CHAPTER 7 AN ANALYSIS OF THE ECONOMIC SUSTAINABILITY OF KWAKWATSI

7.1 INTRODUCTION

South Africa's democratic transition now lies more than a decade in the past, a period long enough to take stock of past achievements and challenges. The successful political transition raised hopes for an economy characterised by broadly shared growth and greater access of the majority of the population to economic opportunities, hence jobs. Economic policies have been geared towards ensuring macro-economic stability (with considerable success) and increasing access to basic social services, especially education and health. A number of special initiatives have also aimed to promote a wider spread of economic benefits across the population. However, the outcomes in terms of growth in per capita income and employment have been below expectations (Bhorat & Kanbur, 2008:18).

The primary aim of this study was to analyse the economic sustainability of Kwakwatsi. The economic sustainability of Kwakwatsi will be determined by income generating activities in the area, household income derived from various sources, projects proposed by the LED strategy, and the impact these may have on poverty and unemployment in the area.

This chapter will provide a profile of Ngwathe Municipality and that of Kwakwatsi. The chapter will further assess the municipality's developmental plans for employment creation and poverty alleviation as envisaged through the IDP process.

7.2 PROFILE OF NGWATHE MUNICIPALITY

Ngwathe Local Municipality (NLM) is situated in the northern part of the Fezile Dabi District Municipality, in the Free State Province. It is composed of 5 towns, namely: Parys, Vredefort, Heilbron, Koppies and Edenville town areas as well as the rural areas as demarcated by the Demarcation Board of South Africa and is further divided into 19 wards with 38 councillors (Ngwathe Municipality, 2009:3).
The municipality's IDP shows an estimated population size of 141 783 for the year 2006 (Ngwathe Municipality, 2009:3). This is in contrast to Stats SA's (2007:xi) estimated population size of 95 187 for the municipality for the year 2007.

The majority of the municipality's population is female (53%) (Ngwathe Municipality, 2009:3). This in comparison to a population distribution of 51.6% females and 48.4% males for the Free State Province (FS Treasury, 2008:2). The survey results showed that 46.2% of the residents of Kwakwatsi are males, and 53.8% are females.

The IDP for the year 2009/2010 for Ngwathe Municipality shows that 31.2% of its population is economically non-active. The latest official unemployment figure for the municipality was 43.1%, estimated for the year 2006 (Ngwathe Municipality, 2009:45). The unemployment rate for the Free State Province for the second quarter of 2009 was estimated at 26.9% and 33.0% using both the narrow and the expanded definition respectively (Stats SA, 2009a:ix). This makes the Free State, a province with the third highest unemployment rate after the Eastern Cape and North West provinces. The unemployment rate for Kwakwatsi was calculated at 79%, using the survey data.

When it comes to the form of housing the residents of the municipality occupy, Stats SA (2008b:39) showed that 77% of housing within Ngwathe Municipality was of formal structure. For Kwakwatsi, the local municipality reports that 46.8% of housing in the area is of formal structure and 53.2% of houses are informal structures which are also called shacks. The municipality has identified an additional demand for 300 residential sites, with plans to acquire the necessary land said to be in place (Ngwathe Municipality, 2009:57).

The high unemployment rate for Kwakwatsi (79%), together with its housing structure (53.2% shacks) proves to the fact that the area potentially bears the greatest brunt of poverty and its associated social ills. This is also exacerbated by the fact that 56% of the population of Kwakwatsi was found to be economically non-active (compared to 31.2% for Ngwathe Municipality as a whole).
7.3 ECONOMIC ACTIVITY IN KOPPIES

Kwakwatsi is a former black residential township for the town of Koppies, located 90km south of the industrial town of Vereeniging. For this reason all economic activity supporting the township is located in Koppies which is within a walking distance from Kwakwatsi. Due to the unavailability of economic data in terms of the area’s business activity and its contribution to the gross geographical product of Ngwathe Municipality, a survey was undertaken to give a picture of the kind of economic activity evident in the area. The fact that the town has one main street as its business district made the exercise easier. Some of the established businesses did not want to divulge their financial information as they fear that their competitiveness will be compromised. An overwhelming majority of all businesses, except for government entities, admitted to not keeping any accounting records. Twelve shops within the retail sector were not registered with any institutions. The owners said that their stores are too small to warrant any trouble from the authorities. Table 7.1 shows the number of businesses within each sector for the town of Koppies.

