

A multi-causal analysis of local economic development: The example of Graaff-Reinet, Eastern Cape

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Introduction

Small towns have not featured much on South Africa's political landscape since 1994. The focus has been primarily on the areas with economic advantage, as defined by the Government's National Spatial Development Perspective (NSDP), and areas with extremely high levels of poverty, such as the homelands. Between these poles of economic advantage and economic disadvantage, the issue of small and medium-sized towns has largely disappeared from planners' radar screens.

But there is evidence that many small towns are quietly booming. Some of these towns have a mining or tourism base, whereas others are growing into balanced economies. Furthermore, towns are attracting many new residents, including desperately poor ex-farm workers, but many are also attracting middle-class and middle-aged investors from the cities.

This paper considers the evidence from Graaff-Reinet in the Eastern Cape. After decades of decline, this town is increasingly building up economic momentum, based on a range of comparative advantages. Its municipality is also encouraging investment, by interacting with a wide range of public and private sector agencies. The paper suggests twelve factors which have influenced Graaff-Reinet's economic growth. These factors could, in future be used as criteria to measure and evaluate small towns' economic potential and growth. This offers a way to transcend the narrow and limited approaches which have often characterized local economic development policies in South Africa during the last ten years.

Small towns on a continuum of economic potential

The scope for economic development in different towns varies greatly. Some towns have better markets, some have better non-agricultural growth opportunities (e.g. mining, tourism), and others have better natural resources.

In South Africa, the diversity of economic fortunes of small towns is quite astonishing. This involves several phenomena. The larger commercial towns seem to have a built-in growth dynamic, based on a sufficient level of economic diversification and local purchasing power. These towns seem to be “sucking in” economic energy from the surrounding small towns. The purchasing power of these towns is maximized by large fiscal allocations to monthly social grants for the poor, but also because of investment strategies of banks and retail chain stores. Tourism towns seem to be doing well, because they bring in new capital, innovative ideas, and spending power. This, however, depends on the existence of local attractions, such as scenic beauty or architectural heritage. Mining towns are either booming or declining, depending on the profitability of specific mining commodities. Many agricultural towns are either declining, due to the general decline in agricultural terms of trade, or they have diversified their local economy, and are therefore becoming more robust. Finally, towns within a distinct region may improve or deteriorate, because of the *regional* comparative advantage. For example, the prospects of the Karoo may be improving, while those of deep rural towns in the old homelands may be declining. This diversity offers huge scope for

future research of local trends, and the ways in which public decisions affect the performance of the local economy.

In addition, the economies of small and medium-sized towns are greatly influenced by the *type* of product or service which predominates. For example, some agricultural commodities (such as mutton and wool) have been in a long-term decline; agricultural towns benefiting from bio-fuels will show growth; the rise in the cost of energy and the consequent profitability of uranium will benefit towns situated near a minerals base; towns based on rail transport have been undermined by government transport policies; and some towns benefit greatly from changes in government spending priorities, such as the forestry industry in the Ugie/Maclear area.

To complicate matters, the recent move to a global economy has been painful for many towns because of the loss of manufacturing jobs, the vulnerability of export agriculture, and the increased competition in the energy and mining sectors. But other towns, drawing on resources such as tourism and mining, have flourished.

A further variable is government spending decisions. In the towns where large public institutions are located, employment of skilled people creates local economic multipliers. In other towns, where government has not made significant investments, people have to rely on social grants as their main form of income, or they rely on the "second economy" to make a living, whether as spazas, hawkers, commonage farmers or shebeen owners.

The economic prospects of small towns can change dramatically over time, due to changes in local or international market conditions, demographic shifts, technological changes, or shifts in the public mood or fashion.

This paper will reflect on the robust performance of a picturesque tourist town in the Karoo. It has benefited from government programmes and the establishment of government offices. It is also a notable centre of heritage and architecture, which have recently enjoyed a major revival in the South African and international tourism trade.

The years of economic decline in Graaff-Reinet: 1930-1990

Graaff-Reinet is the fourth-oldest town in the country, and was established in 1786, as part of the eastward migration of white stock farmers. The town became an important meeting point of various cultures, including the KhoiSan and the Xhosa.

Karoo towns received an important stimulus from the discovery of diamonds in Kimberley in 1867 and gold on the Witwatersrand in 1886. Many routes to the new mining areas passed through the Karoo towns. But by the 1920s, the homogenous social structure of white Karoo communities began to change. The most important direct consequence was an out-migration of whites from platteland towns. By the 1930s, the process of de-population of the Karoo was well underway, and the census of 1936 can be regarded as the first statistical indication of this trend (Vrey 1974: 8). The smaller Karoo towns were severely affected by this outflux of whites. The white population in South African towns in the 6000-8000 category tended to show more stability in the 1936-1960 period, and some towns even showed population growth. In the Karoo, the two key towns of Beaufort West and Graaff-Reinet showed a net

loss of whites between 1936-60, but their rate of white population decline slowed down by the mid-century (Vrey 1974: 201, 211).

A series of studies, the Midland-Karoo reports, was done in the 1970s by scholars at Rhodes University. These reports form a valuable benchmark for contemporary economic assessments of these towns. According to these reports, Graaff-Reinet was described as a "country town", and functioned as a higher-order centre compared to the minor country towns and lower order service centres (Cook (1971: 10, 13) and Le Clus (1974: 26).

During the apartheid years, Graaff-Reinet was a typical white-controlled town, with a central business district consisting of white businesses, a black township, Masizakhe, whose main function was as a dormitory area for black workers, and coloured suburb of Kroonvale. Because only whites were allowed to own businesses, the level of white population was a crucial indicator of local economic dynamism. As Blumenfeld (1971: 50) observed in the early 1970s, "Since the Whites are the main generators of employment opportunities in the urban areas, no less than in the rural areas, the question arises whether the region's towns are able to carry the additional burden arising from the rapid increase of non-White population whilst the White population is all but stagnant". In Graaff-Reinet, the white population fell from 30% of the population in 1960 (Cook 1972:54) to 15% in 2001 (Camdeboo Municipal IDP: 24, based on Census 2001), mainly due to rapid in-migration of coloured and black people. This has created a very narrow economic base to support a burgeoning local population.

