



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA



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Maluti-a-Phofung Nodal Economic Development Profile

Free State

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Section 1: Introduction

1.1 Purpose

The intention of this paper is to serve as a succinct narrative report on the Maluti-a-Phofung Nodal Economic Development Profile.¹ The profile report is structured to give digestible, user-friendly and easily readable pieces of information on the economic character of the Maluti-a-Phofung Integrated Sustainable Urban Development (UDP) node.

1.2 The Nodal Economic Profiling Project

In August 2005, in a meeting with the Urban and Rural Development (URD) Branch,² the minister of Provincial and Local Government raised the importance of the dplg programmes playing a crucial role in contributing to the new economic growth targets as set out in the Accelerated and Shared Growth Initiative of South Africa (ASGISA). He indicated the need to develop an economic development programme of action for the urban and rural poverty nodes.

In response, a *Programme of Action for Building Productive and Sustainable Nodal Economies* was developed by the URD Branch in September 2005. The programme of action (PoA) is intended to stimulate economic growth and development in the poverty nodes. It is important to understand the economic potential of the nodes; identify opportunities for public and private sector investment; identify barriers and constraints to economic activity within the nodes; and acknowledge recommendations on strategic interventions for improving the nodal business climate, and the institutional recommendations for implementation.

Three high-level deliverables form the core of the PoA. These are:

- (a) Nodal Economic Profiles (in which information such as demographics, institutional capacity, potential economic interventions, space economy, competitiveness profiles and so on, is contained).
- (b) the Nodal Investment Atlas (a compendium of public and private sector investment opportunities).
- (c) the Nodal Economic Development Support Agency (recommendations and proposals).

In order to fund the PoA deliverables, various development partners were approached. The Business Trust believed in the credibility of this initiative, and funded it through the Community Investment Programme (CIP). Nonetheless, it needs to be pointed out that the Nodal Economic Profiling Project is a government-based initiative intended to raise the importance of productive and sustainable nodal economies.

¹ Information is sourced from a detailed PowerPoint profile of Maluti-a-Phofung.

² The Urban and Rural Development Branch is one of the deputy director-general divisions within the dplg.

Section 2: An Overview of Maluti-a-Phofung

2.1 Administration

Maluti-a-Phofung Local Municipality (FS 194) was established in 1998 and proclaimed in 2000. It is one of the five municipalities of the Thabo Mofutsanyana District Municipality.

2.2 Spatial information

Local municipalities

- There are three main towns: Harrismith, Kestell and Phuthaditjhaba.
- There are also three townships: Intabazwe, Thlolong and Tshiame.
- Qwa Qwa, Makololweng and Swinburne form three rural areas in the node.

Transportation

- Two national roads cross the node: the N3 between Johannesburg and Durban, and the N5 towards Bethlehem.

Terrain and natural resources

- There is flat arable land around Harrismith and Phuthaditjhaba.
- Mountainous areas occur in the area of the Golden Gate Highlands National Park and the Platberg Nature Reserve.

2.3 Socio-economic information

The socio-economic character of Maluti-a-Phofung can be described as follows:

Population

- The population consists of 360 787 people in an area that covers 4 421km². Of the population, 49% are rural and 51% are urban. The population density is 81,6 persons/km².
- The majority (44,7%) of households consist of four to seven people.
- Approximately 65,1% of the population are younger than 29 years of age. This points to the need for youth-development programmes to stimulate nodal development.

Infrastructure and services

- Households without basic services are as follows: 43% are without electricity; 12% are without piped water, 70% are without telephone services and 73% are without waste removal services.
- There are 233 schools in the area.

Income and employment

- Over 82,5% of the population live below the poverty line earning less than R19 200 per annum.

- Only 22,6% of the residents in the node are employed.

Education

- Approximately 23% of the residents have no education, while the remaining 77% have some form of education.
- The number of people who have some form of tertiary education is very low in the Maluti-a-Phofung Local Municipality, accounting for just 1% of the population.