<table>
<thead>
<tr>
<th>TABLE 7.1: ECONOMIC ACTIVITY IN KOPPIES</th>
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<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
</tr>
<tr>
<td>Finance, insurance &amp; real estate</td>
</tr>
<tr>
<td>Community, social &amp; education</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>


As shown in table 7.1, two shops were recorded with activities in the agricultural sector. One was an agricultural supplies shop and a small mill, producing maize meal mainly bought in the township. The wholesale and retail trade is where most of the activity is happening. Most of the stores in these sectors are small with each employing not more than two staff members. The recognizable stores in this sector are Spar mini-market (14 employees), Shoprite mini-market (12 employees), Lewis furniture store (7 employees) and Pep-store (6 employees).
The finance, insurance and real estate sector has two banks (Absa and FNB), the Post Office and an estate agent with two employees. The two banks each has a staff compliment of four. It is also important to note a comment from one of the store owners who said that Standard Bank closed their branch within the town in 2008 due to lack of economic activity. The biggest employer in the community, social and education sector is the municipality with 30 employees. The area has a library, a police station and a small magistrate office.

7.4 CURRENT TRENDS IN KWAKWATSI

The next section provides an analysis of current trends in terms of population growth, unemployment and poverty. As Slabbert (2004:4) argues, in a sustainable economy poverty will be reduced over time. The degree of sustainability could be determined by the growth rate at which the percentage as well as the number of households living in poverty is reduced over time. Slabbert further argues that in a non-sustainable economy, poverty will increase over a period of time.

To measure the sustainability over time, trends in poverty, unemployment and population growth over time were projected. The different trends are projected until the year 2020. The trends described below are applicable should there be no intervention in Kwakwatsi in terms of employment generating projects.

Projections by definitions are conditional statements about the future. They refer mostly to the exercises of extrapolation of the past trends into the future; and they do not take into account changes in the policy parameters. For example, a projection of the future population growth may not be taking into account changes in the government health policies, family health programmes, etc. Projections are based on the assumption that the past trends will continue to operate in the future. The reliability and usefulness of projections depend on the assumptions and their closeness to reality (Mehta, 1996a:1).

According to Mehta (1996b:2) projections are not the same as forecasts. In general, projections are treated as predictions and are never to be termed as final population. In the long run, it is suggested that policy parameters are to be incorporated in the projections.
The likely effects of policy changes are to be judged and predictions are to be made accordingly. Thus, when an element of judgement is added to the projections it becomes a forecast. Forecasts enjoy the advantage of being based upon a set of assumptions which are likely to be realized in the future (Mehta, 1996b:2).

There are various methods which can be used to project population changes. Some may be very sophisticated while others are simple and less complicated. One method of projection is the method of least squares. This method is applicable when time series data is available. It is a method used to make future projections on the basis of the past trend (Mehta, 1996b:11).

The ratio method can also be used in population projections. The ratio method, like the least squares method considers all past observations to make future projections. In its application, the ratio method is based on the ration of the district (municipality) population to that of the state (province) population. After the ratio of the district to the state is obtained, assumptions are made on the future values of ratios. Once the future values of ratios are fixed, the population of the municipality can be obtained by applying to the projected state population in that year. This can be repeated to any year for which the projected state population is available. In the absence of the projected state population, this need to be projected independently and then only the exercise of district level projection undertaken (Mehta, 1996a:7). Thus the ratio (R) is defined as

\[ R = \frac{P_i[t]}{P_c[t]} \]

Where \( P_i[t] \) is population of i-th district at time ‘t’

\( P_c[t] \) is the population of the state at time ‘t’ to which district ‘i’ belongs

(Mehta, 1996a: 8)

The above method assume that state (province) level population projections are available. For the purpose of this study, this provincial information was not available. The ratio method was adapted and population estimates were first done at the level of the province and then the different ratios applied to Ngwathe Municipality (which Kwakwatsi is part of).
It is important to note that the estimation method followed does not account for other socio-economic factors that might impact on the change in any of the observed factors. The guidelines are as follows:

- Observing the percentage shares of the different factors (unemployment, population growth, poverty) for the African population of Ngwathe Municipality in the parent population (FS Province) in one or more past dates.
- Projecting these percentage shares into future dates (the reference dates were 2000 to 2007);
- Applying the projected proportions/ percentage shares into independently derived projections of the parent population.
- Converting back into percentages for Ngwathe Municipality and for Kwakwatsi through the estimated proportions.

7.4.1 Population growth over time

The population size of Kwakwatsi was calculated at 12 920, using the survey data. The recent reduction in agricultural and mining activities, and the perceived lack of employment opportunities in the Free State in general has resulted in migration from the Free State to other provinces with a net loss of 61 000 people (FS Treasury, 2008:3).