The Midlands-Karoo studies also showed a steady decline in the economy of the Karoo and Cape Midlands during the 20th Century. Small towns, in particular, showed a long-term tendency to decline economically. The Cape Midlands and Karoo region suffered from several structural deficiencies (Blumenfeld 1971: 144):

- The disadvantageous geographic location of the Karoo region relative to the major national centres of production and consumption
- The lack of exploitable mineral resources and processable raw materials (with the exception of wool and meat)
- The instability of the resource base (mainly due to droughts)
- The fluctuations in the export base, with a long-term sectoral trend towards a decline in demand for wool
- The very high proportion of external earnings accounted for by subsidies and other transfer payments to individuals and institutions in the region
- The low purchasing power of the region's population, and its low market potential
- The general unimportance of the region in terms of national development policies
- Poor backward and forward linkages between productive activities in the region: notably, the agricultural sector obtains its inputs from outside the region, and agricultural products are not processed within the region.

The dynamics in the farming sector also changed greatly with a massive loss of agricultural jobs. The people who left the farms either moved to nearby towns, or left the area altogether:

“As various factors, such as changing cultural and social attitudes and values, the high risk factor inherent in farming enterprise, improved agricultural techniques, low income elasticity of demand (as well as unstable demand) for agricultural products, and the unceasing battle

against the elements, have combined to create, and drive out, a surplus rural population, the region's inability to re-absorb this displaced population in other occupations and sectors – but particularly in manufacturing industry – has resulted in the loss of this population to other areas. Similarly, in times of agricultural hardships, the region has lacked a non-agricultural 'base' of sufficient depth and diversity to enable it to cushion the impact. Again, it has been unable to keep pace with the growth of population in the towns, it has lacked the means for accumulating the necessary development capital" (Blumenfeld 1971: 107).

Like other rural and hinterland areas in South Africa, the Cape Midlands and Karoo faced a "problem ... that their populations, although growing slowly, are nonetheless increasing at a faster rate than the value of the output which their economies can produce" (Blumenfeld 1971: 34). The Cape Midlands and Karoo was a region "caught in a vicious circle of under-development":

"In particular, there is the low volume level of economic activity, resulting in structural deficiencies, a lack of economic diversification and a general lack of employment opportunities on the one hand, and the separate but related factor of the low level of economic welfare of its population, resulting in a lack of market potential, a lack of local sources of development capital and a loss of human skills and resources (both as a result of out-migration of trained personnel and as a result of the low level of training of the residual population) on the other hand. Both these socio-economic problems in turn have lowered even further the region's ability to attract significant volumes of economic activity and raise the general level of welfare of its population" (Blumenfeld 1971: 152-3).

While Graaff-Reinet experienced the general regional blight affecting the Karoo, it managed to hold its own as a service centre. Its main functions centered on retail, for which it was ranked first in the Karoo in 1958 (Le Clus 1974:36), as well as important government services.

In this generally depressed economic climate, the Midlands-Karoo authors offered several suggestions for the long-term maintenance of the economic base of certain Karoo towns. With the benefit of hindsight, these suggestions offer useful indicators to assess the experience of a town such as Graaff-Reinet, as will be shown in this paper. A survey of businesses in Graaff-Reinet was conducted in July 2006, which cast light on the factors mentioned by the Midlands-Karoo authors. The purpose of the survey was to assess business owners' and managers' views about a range of critical economic issues, and to determine the importance of certain key factors affecting the economic vitality of the Graaff-Reinet economy. Furthermore, several additional indicators will be suggested to account for Graaff-Reinet's economic survival and growth. Ultimately, a list of 13 key variables was created, which casts light on the economic prospects of a small to medium-sized town.

During the 2006 business survey in Graaff-Reinet, a total of 161 businesses were interviewed. This entailed door-to-door visits of formal businesses. If the total number of

formal businesses is estimated at 330 (figure derived from the research of Dr Daan Toerien (2008)), then this survey covered about 48% of the total number of businesses

The racial profile of the respondents was the following: There were 17 black respondents (10%), 31 coloured (19%), 7 Indian (4%), 94 white (57%), and 12 foreigners (7%). The linguistic profile was as follows: 94 Afrikaans (58%), 28 English (17%), 10 respondents were bilingual (English and Afrikaans), 12 were Xhosa (7%), and 17 spoke other languages (10%). The majority of interviewees were male (97 respondents, or 60%), while 64 (40%) were women.

It was hypothesized that the following determinants of economic vitality were important for Graaff-Reinet: (1) Population growth, (2) business investment and entrepreneurship, (3) economic diversification and the growth of a post-productivist economy, (4) the "export base" of the local economy, (5) government expenditure, (6) the skills base, (7) geographic location, (8) the impact of business corporates, (9) the relationship with agriculture, (10) the community ethic, (11) local leadership, and (12) its water resources. Some of these factors had been highlighted by the 1970s authors of the Midlands-Karoo reports; others are derived from current international literature. As such, these variables offer a broad perspective on what makes a remote desert town in South Africa viable. But to determine the relative importance of these factors in future will require an additional research agenda in future.