Health care

- There are 34 fixed clinics, five mobile clinics and three hospitals in the area.
- The per capita health expenditure is R71 per annum compared with R199 per capita in the rest of South Africa.
- The average number of patients seen by each nurse per day is 30,9.
- There is strong prevalence of HIV/AIDS in Maluti-a-Phofung, amounting to 27% of the population.

2.4 Municipal funding and budget breakdown

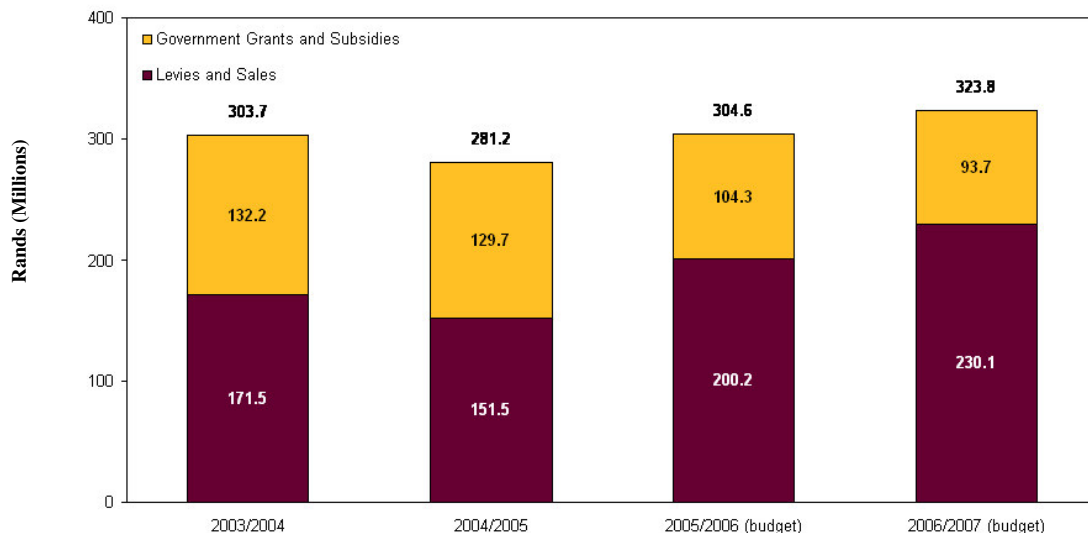


Figure 2.4.1: Sources of funding for Maluti-a-Phofung Municipality: 2003-2007

The graph above illustrates that the area is dependent on government grants and subsidies for more than 50% of its income. For the budgeted 2006/2007 period, R230 million of a total R323 million income will come from government grants and subsidies.

During the period 2003/2004, the expenditure on salaries and wages came to a total R72,9 million. This expenditure increased to R98,2 million in the period 2006/2007. General expenses accounted for R142,1 million in the 2003/2004 period, against R149,3 in the 2006/2007 period. A small portion of income is spent on capital projects, amounting to R7,5 million in the 2003/2004 period, and R6 million in the 2006/2007 period. This is illustrated in the graph below.



Figure 2.4.2: Budget expenses breakdown in Maluti-a-Phofung Municipality: 2003-2007

2.5 Key remarks about Maluti-a-Phofung

The nodal overview of Maluti-a-Phofung highlights the following development challenges:

- The Maluti-a-Phofung population decreased by 1,2% from 1996 to 2001 (from 365 017 to 360 790).
- HIV/AIDS and migration are the two main causes of the population decrease.
- In the rural areas, access to basic services is still extremely difficult.
- Backlogs in basic services provision as well as housing and health/education facilities exist.
- There is a lack of managerial and business skills both in the public and private sectors.
- Many projects are stranded, especially in tourism and agriculture.
- Maluti-a-Phofung is a tiny node, and its towns are also small.
- There is no base for economic development or investment opportunities.

Tabled below are examples of the key local economic development (LED) priorities for Maluti-a-Phofung.

Examples of key priorities	Strategies
To draw new investment to the area	<ul style="list-style-type: none"> • Reduce crime and create a safe, secure environment. • Put in place incentives for investment and for new entrants to the economy. • Market the area to investors. • Discourage emigration of professional people from the area.