The base year used in making projections was the 2007 data available from Stats SA (2008a) and FS Treasury (2008). In order to make population projections, the number of births, deaths and migrations is required. Though the population in the base year is available, number of deaths and migration in future, needs to be projected. Dorrington (2000) writes that estimating and projecting the South African population has never been an easy task because of the paucity of data and the heterogeneous nature of the population. Such work is an order of magnitude more difficult at a regional level where migration is far more significant and not documented at all, and where there may be poorly understood regional deviations in fertility and mortality.
Detailed demographic data was not available at township level, applicable to Kwakwatsi. Table 7.2 and Figure 7.1 show estimated changes in the population size of Kwakwatsi in terms of the actual number and percentages using the methodology explained in section 7.4. The population of Kwakwatsi was assumed to have grown historically at the rate comparable to that of Ngwathe. The estimated population growth rate for Kwakwatsi over the period 2010 to 2020 is 0.8% per annum. Stats SA (2008a) showed an average population growth rate (years 200 to 2007) of 1.2% and 0.4% per annum for South Africa and the Free State, respectively. Figure 7.1 shows that although the population of Kwakwatsi is expected to grow, this will happen at a slower pace as more people opt not to stay within the area due to limited employment opportunities.

### Table 7.2: Estimated Population Growth for Kwakwatsi

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>12920</td>
</tr>
<tr>
<td>2010</td>
<td>12943</td>
</tr>
<tr>
<td>2011</td>
<td>12960</td>
</tr>
<tr>
<td>2012</td>
<td>12973</td>
</tr>
<tr>
<td>2013</td>
<td>12985</td>
</tr>
<tr>
<td>2014</td>
<td>12995</td>
</tr>
<tr>
<td>2015</td>
<td>13003</td>
</tr>
<tr>
<td>2016</td>
<td>13010</td>
</tr>
<tr>
<td>2017</td>
<td>13016</td>
</tr>
<tr>
<td>2018</td>
<td>13020</td>
</tr>
<tr>
<td>2019</td>
<td>13024</td>
</tr>
<tr>
<td>2020</td>
<td>13028</td>
</tr>
</tbody>
</table>

Source: Survey data, 2009, and own calculations.
7.4.2 Changes in employment and unemployment

Data from Stats SA (2009:ix) labour force survey shows that South Africa’s official unemployment rate has decreased from 30% in 2000 to 22.9% in the second quarter of 2009. The Free State Province on the other hand has seen an increase in its unemployment rate from 20.8% in 2000 (FS Treasury, 2008:43) to a high of 26.9% in 2009. The unemployment rate for Kwakwatsi was calculated at 79% using the survey data. Figure 7.2 shows an estimated average annual increase in the unemployment rate for Kwakwatsi in the absence of any intervention. The unemployment rate for Kwakwatsi is estimated to increase to 85.4% in the year 2020.
FIGURE 7.2: PROJECTED ANNUAL UNEMPLOYMENT RATE FOR KWAKWATSI

The figure below (Figure 7.3) shows the estimated growth of the population based on their economic status. The figure shows a higher increase of those who are economically non-active. This includes an increase in the number of children and the aged as well as those falling within age categories within which one cannot take up employment. The figure can also mean an aged population which has moved from the unemployed to the economically non-active. The most worrying factor is the evident decline in the population which is employed. This signals a need for an intervention within the township, as this might increase the area's dependency ratios even more.

Table 7.3 looks at the estimated future distribution of the economically active population. The table shows that the unemployed as a percentage of the labour force will continue to rise if they are not absorbed through employment. As the economically active population continues to rise, lack of employment opportunities will result in a lower percentage of the employed as part of the labour force.

Source: Survey data, 2009 and own calculations.
7.4.3 Changes in poverty over time

The poverty rate changes for Kwakwatsi for the year 2010 to 2020 are estimated in this section. The section starts by looking at the historical poverty rates for South Africa and the Free State Province for the year 2001 to 2007 (Figure 7.4). These figures were used to project future changes in poverty for Kwakwatsi, using guidelines as outlined in section 7.4. The figure shows that the national poverty rate for the period has reduced from a 51.9% in 2001 to an estimated 44% in 2007. This shows an average annual reduction of 1.32%. The picture is not the same for the Free State as the opposite is evident.
Poverty has increased from 48% to 55% over the same period with an average annual increase of 1.15% (Stats SA, 2008a). This was largely due to a decline in the province’s agricultural and mining activities (FS Treasury, 2008:3).