The revival of the Graaff-Reinet economy

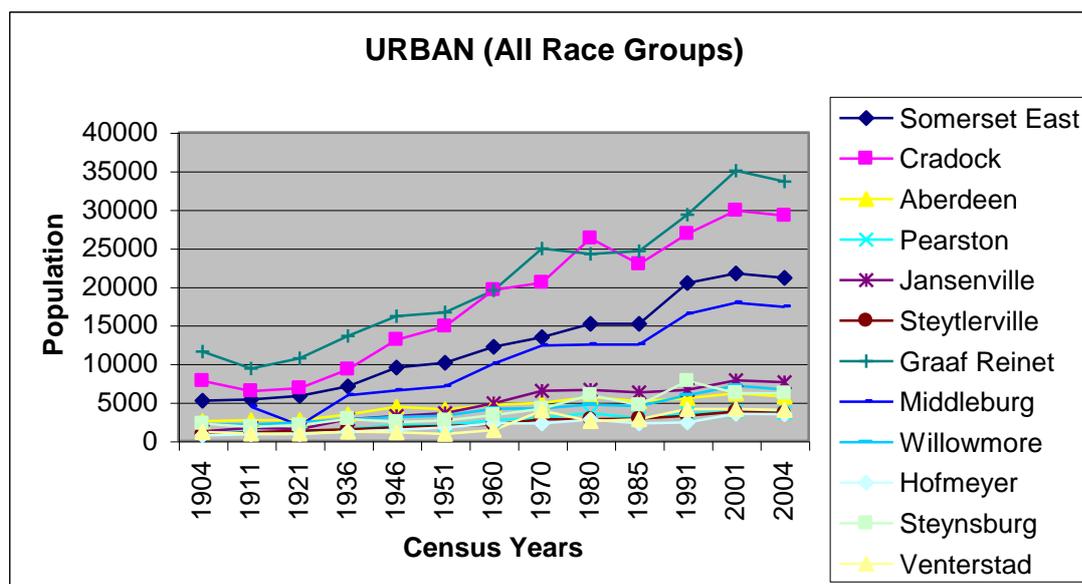
1. Population growth

A local economy depends on having a significant population base to serve as market, workforce and source of entrepreneurship.

In 1971, Gillian Cook predicted that, in a manner similar to Canada, USA and Australia, the total number of towns in the Karoo would decline as a response to the increasing per capita incomes and mobility of the rural population (Cook 1971: 57). This has not actually happened – in the demographic sense - because the population in Karoo towns has actually *increased*, due to the increase in payment of government social grants, and because of rapid in-migration of farm workers.

The population of Graaff-Reinet has grown dramatically during the 20th Century, and this continued strongly since 2000. The following table illustrates Graaff-Reinet's population growth in comparison with other Eastern Cape Karoo towns:

Figure 1: Population change in Graaff-Reinet and other Eastern Cape Karoo towns, 1904-2004 (Nel and Hill 2007: 22)



The Graaff-Reinet magisterial district's population shows a steady increase from about 25 000 in 1970 to almost 35 000 in 2004.

Population: Graaff-Reinet magisterial district (rural and urban): 1996-2001 (Global Insight 2006)

	1996	2001	Absolute change	% change
Black	9 283	9 896	+ 613	+ 6.6 %
White	5 670	5 568	- 102	- 1.7 %
Coloured	24 298	25 666	+ 1368	+ 5.6%
Asian	58	58	Static	Static
Total	39 310	41 188	+ 1878	+ 4.7%

An even more rapid population growth rate is reflected in the town itself, particularly during the 30-year period from 1970-2001:

Population: Graaff-Reinet town and farms, indicated separately: 1970-2001

	1970 ¹	2001 ²	Absolute change 1970-2001	% change
Blacks in town	7 026	8 075	+1 049	+14.9%
Whites in town	5 093	3 537	-1 556	- 30.5%
Coloureds in town	12 787	20 825	+8 038	+ 62%
Asians in town	25	24	+ 1	+ 4%
Total population in town	24 931	32 461	+ 7530	+ 30.2%
Farms	8 273	4 579	-3 694	- 44.6%
Total	33 204	37 040	+ 3 926	+ 11.5 %

¹ Minnaar 1987:151

² Drawn from Camdeboo Local Municipality (2007:24).

The Table above shows the dramatic decline in the farming population (which almost halved) and the concomitant increase in urban population, particularly amongst black and coloured people. The urban white population declined significantly during this 30-year period.

Gillian Cook warned, rightly, that population figures do not always correlate with economic significance: "Population statistics themselves are notoriously misleading and the number of people living in a centre does not necessarily reflect the nature of the functioning of that place. The use of total population figures may give an erroneous impression by hiding patterns of change in composition which may provide to be of even greater significance. Furthermore, urban population growth may merely reflect the concentration of the previously dispersed rural population" (Cook 1971: 49). Cook's words were prophetic, as the late 20th Century heralded the rapid influx of very poor farm workers into the cities.

In the case of Graaff-Reinet, for example, the Economically Active Population³, as a proportion of the total population, increased from 29.3% in 1996 to 34.6%. This suggests rapid in-migration of working-age adults, probably farm workers from the surrounding area. But simultaneously, unemployment⁴ increased from 3304 people in 1996 (28.7% of to 5 349 people (37.5%) in 2001 (Global Insight 2006).

The poverty profile of Graaff-Reinet shows an *increasing percentage* of people living in poverty, as well as an increasing number of people living in poverty:

Graaff-Reinet: Percentage of people living in poverty, in percentages and absolute figures, and in relation to the Eastern Cape (Global Insight 2006)

	1996 percentage	2001 percentage	Eastern Cape percentage 1996	Eastern Cape percentage 2001	1996 absolute	2001 absolute	Absolute increase in poor people
Black people in poverty	40.7	52.2	60.8	79	3 782	5 170	+ 1 388
White people in poverty	0.6	1.2	2.1	4.3	34	66	+ 32
Coloured people in poverty	31.7	37.4	20.8	24.7	7 695	9 587	+ 1 892
Total population in poverty	29.3	36	54.3	70.7	11 516	14 830	+ 2 672
Total Population					39 310	41 188	+ 1 878

³ Defined as: "The economically active population (EAP) is defined as the number of persons that are able and willing to work between the ages of 15 and 65. It includes both employed and unemployed persons. The REX uses the expanded definition of the EAP in that persons who consider themselves unemployed and did not take recent active steps to find employment are considered part of the economically active population" (Global Insight 2006: 32).

⁴ Defined as: "The expanded definition of unemployment in that it includes persons who are unemployed and looking for work as well as persons who are unemployed and are not looking for work but would accept work if it was offered to them" (Global Insight 2006: 33).

In Graaff-Reinet, the absolute number of people living in poverty increased between 1996 and 2001. The percentage of people living in poverty had increased as well. These trends echo those in the Eastern Cape generally, where the proportion of people in poverty has increased dramatically.

The increasing proportion and number of people in poverty in Graaff-Reinet may be due to the rapid increase in population – an increase of about 1800 people during this period. The figures showing a rapid decline in the farm worker population suggests that a major component of this absolute growth in poverty may be due to in-migration, and not due to economic decline.