Examples of key priorities	Strategies
To expand the tourism sector in the region	<ul style="list-style-type: none"> • Develop a tourism sector plan. • Develop a range of tourism products, services and infrastructure required to expand the tourism industry. • Market Maluti-a-Phofung as a tourist destination. • Promote the creation of artefacts, and arts and crafts. • Promote exhibition and tourism events in Maluti-a-Phofung.
To eradicate poverty	<ul style="list-style-type: none"> • Increase education and skills levels and access to basic services. • Increase access to land. • Improve the health and well being of the local people. • Increase access to jobs.

Section 3: The Economy of Maluti-A-Phofung

The description of the economy of Maluti-a-Phofung is provided at three levels: GDP (output), employment and a consolidated sectoral analysis.

3.1 Contribution to GDP

The GDP per capita for the node is much lower than that in the Free State province, as can be seen from the graph below.

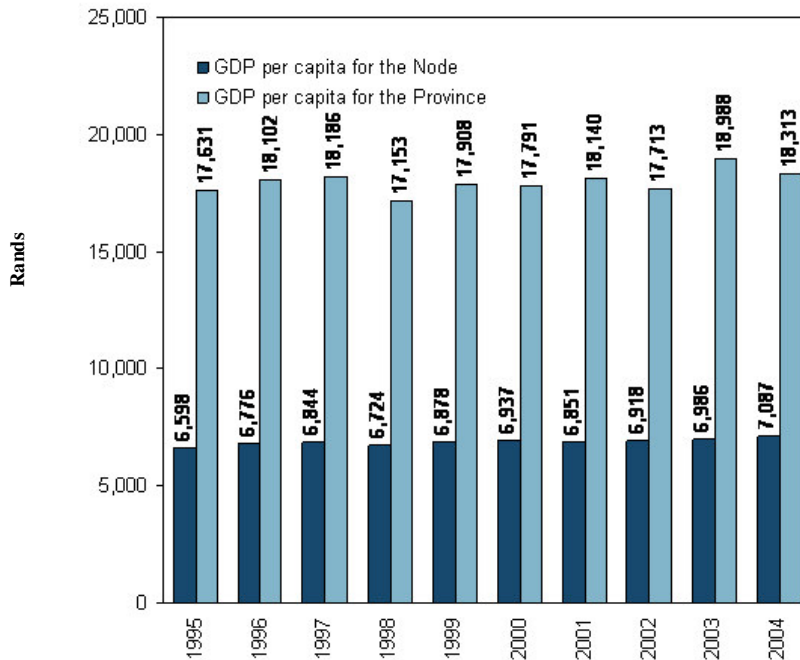


Figure 3.1.1: GDP per capita at constant 2000 prices

3.2 Contribution to employment by economic sector

As illustrated in the table below, general government services and manufacturing are the most important sectors in the node – contributing 22,4% and 21,7% to employment respectively. The wholesale and retail trade sector contributes 16,5% to employment, and the contribution to employment by community, social and personal services amounts to 14,8%.

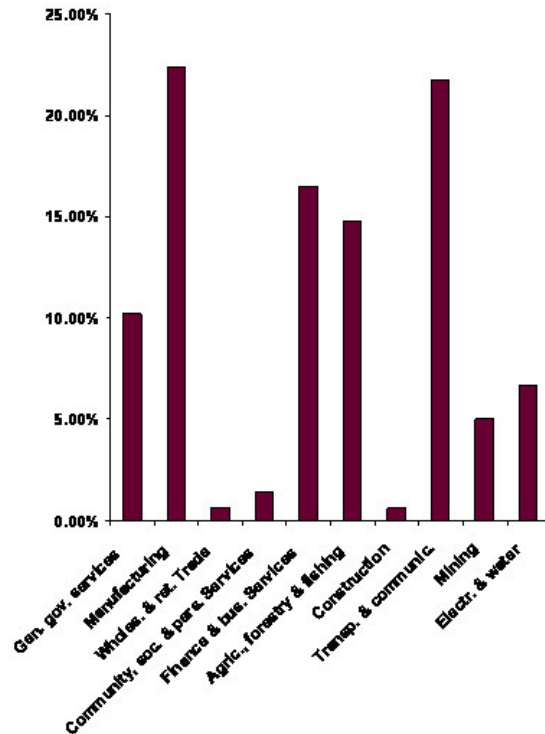


Figure 3.2.1: Contribution to employment by economic sector: 2004

3.3 Sectoral prioritisation

General government services has the highest average index, being the largest employer in the district. This sector also makes a substantial contribution the nodal GDP.