**FIGURE 7.4: POVERTY RATES, SOUTH AFRICA AND FREE STATE 2001-2007**

![Poverty Rates Graph](image)

*Source: Calculated from Stats SA, 2008a.*

The estimated poverty rate for Kwakwatsi is highlighted in Figure 7.5. In the absence of any intervention, the poverty rate for Kwakwatsi will continue to increase, signalling a deterioration of other economic indicators associated with poor households. The figure shows an estimated increase in the poverty rate from 72.9% in 2009 to 82.6% in 2020. The estimates are based on the methodology explained in section 7.4. Slabbert (1997) found a link between poverty and unemployment in his study in the Vaal Triangle. The same pattern is evident in Kwakwatsi; the estimated poverty rate shows an average annual increase of 0.89% in poverty and 0.34% for unemployment between the years 2010 to 2020.
In consideration of the changes estimated in the above sections, it is important to consider the estimated change in the actual numbers of the inhabitants of the township. Figure 7.6 shows a decrease in the number of people in what could be said to be important economic indicators. The number of people with an employed status as a percentage of the whole population will continuously decrease with an increase in the population (albeit a slower pace). The burden of poverty will continuously be felt as the number of the poor will increase with the period. The economically non-active population will also increase as the area’s population continue to age. The other factor could due to the distribution of the population, 47% of the population of Kwakwatsi are children.
FIGURE 7.6: ESTIMATED POPULATION CHANGES IN KWAKWATSI

Source: Survey data, 2009 and own calculations.

7.5 PROPOSALS TO ENHANCE THE SUSTAINABILITY OF KWAKWATSI

In the previous section, the implications of no interventions were highlighted. The over-arching outcome has been an increase in poverty, unemployment and its associated ills. An analysis of the municipality was undertaken, showing a lack of focus in addressing the specific economic needs of the residents of Kwakwatsi. The next section will propose adjustments to the municipality’s developmental plan and focussed initiative of producing locally consumed basic goods to generate local income and employment generation.

7.5.1 Proposed interventions from an LED perspectives in Kwakwatsi

According to the final IDP of Ngwathe Municipality (2009:66) for the years 2009/2010 the municipality relies largely on its own revenue base and grants allocated by both provincial and national government for its economic survival. The financial challenges are mostly in terms of implementation of the debt and revenue collection strategies of the municipality. The municipality debt owed by consumers amounts to R135 million.
The total operating expenditure budget for 2009-2010 is estimated at R304.2 million for Ngwathe Municipality as a whole. Of the total amount, R1.7 million (0.56%) has been budgeted for social security projects and poverty alleviation. This is in a municipality with a poverty rate of 65.6% for the year 2007 and an unemployment rate of 43.5% (2006), as calculated by the municipality. Salaries and wages were budgeted R97 million for the year 2009/2010 (an increase of 13% from the preceding financial period) (Ngwathe Municipality, 2009:3).

The Ngwathe Municipality’s IDP does not provide a budgetary breakdown per all the areas under its control. Detailed historic information on projects implemented in the past was also not available at the level of Kwakwatsi. This information could have been important as it would allow one to evaluate project successes and/or failures. Table 7.4 shows IDP projects envisaged by the Municipality for the next five years within Kwakwatsi. All the projects were said to be important and each had a future deadline period. For those with a deadline, this is highlighted in brackets next to the project description. As an example, the Municipality has identified a need for upgrading the area’s electricity capacity and the project will be due for implementation in the year 2012. There are also plans to upgrade the sanitation system of the area by fitting water-borne systems. This means that there are areas in which residents are using the bucket system for their sanitary needs. Other projects like the building of a taxi rank and job creation have been identified but are not priorities by the Municipality. The Municipality has also planned a youth project through the maintenance and cleaning of cemeteries.
### TABLE 7.4:ENVISAGED IDP PROJECTS FOR KWAKWATSI/KOPPIES