Comparison of people in poverty and people not in poverty in the Graaff-Reinet district: 1996 and 2001 (Global Insight 2006)

	1996	2001	Trend
Total population in poverty	11 516	14 830	Increase
Total Population	39 310	41 188	Increase
Number of people NOT in poverty	27 794	26 385	Decrease

During the 1996-2001 period, inequality increased in the Graaff-Reinet magisterial district, despite general improving levels of welfare. In 1996, the Gini Co-efficient was 0.59, which increased to 0.61 in 2001 (Global Insight 2006).

But it is possible for a town to suffer an increasing level of poverty and inequality, and *simultaneously* for its local market to grow. Growing inequality suggests that there is a growing class of wealthier middle-class people, whether based on the private sector or government employment. Furthermore, people may be living in poverty, but the growth of the social grant system means that poor people do have a guaranteed monthly income, which translates into effective purchasing power.

It is therefore significant that, although there has been a large influx of poor people, the Human Development Index⁵ of Graaff-Reinet had improved between 1996-2001 (Global Insight 2006). The HDI increased from 0.53 to 0.56. Significantly, the black HDI increased from 0.43 to 0.50, and the coloured HDI improved from 0.44 to 0.47. (The HDI for whites had declined slightly from 0.85 to 0.84. In the same period, the HDI of the Eastern Cape improved from 0.49 to 0.53). This suggests that the general standard of living for the majority of people in Graaff-Reinet had improved.

This improvement does not appear to be primarily due to a growth in employment. The absolute number of people in employment had increased only marginally, from 6 837 in 1996 to 6 996 in 2001 (Global Insight 2006). It is probably therefore a result of a result of improved levels of education as well as the social grant system. This general increase in

⁵ The Human Development Index (HDI) is a composite, relative index that attempts to quantify the extent of human development of a community. It is based on measures of life expectancy, literacy and income. It is thus seen as a measure of people’s ability to live a long and healthy life, to communicate, to participate in the life of the community and to have sufficient resources to obtain a decent living. The HDI can assume a maximum level of 1, indicating a high level of human development, and a minimum value of 0 (Global Insight 2006: 22).

quality of life has also provided a steady and growing market for the local economy. But the local economy is hampered by the fact that a large proportion (just less than half) is poor.

2. Entrepreneurship and business investment

At the core of any economy is its entrepreneurial class. Graaff-Reinet has always played an important role in the economy of the Eastern Cape Karoo. In the late 18th Century, it was used as a base for country traders who sold their wares throughout the rural hinterland (Minnaar 1987: 56). The first bank opened in the town as early as 1833. As the fourth-largest inland town in South Africa during the 1800s, it developed a reputation as the "emporium of the interior" (Minnaar 1987: 59).

During its long history, the town experienced many cycles of economic boom and depression. The first major setback was the Great Trek of 1838, which severely depopulated the area and depressed business, but with the gradual opening up of the interior, the trading prospects improved, and Graaff-Reinet became very prosperous by the 1850s, but was hit by a depression in the 1860s. Graaff-Reinet was situated on a major trading route between Port Elizabeth and the new mining industries after 1880, which caused a local trading boom (Minnaar 1987: 63). The number of shops increased from 40 in 1850 to 153 in 1883 (Minnaar 1987: 64).

The 1880s were the climax of Graaff-Reinet's commercial prosperity. With the extension of the Cradock railway line (instead of Graaff-Reinet's) into the interior, Graaff-Reinet lost its pre-eminent trading position (Minnaar 1987:64). However, its economy continued to grow steadily during the Boer War, when a large military contingent was based in the town. By 1920, the town was a busy centre, still depending primarily on the farming community – which also meant that the economy of the town was vulnerable to droughts and fluctuations in agricultural markets (Minnaar 1987: 65).

In 1971, Gillian Cook proposed: “Economic stagnation of the urban places can be averted by entrepreneurs with sufficient enterprise (and capital) to initiate the changes necessary to meet the consumer demands in their initial stages and so encourage rural residents to buy locally. The onus lies on the local professional and trades-people to provide services at a competitive level and at favourable prices which will result in residents coming to regard long-distance shopping trips as an unwarranted expense” (1971: 58).

She also offered the prognosis that places which have begun a downward spiral are likely to be hard hit, because with the decline, the attractiveness to any kind of investor decreases and the existing capital investment will continue to be eroded (Cook 1971: 57). As far as private investment goes, this is indeed the case in several smaller towns in the Karoo. But the Graaff-Reinet experience belies this concern, as investment has continued apace.

Two theoretical approaches are relevant here. Firstly, the *growth machine hypothesis* maintains that the economic fortunes of towns depend on the ability to attract investment, and thereby to attract population. In developed countries, small towns as self-induced growth machines have some growth capacity, especially as retail centres (Daniels 1989: 418).

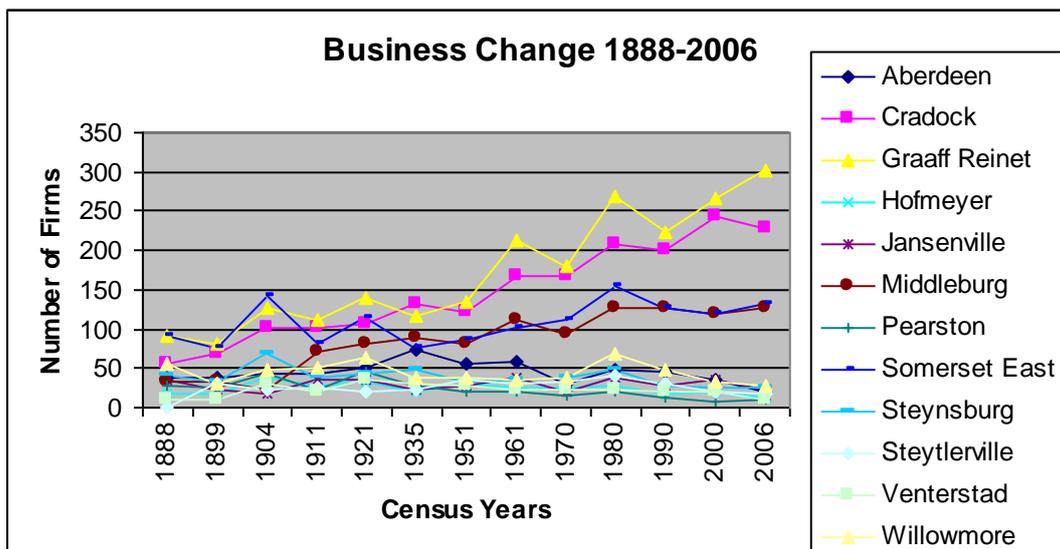
Secondly, the *internal combustion theory* holds that local entrepreneurs, through their own ingenuity and willingness to accept risk, can form businesses and fill a niche – either as export industries or as local secondary base companies. The theory emphasises the importance of retaining and expanding existing firms and fostering the creation of new local businesses. Government has a role to maintain local services (e.g. water, roads, schools) which will help develop new businesses.