Sectors	Average index	Potential for growth
General government services	100	The public sector is the largest employer in the district and makes an important contribution to nodal GDP. However, the public sector is funded by taxation, and therefore is itself dependent on growth in the private sector.
Manufacturing	69	Historically, the homeland government subsidised the sector. Labour is cheap, the node is well connected with main national roads, and people in the area developed skills during the subsidies regime.
Wholesale & retail trade, catering & accommodation	68	The area boasts many attractions in eco/adventure tourism. These attractions are strong but need to be marketed more efficiently. There is also cultural tourism at Basotho Cultural Village.
Community, social & other personal services	53	As part of the public sector, it includes teachers and health care professionals. The same assessment as for general government services therefore applies.
Finance & business services	47	The sector is a relatively significant contributor to GDP and is seeing good growth. However, as a consumption sector, its strength is dependent on other sectors that generate wealth.

Section 4: Selected Sectors

4.1 Agriculture

The area has the potential for agriculture, as there is adequate land and growing conditions. There is an abundance of labour available in Maluti-a-Phofung. Good road linkages to KZN, Gauteng and the Free State exist. Commercial farming occurs on the flat land surrounding Harrismith and Kestell, and subsistence farming occurs in Phuthaditjhaba and the surrounding areas. Production is focused mainly on cattle, dairy, maize, wheat, dry beans, apples, potatoes and vegetables. The primary source of the irrigation system is the Wilge River. Small-scale farmers have limited access to the market. Cattle are sold at the auctions held by the seven farmers' co-operatives in the district and most cattle are destined for feedlots outside the node. Grain crops are sent to the Afgri silos and Sasko.

The land available around Phuthaditjhaba, and the land held by emerging farmers between Kestell and Harrismith, could be used more effectively to increase production. There are several underutilised broiler facilities in Maluti-a-Phofung. These could contribute economically if farming operations are resumed.

There is also the potential to extract greater value by processing primary agricultural output into finished products. There is the possibility to add value to existing products, especially in livestock production. Presently, all animal skins are taken outside the municipality for processing, and bales of wool are sent to East London and Port Elizabeth as there are no washing, spinning or weaving facilities in the area. There is also no large-scale broiler abattoir for chickens in the area. In addition, milk could also be processed to produce yoghurt, maas and cheese.

4.2 Tourism

Maluti-a-Phofung hosts a variety of attractions that could boost the level of domestic tourism. An example is the Golden Gate Highlands National Park, which includes the Basotho Cultural Village, Sterkfontein Dam, with several water sports and activities (i.e. fishing, sailing) and hiking and climbing at the Sentinel Peak. Currently, most of these attractions are underutilised, as Sterkfontein Dam is fully booked on weekends and peak periods. The Basotho Cultural Village accommodation is ready but not operational and Sentinel Peak is underdeveloped. Visitors to the area are mainly businesspeople and contractors who stay in Harrismith bed-and-breakfast establishments (B&Bs) and guesthouses, because of the shortage of rentable houses. People also travel to Durban or Johannesburg on the N3, or reach Clarens by passing through the Golden Gate National Park. Maluti-a-Phofung could focus on developing adventure/eco/sport domestic tourism. There is a need to develop and market its tourism products more efficiently.

The following tourist attractions are offered in Maluti-a-Phofung:

- Sentinel Peak and parts of the Drakensberg
- Golden Gate Highlands National Park

- Basotho Cultural Village
- Qwa Qwa National Park
- Sterkfontein Dam.