<table>
<thead>
<tr>
<th>LED Area</th>
<th>IDP Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>Upgrading of electricity capacity (yr 3)</td>
</tr>
<tr>
<td>Sanitation</td>
<td>Upgrading of sanitation system (yr 3-5)</td>
</tr>
<tr>
<td></td>
<td>Water-borne toilets (yr 1-4)</td>
</tr>
<tr>
<td>Roads and storm water</td>
<td>Roads &amp; paving (yr 1-4)</td>
</tr>
<tr>
<td></td>
<td>Storm water drainage (old location) (yr 3-5)</td>
</tr>
<tr>
<td></td>
<td>Speed humps</td>
</tr>
<tr>
<td>Cemetery</td>
<td>Cleaning</td>
</tr>
<tr>
<td>Housing</td>
<td>Sites (yr 3-4)</td>
</tr>
<tr>
<td></td>
<td>Houses (yr 3-4)</td>
</tr>
<tr>
<td>Health</td>
<td>Illegal dumping next to quarry</td>
</tr>
<tr>
<td>Safety</td>
<td>Police station in the township</td>
</tr>
<tr>
<td>Recreational facilities</td>
<td>Multi-purpose centre (yr 3-5)</td>
</tr>
<tr>
<td></td>
<td>Educational</td>
</tr>
<tr>
<td></td>
<td>Upgrade community hall (yr 3-5)</td>
</tr>
<tr>
<td>General</td>
<td>Local economic development</td>
</tr>
<tr>
<td></td>
<td>Poverty alleviation,</td>
</tr>
<tr>
<td></td>
<td>Building of taxi rank</td>
</tr>
<tr>
<td></td>
<td>Schools &amp; job creation</td>
</tr>
<tr>
<td>Youths</td>
<td>Cemetery cleaning and maintenance (yr 3-5)</td>
</tr>
<tr>
<td></td>
<td>Learnerships for motor mechanics</td>
</tr>
<tr>
<td></td>
<td>Provision of industrial sites</td>
</tr>
<tr>
<td></td>
<td>Disposable nappies project</td>
</tr>
<tr>
<td></td>
<td>Establishment of the art centre</td>
</tr>
<tr>
<td></td>
<td>Improvement of the existing sports facilities in town</td>
</tr>
<tr>
<td></td>
<td>(Koppies)</td>
</tr>
<tr>
<td></td>
<td>Learnerships and internships</td>
</tr>
<tr>
<td></td>
<td>Meetings with unemployed graduates</td>
</tr>
<tr>
<td></td>
<td>Extraction and bottling of sunflower oil</td>
</tr>
</tbody>
</table>

LED is an outcome based local initiative which is driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills, to stimulate economic growth and development. The aim of LED is to create employment opportunities to the benefit of all residents (DPLG, 2003). The final version of the Constitution itself declared that a fundamental objective of local government was to promote social and economic development in localities. The White Paper on Local Government (1998) introduced the concept of developmental local government which is defined as a local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives (RSA, 1996a).

Local Economic Development (LED) is a strategy to fight the plight of the poor and unemployment directly, but also has other indirect benefits for human development on a local level. An LED strategy needs to include at least the creation of jobs by attracting new business, achieving local economic stability and resulting in a diverse economy. LED strategies should focus on stimulating businesses that use local resources for exporting of final products elsewhere (van Wyk, 2004:121).

Soubbotina (2004:1) argues that economic development refers to improvements in a variety of indicators such as literacy rates, life expectancy and poverty rates. Swinburn et al., (2006:6) cites that an LED strategy is an overall plan that has short, medium or long-term aims and actions and sets out what is going to be achieved. It will establish an agenda to promote and develop a local community’s economic, physical, social and environmental strengths and will address both arising challenges and opportunities.

Every LED strategy should have an implementation plan that should in turn be supported by individual project action plans. As a single document that contains all of the LED programs and projects within a strategy, it serves as an integrated planning document to maintain clarity of strategy direction, and ensures that programs and projects do not inappropriately compete for resources and support (Swinburn et al., 2006:6).
The results of this study show a different picture. The unemployment and poverty rates for Kwakwatsi show a lack of developmental opportunities and an inability of the Municipality to address its Constitutional imperative. The Municipality can undertake different roles in the development of the local area. At one level the municipality can act as a coordinator of local economic activity. The important tool for local authorities is the IDP. With a facilitator role, the local authorities create a conducive environment for local economic development. The stimulator role involves business stimulation through the favouring business development. The entrepreneur role is where a municipality takes full responsibility of running a business. In this case a municipality can assume different roles at different times and may choose to play a more direct role in some LED initiatives than in others. Almost all efforts aimed at developing the local economy will require some input, participation and support from local government (DPLG, 2003).

Swinburn and Murphy (2007:4) argue that developing an LED strategy requires that a municipality does an analysis of the existing situation, looks at opportunities for growth and decide on the best strategies to achieve their goals. Given the diversity of economic challenges and the range of possible programmes, LED strategies are likely to entail considerable variations. A guiding principle should be that local economies should prioritise programmes that will create the most impact in view of their goals.

A number of LED strategies can be undertaken by the municipality, but the following, in the context of Kwakwatsi are suggested in order to improve the economic sustainability of the area through the creation of employment opportunities:

**Development and maintenance of infrastructure and services:** In this role the Municipality should provide social amenities, effective housing and settlements policy. Most of the streets in Kwakwatsi are not tarred and 53.2% of houses are of informal structures or shacks (Ngwathe Municipality, 2009:57). The Municipality can partner all local stakeholders in service delivery and create employment opportunities.