These arguments draw attention to the importance of investment and risk-taking. How does Graaff-Reinet fare in this regard?

The town's role as an agricultural centre steadily declined during the 20th Century, and with the reduced white population by the 1970s, Graaff-Reinet's trading role was aimed primarily at two growing markets: The local black and coloured clientele, and the tourism sector (Minnaar 1987: 66). In addition, there is a trend of middle-class people from the cities moving back to country towns, and impressionistic evidence suggests that Graaff-Reinet is benefiting from such in-migration. These people bring with them modern skills, networks and financial capital, which is a major boost in the economy. Evidence regarding the number of middle-class in-migrants is difficult to find, but in our 2006 business survey, there were 42 business owners and managers (26% of the survey) who had lived in Graaff-Reinet for less than 5 years. This suggests an extensive degree of recent in-migration.

Graaff-Reinet's economy has seen a steady growth in businesses between 1970 and 2008. The number of enterprises increased from about 200 in 1970 to about 300 in 2006 (Nel, Hill and Atkinson, 2007: 23). Figure 2 below shows the dramatic increase in the number of businesses in Graaff-Reinet since 1951 (although there were some significant fluctuations in 1970 and 1980).

Changes in the Business Profile of key Karoo towns, 1888-2006



Numbers of businesses are notoriously difficult to verify. Typically, sources such as telephone directories or business directories are used. Of course, such directories are often not complete, and these listings are now bedeviled by the rise of cellular telephones (which are not included in conventional telephone directories). Nevertheless, Nel and Hill's figures

are fairly similar to those of Cook (1971: 6), which listed a total of 214 businesses in Graaff-Reinet in 1970.

By 2008, the number of businesses in Graaff-Reinet had grown to about 329 (research conducted by Dr Daan Toerien, based on a survey of businesses with land-line telephone numbers). Generally, therefore, we can estimate that Graaff-Reinet's businesses increased from just over 200 to just over 300 in a period of 38 years – an increase of about 50%. This shows significant and sustained growth.

The increase in the Gross Value-Added of Graaff-Reinet also reflects economic growth. As measured in constant 2000 prices, it measured R491 million in 1996, and this increased to R501,6 million in 2001 (Global Insight 2006). Annual economic growth in Graaff-Reinet, as reflected in the following table, shows slow but steady growth:

Annual growth rates in Graaff-Reinet magisterial district, 1996-2004 (Global Insight 2006)

Year	Economic growth rate
1997	2.7 %
1998	0.5 %
1999	3.0 %
2000	5.4 %
2001	0.5 %
2002	0.7 %
2003	1.8 %
1996-2004	1.3%

Another measurement of local business performance is the profitability of businesses. In our 2006 survey of Graaff-Reinet businesses, the respondents generally experienced the local economy as positive. Just under 60 per cent maintain that their client base has increased during the last two years; 29 per cent said that their client base had remained static; and 8 percent felt that their clients were fewer than before. Respondents offered several reasons for their increased client base: Increased local purchasing power and demand (26%), improved customer services (21%), improved publicity (14%), an increase in tourism (8%).

Those businesses who experienced a declining number of clients offered interesting reasons for their experience. This includes increasing competition (50%), which reflects a higher rate of business start-ups; unemployment and reduced demand (16%) and declining local purchasing power (8%), reflecting the higher proportion of poor people in Graaff-Reinet; and finally, inadequate publicity and advertising (8%). Bad debt seemed to be a frequent problem. Just under 30% of respondents claimed to have a problem with bad debt; this may indicate the phenomenon of poor households who make informal loans at businesses, and then fail to pay these loans back.

An additional indicator of economic confidence is the prospects for additional employment creation. Respondents were asked whether they wanted to employ more people. A total of 88 respondents answered in the affirmative (54% of respondents), while 53 respondents did not want to employ more people (33%), and 18 respondents were not sure.

Of the 134 respondents, 62% felt that competition had increased, whereas only 7% felt that it had decreased, and 30% felt that it had stayed the same.

Respondents were also asked whether they thought that the economy had grown. Of the 138 respondents, 50% felt that it had improved; 23% believed that it had declined, and 26% felt the economy is static. This is a generally positive perspective on Graaff-Reinet's economic outlook.

A total of 120 respondents provided reasons preventing businesses from increasing their number of clients. The main problem was regarded as intense competition (22 cases, or 18%), followed by lack of demand (13 respondents, or 11%). Other problems mentioned were crime (7%), too little capital (6%), the lack of publicity (6%), the cost of supplies (4%), government regulations (3%), inadequate training (3%), poor quality of labour (3%), and the remoteness of the town (2%). These problems suggest that Graaff-Reinet is still facing structural obstacles to economic growth, although the issue of intense competition could be regarded as a concomitant of good business growth.

Another useful indicator is to ask businesses whether they plan to expand or upgrade their premises. Presumably, if the economic climate is positive, more businesses would be eager to expand their physical assets. Of the total sample, 62 businesses (or 38% of the total sample) stated that they wanted to upgrade their premises. Of these businesses, 21 felt that their current premises were too small for their businesses, 16 wanted to improve their image, 7 wanted to diversify, and 5 wanted to move from informal to formal premises. Once again, this suggests a generally positive attitude to the business climate.