4.3 Manufacturing

Maluti-a-Phofung, formerly Qwa Qwa, benefited under the Regional Industrial Development Programme of the apartheid government. When the subsidies regime disappeared, however, huge cutbacks were necessary, especially in terms of employment, which today is at lower levels than in the early 1990s. However, the number of people formally employed in manufacturing has increased steadily over the past decade. Within the sector, clothing and furniture have showed steady growth while chemicals and food have decreased constantly.

Under the previous regime, some skills were developed and some industries became efficient and self-sustainable. This resulted in formal employment levels increasing over the past decade. Two areas, Phuthaditjhaba and Tshiame (Industriqwa), were specifically addressed for industrial development by the Free State Development Corporation (FDC). Industrial premises were developed for large investors from outside the area. Smaller factories were mainly developed for local business people.

The Free State Development Corporation aims to intervene in areas such as skills provision, BEE and SMME development. One of the area's main assets is its geographic location (i.e. being strategically placed between Johannesburg, Durban and Bloemfontein). Lower rates are charged here than in areas such as Midrand, Gauteng. The area also has a very stable and inexpensive workforce. The Free State Development Corporation, transformed from a state-funded institution to a self-sustaining corporation, played an important role in the current levels of occupancy. Factory space can be leased at prices below the market value (i.e. industrial space is rented at R4 to R5/m² in this node, while the same amount of space in Johannesburg would cost as much as R25/m²).

However, more mainstream marketing needs to be done if the area is to attract additional investors. Another weakness is that there are no links between small industries and the larger industries. The massive influx of unauthorised imported clothing from the East is expected to have a negative influence on the long-term potential of the textiles and clothing manufacturing industry in the area. Despite the lower prices for industrial space, the area is in competition with similar incentives in Lesotho and Botswana. There is also no specific municipal plan in place to provide support and improve incentives for the various industries.

Section 5: Economic Growth and Investment Opportunities

The Maluti-a-Phofung Local Municipality has identified agriculture, manufacturing and tourism as areas of potential economic growth and investment opportunity.

5.1 Tourism

Basotho Cultural Village expansion

The Basotho Cultural Village is located in the Golden Gate National Park. The village offers tours through a traditional village depicting the lifestyle of the Basotho people. Visitors are able to consult a traditional healer and sample traditional food and drink. Other tours, priced at R25 for adults and R7 for scholars, include a herbal trail and a cultural route. The village currently has to be subsidised in order to continue operating. Sanparks constructed accommodation in the village, but this has not been operational since its completion in August 2005 due to complications with the merger of the Qwa Qwa National Park with Golden Gate National Park (a stranded asset). An opportunity exists for the village to expand its restaurant and conferencing facilities at an estimated cost of R2 million. There is potential here for a public private partnership. With accommodation and conferencing facilities in place, the cultural village has the ability to extract greater spend from its existing tourist base as well as the corporate sector in South Africa. The village is ideally situated on a national road, less than an hour's drive from Harrismith. The area's scenic beauty and proximity to both Johannesburg and Durban is an advantage. It is estimated that 10 additional jobs will be created at the village, while the operation of the accommodation will create further jobs. Since the village is owned by the Free State Department of Arts and Culture, approval for the involvement of the private sector is needed.

Platberg Game Farm and Lodge

Platberg Nature Reserve and Botanical Gardens is owned by the Maluti-a-Phofung Municipality and comprises approximately 4 000 hectares. There is easy access to the reserve, which is situated along the N1 highway. Over the years, the reserve has been plagued by mismanagement. The land was leased for 40 years to the Platberg Development Company, which has transferred the lease to Dynarc Africa. Dynarc Africa intends restocking the game, building a 40-bed lodge, re-establishing the botanical gardens, providing horse-riding facilities and developing the area's fishing potential. Funding has been obtained in principle, although the amount required is uncertain. There is potential for a high-end 200-stand property development but this depends on the municipality agreeing to sell the land to the development company (which appears unlikely at this stage). There is also an opportunity for a lodge operator and an equity investor in the future. The game farm aims to provide high-end accommodation, which is currently lacking in Harrismith. The combination of accommodation, game viewing and the natural beauty of the mountain is expected to attract passing trade along the N1 highway. Approximately 40 to 60 jobs will be created in the lodge. Approval for the transfer of the lease is pending from Maluti-a-Phofung Municipality.