**Retention and expansion of services:** This can be done through the development of local business skills, training and provision of advice, capital and technological support.

An investigation into the economic sustainability of Kwakwatsi
There is currently no association in the area which can assist with activities like business registration. There is no local database of businesses and economic information available to potential investors.

**Increased spending on local products:** The Municipality can encourage communities to buy local. This argument constitutes the main recommendation of this study in that the local buying and production of basic goods consumed in the area will ensure that money circulates within the area and more employment opportunities are created.

**Funding special events and festivals:** The Municipality plans to open a cultural centre in Kwakwatsi/Koppies. Information on the funding of local events within the area could not be obtained.

**Marketing the local area:** Place marketing means promoting and advertising the local area so that people and businesses can see it as a desirable place to visit, live in or open a business at (DPLG, 2000:3). Kwakwatsi/Koppies is located about 20km from the Koppies Dam Nature Reserve which lies on the Highveld of the Northern Free State and extends over an area of 4 300 ha, providing a haven for anglers. The vegetation predominantly consists of mixed grass-veld and dense thickets of Sweet Thorn trees with Willow trees along the Renoster River. White Rhino together with other species of wildlife is kept at this reserve. There is an annual angling competition held at the dam and if the Municipality could capitalise on such events, local tourism could be enhanced (Encounter SA, 2010). There exists a possibility of establishing a tourist/information office within the area. This could be a function within the local municipal offices. A brochure highlighting key attractions within the area can also be developed. These could also expand into the development of guest houses to house tourists.

The Municipality's 2009 IDP does not discuss any successes, progress or failures from projects implemented during the preceding financial period. Some of the projects listed in table 7.4 also appear in the 2007 IDP plan. Employment creation should be the over-arching theme in all developmental projects.
The Municipality’s service debt of R 135 million proves that there is an urgent need to develop employment generating projects as many households argues that the main reasons for their non-payment of services is that they are unemployed (Ngwathe Municipality, 2009:206). The implementation of the LED strategy should however be subject to a rigorous annual assessment. This review should consider the resources available for the delivery of the strategy and include established and agreed monitoring and evaluation indicators of the local economy (Swinburn et al., 2006:7).

Central the quest to alleviate poverty should be the empowerment of the community in addressing its developmental issues.

The Municipality has identified a need to establish a local youth unit that will promote youth development in creating a vision for the future. To further maximize the tourism potential of the area to its fullest, the Municipality plans to do a feasibility study to identify existing tourism potential in all towns. There is an urgent need to recognise the imperative of intervening in the local economy of Kwakwatsi to reverse possible long term economic decline. A number of projects can be identified with the involvement of local stakeholders to stimulate the local economy. One of the initiatives which can be adopted is an inward industrialisation strategy (as discussed in the next section). The local production of locally consumed basic goods can go a long way in improving the area’s economic indicators.

7.5.2 **Inward industrialisation for improving the sustainability of Kwakwatsi**

The study argues that the local production of basic items consumed by the residents will increase the final demand of the area, thereby reducing the number of households below the poverty line (headcount) and the income shortfall of poor households to their poverty line (poverty gap).

The impact of the production of these goods on the level of poverty in the area is related by the “poverty impact model” developed by Slabbert (2004:54). Slabbert purports that a change in the final demand of the region will, via the multiplier process, have an impact on the level of income of all households in a particular area/region. As an example, an increase in the demand for maize meal in Kwakwatsi will increase the demand for inputs required to produce the product.
Depending on the forward and backward linkages to the different sectors of the economy, other sectors will be influenced such that employment and household income will increase until the multiplier is work out. Slabbert (2004:55) cites that the increase in household income in a region by a certain percentage will impact both the magnitude and impact of poverty. Some households whose income was less than their respective poverty lines will, by the increase in their household income, receive income above their poverty line. These households will no longer be regarded as poor, thereby reducing the headcount index. Other households’ income will still be lower than their poverty lines, but an increase in their income will result in a reduction of the poverty gap, thus affecting the area’s poverty gap index.

The model is thus based on the following computation of the poor:-

**Poverty rate** – a poor household is defined as a household in which the combined income of all its members is less than the cost of minimum calorie intake and other necessities of the household (Slabbert, 2004:37). Poor households can therefore be distinguished from the non-poor by comparing the total income or expenditure of a household with the calculated minimum calorie intake and other necessities of the household (World Bank, 1990:27).