It is necessary for small towns to constantly grow their own economic base, by encouraging small and micro-enterprises to become established and to grow. In our 2006 Graaff-Reinet survey, the 108 business owners were asked how long they owned their enterprise. Of those who answered the question, 29 respondents (27%) had only owned their company for 1-2 years, suggesting that about 15 businesses are being created every year, which is a good rate of entrepreneurialism. Another 13% of respondents had owned their company for 3-5 years. Together, this suggests that 40% had owned their company for less than 5 years, which suggests a remarkable rate of business start-ups. However, this also indicates that many businesses are still in a vulnerable stage of their development.

In the survey, the size of monthly turnover gives some reflection of the wide disparity of businesses in Graaff-Reinet. A sizable proportion (about 33% of businesses) interviewed had a monthly turnover of less than R10 000, which is very small. Another 23% had turnover between R10 000 and R50 000.

Of all the companies surveyed, 11% had no employees at all. Most businesses (55%) are small, with between 1-5 employees. A further 19% of businesses have between 6 and 15 employees, and only 14% (a total of 23 companies) have more than 15 employees. These figures suggest that Graaff-Reinet's economy consists primarily of very small companies.

The vulnerability of businesses was shown by other indicators in the 2006 survey. For example, business owners were asked how they accessed capital. A total of 106 answered this question. Of these respondents, the largest number (83 or 79%) used family savings or loans from their family. Only 13 companies (12%) received loans from a financial institution. Only one company obtained a loan from cash loans businesses, while only four

used their social grants. This suggests that most new companies can be classified as survivalist or micro enterprises, possibly operating in the informal sector. This is confirmed by the fact that two businesses operated from shacks next to their home; there were nine hawkers' tables; and five worked from home. One respondent worked from a street-corner without a fixed table. The informality of some of the businesses is reflected in their use of business transport: 8% use a taxi; 4% use public transport (bus or train); 2% go about on foot; 2% use a bicycle; and 1% use a borrowed car.

Bad debt seemed to be a frequent problem. Just under 30% of respondents claimed to have a problem with bad debt. This may indicate the phenomenon of poor households who make informal loans at businesses, and then fail to pay these loans back. It also suggests the existence of survivalist enterprises who need to issue credit in order to secure customers, and who do not have the administrative capacity to secure the payment of debts.

The economic base can also be broadened by building the skills base. Company owners were asked whether they wanted to receive more training. Of the 96 who answered the question, the majority (53%) do not need training, but a significant number (51 companies, or 47%) felt that they would benefit from training.

Forty-six respondents suggested the type of training required, including management (10 cases), construction (6), accounting (6), computers (5), cooking (5), carpentry (3), customer services (3), and nursing (3).

The majority of companies (49%) have not made formal skills training available to their employees, whereas 42% have done so. Such training has been predominantly in the field of customer services and communication (24 companies, or 30% of those who provided training). Other skills training included corporate training (8 companies), health and pharmacies (8 companies), and then a few other companies which provided computer training, carpentry, management, bookkeeping, metalwork, electrics, arts and crafts, food preparation, safety, tourism, marketing and real estate. The fact that almost half the companies are providing some kind of training suggests that the Graaff-Reinet economy is becoming more resilient and sophisticated.

When asked whether companies would like additional training for their employees, 32% agreed while 44% did not require additional training. Given that 32% amount to 52 companies, this suggests that there is a large reservoir of demand for training. The main types of training required are customer services and communication (12 cases), management (8), computers (5), and then a variety of skills including construction, sewing, accounting, electrical repairs, mechanics, health, arts and crafts, safety, food preparation, literacy, and marketing.

Fifty-five respondents (or 34% of the total respondents) were interested in receiving business mentoring. When asked about the type of mentoring which they would like to receive, the majority (15 cases) referred to marketing, customer relations and sales. Other popular topics were financial management, and general management (12 each). A distinct category (12 respondents) stated that they would like *any* kind of business mentoring. These responses suggest that there is a felt need for effective business skills to respond to the available local market.

Other indicators also suggested a pent-up demand for resources to expand their businesses. A total of 34 businesses (21%) felt that they would like to access business loans, whereas 38 (23%) wanted tax advice.

Generally, the profile of Graaff-Reinet shows a growing entrepreneurial base, but with a large proportion of newcomers who are in need of business support to enable their enterprises to consolidate and flourish.

3. Diversification of the local economy

Towns not only grow by boosting the absolute numbers of local businesses, but by adapting their economic profile to promote new opportunities. Such diversification has numerous benefits: It reduces the economic vulnerability of the local economy, it promotes local multipliers by offering a diverse range of goods and services, and it stimulates new investment in more sophisticated goods and services, which leads to additional in-migration and capital inflows. In the Midlands-Karoo reports, for example, Vrey (1974: 191) referred to the need for the larger towns to consolidate their economic status and promote economic diversification. The lack of manufacturing and construction in Karoo towns was a particular cause for concern.

To this view must be added another arguments, which is in some tension with the diversification argument. The *neoclassical model* focuses on trade as the engine of growth (Daniels 1989: 417). Towns should determine their “comparative advantage”, and specialize in those goods and services that they do best. The price mechanism and markets remain unfettered by government regulation, as the most efficient ways to allocate goods and services. Ideally, capital will move to capital-shortage areas, and labour will move to where labour is in short supply. Individual communities will compete with one another to keep and attract firms, capital and labour.

There are then two distinct pieces of advice offered to towns: Either Diversify, or focus on Comparative Advantage. The difficulty is that, by focusing on comparative advantage, a very narrow economic base may be created, where the town depends on one or two products or services. This may make the local economy very vulnerable to international market fluctuations or changes in consumer preferences.

But despite the tensions between them, the two arguments are not entirely at odds with one another. It is possible to diversify *in such a way* that a fairly wide range of products or services are encouraged which are compatible with local conditions (for example, a low-rainfall area), and which therefore are based on local comparative advantage.