Sterkfontein Dam Resort expansion

The resort is situated at the Sterkfontein Dam, which is on the edge of the Drakensberg escarpment, approximately 15km from Harrismith. The area around the dam consists of a nature reserve with two developed areas for public use: a timeshare resort and a resort operated by the Free State Province. The timeshare resort does not cater for tourists or non-members. The resort has self-catering accommodation that has deteriorated significantly over the past number of years. There is an opportunity to upgrade the resort to include better accommodation, a restaurant, store and conference venue, and improve on water sports activities. There is also potential for a public-private partnership, and the income potential of the resort could be enhanced. The resort is the only area through which the public can access the dam and there is high demand for accommodation, especially over weekends. Accommodation is fully booked over weekends several months in advance. The dam is close to Harrismith and the N1, which provides easy accessibility. However, employment is uncertain as it depends on the extent of the upgrade. The enabling conditions depend on the ability of the Free State Province to commercialise the facilities at the resort.

5.2 Agriculture

Maluti Dairy

The Maluti-a-Phofung Municipality established a dairy project, which, with all the relevant equipment and 120 cows, was originally purchased at a cost of R2,4 million. Initially the dairy was jointly owned by local emerging farmers who agreed to supply the dairy with their milk in order to make up the minimum quantity required by Nestlé. The original rationale for the project involved a purchase agreement based on a minimum supply of 2 000 litres per day. However, due to a disagreement, a number of farmers pulled out of the scheme and were compensated with cows. Since then, the dairy has been operating with only a small number of cows and is unable to generate sufficient volumes to ensure its future sustainability. Some operational costs are being paid by the municipality. There is an opportunity for an operator to support the community and viably operate the farm. Employment opportunities for 10 persons will be created by the project.

Dry bean depot

The Maluti-a-Phofung area produces some 4 000 tons of dry beans per year. No facility exists in the area and farmers struggle to get the product to the market. In addition, farmers could obtain a better price per ton if the beans were cleaned and graded. Therefore, there is an opportunity to establish a dry bean depot to provide grading, weighing, cleaning, storage and marketing services to the local emerging farmers from the Kestell area. The facility would require closed warehouses, an administration building, a weighbridge, grain-cleaning equipment, security fencing and electricity supply. The idea was formulated several years ago but was abandoned due the lack of funding. A brief business case was prepared which indicated that an amount of R1,8 million would be required to establish the facility. The operational forecast presented reflects a potential annual income of R1,1 million on a cost base of R1 million (breakeven). The proposed site for the depot was owned by a local farmer who was not willing to sell. Potentially, 20 jobs could be created directly by the depot. The business plan needs to be revisited and developed

in further detail. The production of dry beans must be analysed to determine if sufficient volumes exist to ensure the viability of the depot. The availability of the original site for the depot must be confirmed and secured.

Black commercial farming

In the early 1990s under the guidance of Agriqwa (an agricultural development agency) approximately 95 000 ha was given to 120 emerging farmers in the area between Kestell and Harrismith. The Agriqwa scheme involved setting up three test farms to act as a one-stop centre to support the black farmers in terms of technical advice, training, planning, mentorship and funding. The government stopped the scheme in 1995. Many of the farmers are not operating at their full potential and are burdened with debt. The main cause relates to bad planning and poor cash flow management. An opportunity exists to leverage the existing land and limited farming expertise to develop viable commercial farms by providing operational support. This could increase the productivity of the land held by the farmers, and realise the full potential of the district. There is a potential to create 1 200 jobs (10 new jobs each on 120 farms) through the agricultural development scheme project.