**Poverty gap** – defined as the mean shortfall of the total population from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. As discussed in chapter 4, the poverty gap was adapted to a measure of an individual household’s income shortfall. The mean of all individual poverty gap indexes will be the poverty gap index for the population concerned.

**Headcount index** - given by the proportion of the population for whose consumption (or another suitable measure of living standard) is less than the poverty line. This measure was also adapted to a measure of an individual households; the headcount index for the community will be the mean of all individual household’s indexes i.e. all households who fall below their individual calculated poverty line (HSL).

The impact/reduction in the poverty gap can be illustrated by equation 7.1. The assumption is that, if the income of a household is described by \( Y_i \) and the poverty line...
of a household $Z_i$ and the fraction by which the average household income is increased/ decreased is $f$, and then the change in the household's poverty gap will be (Slabbert, 2004:37):

$$G_i(y:z) = Z_i - (Y_i, f)$$

Where

$G_i =$ the poverty line of a single household

$Z_i =$ the poverty line of the respective household

$Y_i =$ the income of the household; and

$F =$ the factor by which household income is increased / reduced

As shown in Figure 5.25, the residents of Kwakwatsi consume a total of 98 600 kilograms of mealie meal per month, amounting to an expenditure of R343 000 per month (R4.1 million per year). R206 000 is spent monthly on meat (R2.4 million per year), R84 000 on bread (R1 million per year), R73 000 on vegetables (R881 000 per year) and R147 000 on washing powder per month (R1.8 million per year). The total expenditure on these five items amounts to R10.2 million per year, which can provide an ample opportunity for an inward industrialization process, whereby some of these products may be produced by local residents for the Kwakwatsi community. This would have the effect that money is retained in the area and that a multiplier effect in terms of income and employment would come into effect in Kwakwatsi. An estimated 423 poor unemployed have skills in catering, cooking and baking; 564 with retail selling skills, 169 with gardening or farming skills, and 300 with sewing and knitting skills which could be used in other employment projects.

If the abovementioned opportunities could be focussed on the poor unemployed who are currently looking for employment, at a minimum monthly income of R500 per person, a number of employment opportunities can be created. This model seeks to highlight the impact of local employment generating projects on poverty levels. A number of similar projects can be undertaken with varied impact on poverty and unemployment.
Table 7.5 shows the impact of inward industrialisation in Kwakwatsi through the production of the basic products consumed by the community. The assumption is that 30% of the total expenditure amount, if the products will be produced locally, is allocated to labour. In total 512 employment opportunities could be created.

<table>
<thead>
<tr>
<th>Product</th>
<th>Monthly Expenditure</th>
<th>Monthly Income</th>
<th>Number of jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>R 343,000</td>
<td>R 102,900</td>
<td>206</td>
</tr>
<tr>
<td>Meat</td>
<td>R 206,000</td>
<td>R 61,800</td>
<td>124</td>
</tr>
<tr>
<td>Bread</td>
<td>R 84,000</td>
<td>R 25,200</td>
<td>50</td>
</tr>
<tr>
<td>Vegetables</td>
<td>R 73,000</td>
<td>R 21,900</td>
<td>44</td>
</tr>
<tr>
<td>Washing powder</td>
<td>R 147,000</td>
<td>R 44,100</td>
<td>88</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>512</strong></td>
</tr>
</tbody>
</table>

Source: Survey data, 2009, applied to a model developed by Slabbert (2004).

The economic benefit of such projects can help in alleviating poverty and its associated scourges and thereby reduce the impact of poverty in the area. Assuming that jobs could be found for the poor unemployed through different suggested initiatives in the preceding sections, poverty could be reduced substantially. The impact of these initiatives can further be illustrated by looking at how the distribution of the poor below the poverty line will be subsequent formal employment of the poor at a monthly wage rate of R1000.

Figure 7.7 looks at the distribution of the poor below the poverty line at current levels in comparison to a new wage level. The figure shows that even those who will not be able to move out of poverty now have incomes closer to their poverty line. Currently 7.3% of the poor have incomes between 91-100% of their poverty, compared to 43.2% as a result of an intervention. The poor with incomes between 70-80% of their poverty line will increase from 13.7% to 27%.
FIGURE 7.7: IMPACT OF JOB CREATION PROJECTS ON POVERTY

Source: Survey data, 2009, applied to a model developed by Slabbert (2004).