Another way of reconciling the need for Diversification and Comparative Advantage is the recent emphasis on *clustering*. Strong clusters will boost investment, and in turn, many new small enterprises can function as complementary to the large firms, and the productivity of the large firms could be enhanced by a network of small service and production enterprises. "Clustering" could refer to production, retail or service industries – or to mutually supportive relationships among such industries. One more obvious option is to encourage the *processing* of primary goods which are produced locally (such as agricultural or mining commodities).

There is therefore not an intrinsic tension between the need to promote local comparative advantage and the need to diversify.

The economy of the Graaff-Reinet town and district was originally based on trading and agriculture. Its agricultural base was two-fold: The local residents in the town grew grapes, wine, brandy, and fruit (Minnaar 1987: 64), and the surrounding hinterland's economy was based on wool, mohair, ostriches and cattle. Wool and mohair have remained major export commodities, although their economic significance in the Eastern Cape economy was much greater in the 19th Century than it is now. The Graaff-Reinet economy was vulnerable to droughts, diseases (such as the Rinderpest), and fluctuations in the wool, mohair and ostrich feather trades, which in turn depended on global market trends, which in turn was affected by factors such as war and fashion. But the farming sector in the Camdeboo region has proven to be progressive and robust, adopting the latest farming techniques and the best genetic strains of livestock since the 1920s (Minnaar 1987: 75). The latest turn towards the game farming industry, for hunting and eco-tourism, has bolstered and diversified the agricultural sector. The relationship between the town and the farming hinterland is examined in more detail below.

The manufacturing sector remained small. In the 19th Century, there were some notable factories and processing plants, such as the wine and brandy manufacturers in the 19th Century, a steam mill, a woolwashery, a brickfields, a toy factory, and a kraal manure distribution businesses. But the lack of any substantial industry in Graaff-Reinet has constantly worried economic leaders during the 19th Century (Minnaar 1987: 69). Today there are a few key factories (such as Montego Pet Food and Parmalat), and the Camdeboo Municipality is participating in a partnership to create an agave distilling plant.

As the trading and agricultural sectors decline, the key question is whether Graaff-Reinet is capable of developing alternative sectors. There are three possible candidates: manufacturing, tourism and transport. In this section, we examine Graaff-Reinet's business base, as it developed between 1970 and 2008. Two issues are considered: (1) the extent of diversification, and (2) the nature of diversification. The diversification of the local economy can also be measured according to sector. This refers to the Graaff-Reinet magisterial district, which includes rural and urban areas:

**Graaff-Reinet Magisterial Area (including New Bethesda):
Comparing 1996 and 2001 data (Global Insight 2006)**

	1996 (1996 prices, in R 1000)	% of total 1996	2001 (2001 prices in R1 000)	% of total 2001
Agriculture	43 902	11.9	59 512	11.0
Manufacturing	23 938	6.5	35 387	6.5
Electricity	4 534	1.2	5 155	0.9
Construction	12 718	3.5	13 598	2.5
Trade	45 535	12.4	63 266	11.7
Transport	14 858	4.0	21 912	4.0
Finance	63 994	17.4	97 111	17.9
Community Services	158 286	43.0	247 078	45.5
TOTAL	367 764	100.00	543 020	100.00

The economy of Graaff-Reinet is fairly diverse. Community Services is the largest sector, reflecting the town's role as a regional government centre, as well as the growing number of enterprises providing personal services to the burgeoning urban population. Surprisingly, Finance is the second-largest sector, perhaps reflecting the privatization of the cash-loans industry. Trade is an important sector, and shows absolute growth, but a decline in the share of the economy. Agriculture has declined as a share of the economy. Manufacturing remains relatively weak, at around 6% of the economy. Transport and Construction provide some balance to the economy, because they are reliable sectors reflecting local economic activity and expansion; but they are both small sectors (around 3%).

Another measure of diversification is the consideration of the economic sectors providing employment. Table ?? indicates employment by sector in the Graaff-Reinet magisterial district (which includes New Bethesda and the surrounding farmland):

Employment by sector: Graaff-Reinet magisterial district: 1996 and 2001 (Global Insight 2006)

	1996 Absolute numbers	1996 Percentages	2001 Absolute numbers	2001 Percentages
Agriculture	998	14.6	970	13.9
Manufacturing	452	6.6	344	4.9
Electricity	29	0.4	28	0.4
Construction	292	4.3	234	3.3
Trade	952	13.9	1038	14.8
Transport	220	3.2	176	2.5
Finance	373	5.5	379	5.4
Community Services	1 973	28.9	2 373	33.9
TOTAL	6 837	100%	6 996	100 %

Employment in Graaff-Reinet is primarily concentrated in Commercial Services, Agriculture and Trade. There are some interesting trends with regards to employment and economic value-added per sector:

- As regards Agriculture, the share of this sector with regards to Value-Added had declined, and employment had also declined.
- In Community Services, the share of Value-Added had increased, and employment had increased significantly. This sector is by far the most important productive and employment sector in Graaff-Reinet.
- Interestingly, there was declining absolute and relative employment in manufacturing, even though its share of Gross Value-Added remained constant. This suggests some level of capital-intensive investment in this sector.
- In Construction, the share of Gross Value-Added declined, and the absolute and relative employment in Construction had also declined.

- In the Trade sector, employment share had increased alongside the increase in share of Gross Value-Added. Trade is clearly becoming a more prominent sector in the Graaff-Reinet economy.
- As regards Transport, the share of Gross Value-Added had declined, and employment had also declined.

What longer-term trends can be discerned?