5.3 Hydroponics farming

The Maluti-a-Phofung Municipality has established a hydroponics project in which 12 tunnels with the required water and heating systems have been established on land set aside by the municipality at a cost of R2,7 million. However, the water pump broke down and took two months to repair, which resulted in all the crops dying. Hence, the project has come to a halt and needs to be restarted. Some operational costs are being paid by the municipality. The beneficiaries have not taken ownership for the project and appear to view themselves as employees. The project has the ability to produce all year round. There was a social motive for the establishment as the municipality viewed the project in terms of job creation and food security. It is estimated that employment for 120 people (12 tunnels employing 10 persons each) can be created. The business plan needs to be re-assessed and updated as the previous business plan made overly aggressive assumptions. Additional funding of R2 million is required to increase the number of tunnels and the production to support the 29 persons who are currently employed.

5.4 Manufacturing

Footwear plant

There is potential for a 6 500m² shoe factory to be established in the Phuthaditjhaba area. It would be a partnership with the Free State Development Corporation, which is prepared to provide loan funding for the acquisition of the assets, the working capital required and warehousing of a 25,1% BEE stake. The funding provided by FDC is in the region of R8,9 million, while the owners would contribute R3 million. There would be manufacturing capacity for 12 500-15 000 pairs of shoes per day, priced between R5,90 and R31 per pair. Management of the factory currently work for Amalgamated Mouldings Group, which is the largest shoe component manufacturer in South Africa. There is an opportunity for a BEE investor to take 25,1% stake warehoused by the FDC. The project would provide existing access to

the retailers, a centralised marketing and sales force, cost-effective raw material input costs (e.g. low labour cost), a central location and distribution network, and a knowledgeable management team. Customers would be attracted by lower lead times, smaller order quantities, greater control over quality, and reduced cash flow burdens. The plant could employ up to 300 workers when running at full capacity. The enabling conditions require approval of funding by the FDC, and FDC warehousing the BEE stake until a suitable BEE investor has been identified.

Section 6: Summary

Phuthaditjhaba (formerly in Qwa Qwa) is underdeveloped. It is home to 85% of the population of the municipality. Maluti-a-Phofung is centrally located between Gauteng, KwaZulu Natal and the Free State. The GDP CAGR (1995-2004) is 0,8% compared with 0,4% for the province; and the GDP per capita is 38,7% of the provincial average. Government is the main source of employment in the node.

The area's proximity to the national roads running from Johannesburg to Durban and the Drakensberg has not been adequately exploited. The tourism infrastructure in the area requires upgrading, and the area around the Sterkfontein Dam is underdeveloped. The area's potential for agriculture is high, as conditions are suitable. There is a low level of land claims and emerging farmers have access to land but production is restricted due to cash-management issues.

The following potential sources for economic growth have been identified:

Short term	Long term
<ul style="list-style-type: none"> • Improve the quality of services provided by tour operators • Package accommodation with the other activities in the area • Develop products around ecotourism • Asset creation: institute accelerated write-off of capital assets purchased • Public sector support for marketing campaigns of local establishments, such as B&Bs and tourism events 	<ul style="list-style-type: none"> • Manufacturing: Develop niche products targeted at the foreign market to extract greater value • Agro-processing: process agricultural goods which are produced in the area to substitute re-imports of processed goods from Gauteng or KwaZulu Natal • Address skills gap with regard to black commercial farming and entrepreneurial skills in the tourism sector • Tourism infrastructure: upgrade tourism facilities and market the area more aggressively

Currently, the focus is on projects that target poverty alleviation and social development. The LED is focused on making the existing distressed projects viable and sustainable. Limited projects to support the economic development of the area have been identified. Sector studies of agriculture and tourism have been commissioned to assist understanding of these sectors and identify gaps. The focus will be on data collection that will support future strategic choices. Projects that will ensure an economic development focus and implementation need to be identified.

The solution that Maluti-a-Phofung provides is to address the skills gap in municipalities. Mentorship programmes to bridge the skills gap between emerging and commercial farmers are needed. An effective marketing strategy and delivery mechanism for tourism should also be developed. There is a need for investment in the tourism sector, which provides the multiplier effect for growth in the rest of the economy. Black entrepreneurs need to be educated and trained to participate in this sector. This should be done in conjunction with creating new tourism products highlighting the area's scenic beauty.