7.6 SUMMARY AND CONCLUSION

The economic sustainability of Kwakwatsi was related to the growth in poverty and unemployment over time and the ability of the local economy to create employment opportunities for its residents. Kwakwatsi/Koppies is one of the towns within the Ngwathe Municipality, situated in the Northern Free State. The Municipality’s IDP shows an estimated populations size of 141,783. The majority of the municipality’s population are females (53%). The latest official unemployment rate for the Municipality was 43.1%, estimated for the year 2006 and 65.5% of the total population was said to be poor in the same year. When it comes to the form of housing the residents of the Ngwathe Municipality occupy, 77% were found to be of formal structures. For Kwakwatsi, 46.8% of housing in the area is of formal structure and 53.2% of houses are informal structures or shacks. This shows that Kwakwatsi is more impacted by the hardship of unemployment and poverty, compared to the average of the entire District Municipality.

The main economic activity for Kwakwatsi happens in Koppies, which is a former whites-only town within a walking distance from Kwakwatsi. The majority of the stores within the town, which are mainly retail in nature do not have any proper accounting procedures. The breakdown of the economic activity is shown through an analysis of

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all places of employment within the area. The analysis shows that most of the activity in Koppies involves selling; 72.5% of economic activity is in the wholesale and retail trade. The finance, insurance and real estate sector has two banks (Absa and FNB), the Post Office and an estate agent with two employees.

When it comes to the future patterns of unemployment and poverty in Kwakwatsi the results shows an unsustainable economy. The estimated population growth rate for Kwakwatsi over the period 2010 to 2020 is 0.8%. Although the population of Kwakwatsi is expected to grow, this will probably happen at a slower pace as more people opt not to stay within the area due to limited employment opportunities. Unemployment within the area is expected to increase as more people move into higher age categories. The unemployment rate for Kwakwatsi is estimated to increase from 79% in 2009 to 85.44% in the year 2020. There is an estimated increase in the economically non-active population over the same period, thus increasing dependencies within the area; 56% of the total population was found to be economically non-active and this figure will increase to 65.6% in 2020.

The Free State Province has shown an average annual increase of its poverty rate by 1.15% over the period 2001 to 2007. This was largely due to a decline in the province’s agricultural and mining activities. In the absence of any intervention, the poverty rate for Kwakwatsi is estimated to continue to increase; from 72.9% in 2009 to 82.6% in 2020. There is a link between unemployment and poverty in Kwakwatsi. The average annual increase of poverty is estimated at 0.89%, and 0.34% for unemployment between the years 2010 to 2020.

A perusal of the Municipality’s Integrated Development Plan (IDP) shows a limited number of projects aimed at employment generation and poverty eradication. Of the Municipality’s total budget, R1.7 million (0.56%) has been budgeted for social security projects and poverty alleviation for the Ngwathe Municipality as a whole. Most of the streets in Kwakwatsi are not tarred and 53.2% of the houses are of informal structures also called shacks. There was no local database of businesses or economic information for the area. The local municipality seems to not be using the proximity of the Koppies Dam Nature Reserve as a tourism attraction. LED programmes (as

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highlighted in table 7.4) for Kwakwatsi seem noble but the lack of deadlines and immediate prioritisation makes it difficult for the on-going evaluation of the Municipality's IDP in this regard. The Municipality's services debt of R 135 million is proof of an urgent need to develop employment generating projects as many households argue that the main reasons for their non-payment of services is that they are unemployed.

From a policy perspective, developing an economy involve efforts that seek to improve the economic wellbeing and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base. Some of the Municipality's plans for Kwakwatsi seem noble but is lacking in details. There is a pro-poor rhetoric but this is not translated into specific budgets and measurable action plans. It is highly unlikely that the community of Kwakwatsi will get any substantial employment creation programmes in the area in the near future. This will probably lead to the continuation of the status quo, as well as to an increase in poverty and unemployment levels. Kwakwatsi is not economically sustainable and this calls for an urgent need for intervention.

The study proposes a local production of the basic items consumed by the residents. These activities could increase the final demand of such items in the area thereby reducing the number of households below the poverty line (headcount) and the income shortfall of poor households to their poverty line (poverty gap). If some projects focusing on the poor unemployed who are currently looking for employment are created at a minimum monthly income of R500 per person for each poor unemployed person, the poverty rate could be reduced from 72.9% to 52.9% in Kwakwatsi. At a minimum income of R1000 for each unemployed person, the poverty rate would be reduced to 21.8%. Through an inward industrialisation process, even those who will not be able to move out of poverty will have incomes closer to their poverty line. Currently 7.3% of the poor have incomes between 91-100% of their poverty, compared to 43.2% which could result from the intervention mentioned above. The poor with incomes between 70-80% of their poverty line will increase from 13.7% to 27%.