/leased by individual households?
- For how long should a project like this be subsidised?

The farmers also experienced issues surrounding the use of old sugarcane varieties with lower quality, lower yields and longer growing times, which further reduced their profitability. This too is related to the fact that they are small-scale farmers, which increases the chances of their 'dropping out' when debt levels rise (West, 2010). Once again, government has to evaluate issues like food security, versus small-scale agricultural land use. Small-scale farmers do not have the means – financial or infrastructural – to be able to monitor issues such as varieties of sugarcane. They often lag behind industry developments, therefore, which further reduces their profitability and their contribution to the country's Gross Domestic Product (GDP).

Government also needs to address the issue of insurance, particularly against Acts of God. Once again, this touches on the viability of small-scale farmers, who do not have the economies of scale to recover from disasters like floods or drought; nor do they have the financial capacity or access to credit to insure themselves against these occurrences. Government is faced with either having to create a fund, which they will continuously have to top up to compensate these farmers, or to insure them against natural disasters. Either way, Government faces an ongoing cost, unless they make the politically unpopular choice of choosing to work with only commercial farmers.

The geographic dispersion of the small-scale farmers is a further complication and argument against the retention of the small-scale model. The logistical issues surrounding the agricultural 'ad hoc' management of small plots of land, scattered across a wide area, were considerable. Without the necessary economies of scale, profits for the small-scale growers are reduced. Similarly, the geographical dispersion raises the costs of planting, because of problems associated with the significant distances. This in turn reduces the chances of success of the small-scale grower.

In conclusion, it is fair to say that the Small Grower Renaissance project raises as many questions as it provides answers (suggested topics for further discussion are provided in

Appendix 1). Above all, the case study illustrates that although the concept of local economic development appears simple, the successful implementation of LED projects is much more complex. A large commercial partner like Illovo appears to be necessary for the success of such a project. Now that the project has ended, however, what is the way forward for the small-scale farmers?

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APPENDIX 1
POSSIBLE CASE STUDY QUESTIONS AND DISCUSSION STARTERS

1. Is this project sustainable after funding is finished? Why/why not?
2. Was the project successful? Why/why not?
3. What are the key issues?
4. Who are the major role players? How do competing motivations become complementary?
5. What effect has the project had on the local economy?
6. What should a 5-year plan look like?
7. What are the implications to the environment?
8. What are the implications to the local communities and the way things are done?
9. What are the implications of a pro-poor focus in the area?
10. What are the implications of global/domestic economic trends on the farmers?
11. What are the implications of land usage on the sustainability of the farmers?

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Profile	Tim Hadingham is an economic development practitioner with a passion for building the capacity of communities and business leadership with respect to economic development processes. He believes strongly that the wisdom of locals always exceeds the knowledge of experts. Tim was a team member on the GTZ (now GIZ) Local Economic Development project until 2010 and has worked across in Eastern and Southern Africa, helping locals articulate what they know and to apply it to the development of their economies. Current research interests include value chains in the informal economy, and approaches to the spatial targeting of economic interventions for maximum impact.

Dr Jennifer Houghton	
Current organisational affiliation	Lecturer, LED, Regional and Local Economic Development Capacity Building Initiative, Graduate School of Business and Leadership, UKZN.
Profile	Jennifer has a PhD in urban geography, focusing on public private partnerships as a mechanism for the production of neoliberalism at the city scale. Her current research interests are the diffusion and localization of neoliberalism in cities of the South, public private partnerships as an economic development mechanism, discourses of economic development, the role of place in economic development and special economic zones.
Dr Sylvia Kaye	
Current organisational affiliation	Lecturer and Supervisor, University of KwaZulu-Natal.
Profile	Sylvia's research interests focus on the strengthening of women-owned small businesses through the integration of training with external support programmes. Social entrepreneurship is another research area: this concept, while new, is perceived as having the potential of providing livelihoods and much needed services to communities. In 2003, she joined the University of KwaZulu-Natal in what was then the Adult Learning/Community Development School. Sylvia is now lecturing in Conflict Resolution/Peace Studies as well as supervising Masters and PhD students.
Prof. Darma Mahadea	
Current organisational affiliation	Associate Professor in Economics, School of Economics and Finance, University of KwaZulu-Natal.
Profile	Darma has published extensively in the area of Development Economics and Entrepreneurship. He has also been a visiting lecturer at the University of Lubumbashi in the DRC and Gavle University in Sweden. His area of research is in Small, Medium and Micro Enterprises (SMMEs), entrepreneurship, poverty, economic development and the economics of happiness.
Nolwazi Melissa Hlengiwe Mthembu	
Current organisational affiliation	Young researcher, LED Young Researcher Programme, UKZN Graduate School of Business and Leadership, Regional and Local Economic Development Capacity Building Initiative.
Profile	Nolwazi Mthembu holds a Bachelor of Social Science degree in Psychology and Marketing as well as a B Com Honours degree in Marketing Management. She is currently registered for a Masters of Commerce degree in Leadership at UKZN, with a focus on Local Economic Development (LED). Her current research interests are around entrepreneurship development, social entrepreneurship development and support, capacity building and community engagements in developing small towns and rural communities.

Jean Reinhardt Lohbauer ('Reinhardt')	
Current organisational affiliation	Business Consultant, Lohbauer and Associates.
Profile	After a career in the corporate world, Reinhardt has spent the past 17 years as business consultant, interspersed with buying and managing small businesses. His work in Austria exposed him to SME development. He realized that South African small businesses could benefit from what he had learnt, which culminated in his current research. Reinhardt believes that the right environment will always increase the success rate of any current and potential enterprise development; that stakeholder development should adhere to regional and local economic development, and that private sector initiatives need to take a leading role in identifying and supporting enterprise development at all levels. In this regard he has worked towards incorporating SME owners in development and on bringing stakeholders together to ensure viability of the enterprise. He has incorporated research and applied paradigms on systems thinking and enterprise development to ensure the correct supportive environment within which an SME's chances of success are improved.
Christiaan De Wet Schoeman ('De Wet')	
Current organisational affiliation	Head of the University of Stellenbosch Business School Executive Development (USB-ED) Centre for Applied Entrepreneurship.
Profile	De Wet Schoeman currently heads up the USB-ED Centre for Applied Entrepreneurship at the University of Stellenbosch. The Centre focuses on different initiatives to promote entrepreneurship in South Africa, particularly in rural areas. This includes youth development, community entrepreneur development initiatives as well as LED development. The Centre also supports research activities under the broad theme of the creation of entrepreneurial eco-systems. De Wet has more than ten years of experience in the training and development of entrepreneurs. He holds an MSc degree (Psychology) from the University of the Free State.
Anette Scoppetta	
Current organisational affiliation	Head of the Work and Opportunities Unit, Centre for Social Innovation, Vienna.
Profile	Anette Scoppetta is Head of the Work and Equal Opportunities Unit and Board Member at the Centre for Social Innovation (ZSI) in Vienna, where she also supervises the Coordination Unit of Austrian Territorial Employment Pacts (TEPs) and the Organisation for Economic Co-operation and Development (OECD)'s Local Economic and Employment Development (LEED) Forum on Partnerships and Local Governance. Anette has worked extensively on labour market and employment policies, regional economic development and projects in the field of demographic

	change, new forms of governance, social dialogue, participation and partnerships that focus on employment and socio-economic development issues. From 2009-11 she was responsible for project management of the Community of Practice on Partnership in the European Social Fund.
Leda Stott	
Current organisational affiliation	Director, International Master in Sustainable Development and Corporate Responsibility (IMSD), Escuela de Organización Industrial (EOI) Business School, Madrid, Spain.
Profile	Leda Stott is a specialist in multi-stakeholder collaboration and development issues. Currently Director of the International Master in Sustainable Development and Corporate Responsibility at the EOI Business School in Madrid, she teaches, trains and conducts research related to partnerships with a variety of academic institutions and international agencies. Leda was the content expert for the Community of Practice on Partnership in the European Social Fund between 2007 and 2011 and is the author of the European Commission's EQUAL Guide for Development Partnerships (2004) and How European Social Fund Managing Authorities and Intermediate Bodies Support Partnership (2008).

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