The Midlands-Karoo reports are extremely valuable in reconstructing an economic profile of Graaff-Reinet in the 1970s. We have compared the figures provided by Gillian Cook in 1971 with a survey of the Graaff-Reinet economy conducted by Dr Daan Toerien in 2008:

Types of businesses in Graaff-Reinet, 1970 and 2008

	1970 Number of businesses	1970 Percentages	2008 Number of businesses ⁶	2008 ⁷ Percentages	Trend, in terms of economic share
Agric prod's & Services	1	0.5	20	6.1	Increase
Processing Plants	3	1.3	8	2.4	Static
Factories			1	0.3	Static
Construction	11	5	15	4.6	Static
Tourism & Hospitality	11	5	54	16.4	Large increase
Eng. & Tech Services	4	1.8	11	3.3	Increase
Financial Services – banking and insurance	42	19	21	6.4	Decline
Legal Services	4	1.8	4	1.2	Static
Telecommunications	-		3	0.9	Increase
News & Advertising	-		2	0.6	?
Trade	80	36.6	76	23.1	Decline
Vehicle industry	7	3.2	28	8.5	Increase
General Services	30	13.7	19	5.8	Decline
Professional Services	9	4.1	13	4.0	Static
Personal Services			18	5.5	?
Health Services	11	5	17	5.2	Static
Transport & Earthworks	1	0.5	10	3.0	Increase
Real Estate	4	1.8	9	2.7	Increase
TOTAL	214	99.3	329	100	

When the findings of the 1970 survey are compared to that of 2008, some distinct features can be seen. Almost all sectors show a growth in absolute numbers, reflecting the increase in size of the local economy. But there have also been shifts in the relative size of specific industries. The most significant change is the increase in the Tourism and Hospitality industries, illustrating Graaff-Reinet's growing status as a tourism destination, with a regular flow of South African and international tourists. This trend echoes Minnaar's sentiment

⁶ Drawn from research conducted by Dr Daan Toerien (2008). These findings are based on an overview of the telephone directory for Graaff-Reinet.

⁷ Drawn from research conducted by Dr Daan Toerien (2008). These findings are based on an overview of the telephone directory for Graaff-Reinet.

(1987:71) that "Besides the attempts to establish industry in Graaff-Reinet, the only really successful industry has been the growth – especially in the 1980s – of the tourist industry upon which much of Graaff-Reinet's prosperity has become dependent".

But the local economy has also diversified in other directions. The size of the Engineering and Technical Services sector has increased, suggesting that Graaff-Reinet has a stronger manufacturing profile. Transport has also increased, reflecting the fact that towns on main routes are becoming important service centres for private and commercial vehicles, especially in the light of the decline of rail transport and the rise of the private trucking industry. Similarly, the vehicle sales industry has grown dramatically. The Real Estate sector has doubled in size and economic share.

These findings confirm the results of our survey of 170 businesses in Graaff-Reinet. In our survey, the majority of businesses fell into the category of food sales (groceries, vegetables, butcheries, and general merchandise). There were 43 business in this category, or a full quarter of the businesses interviewed. A few key sectors have grown, showing changes in the modern economy: A total of 6% of enterprises were in the vehicle or garage trade, illustrating the importance of Graaff-Reinet as a town situated on a highway. The tourist trade is also significant. A total of 7% were eateries (restaurants), while 6% were classified as accommodation. A total of 13% of businesses were therefore related to the tourist trade. If the arts and crafts establishments (6% of the total) are added to this total, then the tourist trade amounts to 19% of the establishments in Graaff-Reinet. Five companies provided business services and cell phones.

In our 2006 survey, businesses were asked about their desire to diversify. Of the total number of respondents, 64 (about 40%) wanted to diversify their products or services. Respondents were asked about the types of new products or services they wanted to provide:

Businesses which would like to diversify their economic activities: Graaff-Reinet 2006

	Number	% of total business survey	% of businesses who wanted to diversify
Groceries, Veg, Butcher, bakery	12	3.7	24.0
Cars, mechanic, filling station	3	0.9	6.0
Construction, artisans	4	1.2	8.0
Restaurant, eatery	3	0.9	6.0
Accommodation	3	0.9	6.0
Alcohol, liquor, bottle store, shebeen	1	0.3	2.0
Clothing	4	1.2	8.0
Arts and crafts	5	1.5	10.0
Furniture, appliances	2	0.6	4.0
Gambling, games	1	0.3	2.0
Events management	1	0.3	2.0
Wholesaling	2	0.6	4.0
Books	2	0.6	4.0
Household goods	1	0.3	2.0
Public telephones	2	0.6	4.0

Of these business options, the basic trades remain the most popular, and perhaps it is regarded as an easy-entry option to provide basic goods to the new in-migrants in Graaff-

Reinet. But there are also companies who want to provide goods and services to the burgeoning tourism industry. Three businesses would like to create restaurants, three would like to provide accommodation, and five would like to sell arts and crafts. At least two companies would like to sell books – which is an indicator of a fairly sophisticated community.

Does this profile of businesses in Graaff-Reinet mean that it is developing along normal lines? One way of interpreting these figures is to compare Graaff-Reinet's economic development with comparable towns elsewhere. In the work of Daan Toerien, there are strong correlations between the number of businesses in certain sectors and the total number of businesses in towns (Toerien 2008a:4). Typically, the following sectors tend to grow as a proportion of the total number of businesses:

- Agricultural products and services
- Construction
- Tourism and hospitality
- Financial services
- Legal services
- Professional services
- Engineering and technical services (although this is also strongly influenced by other variables)
- General services
- Transport and earthworks
- News and advertising services
- Telecommunications
- Real estate (although this could be strongly influenced by other variables)
- Trading
- Vehicle services
- Health
- Personal services.

In contrast, certain types of businesses do *not* grow in synch with the total number of businesses:

- Agricultural processing plants
- Factories
- Mines

Furthermore, Toerien found strong correlations have been found between the age of towns and their business profile (the older the town, generally the more diversity in businesses it has). Graaff-Reinet was established in 1786, which makes it comparable to Swellendam in the southern Cape – a town which was established in 1745. Swellendam's early economic history was also based on trade and agriculture, and it has become a significant tourism town. Both Swellendam and Graaff-Reinet currently have about 330 businesses:

Graaff-Reinet and Swellendam compared (drawn from Toerien 2008b:19)

	Number of businesses in Graaff-Reinet (2008) ⁸	Number of businesses in Swellendam (2008)	Comparison
Agric prod's & Services	20	30	Swellendam stronger
Processing Plants	8	7	Equal
Factories	3	0	Graaff-Reinet stronger
Construction	15	25	Swellendam stronger
Tourism & Hospitality	54	68	Swellendam stronger
Eng. & Tech Services	11	4	Graaff-Reinet stronger
Financial Services – banking and insurance	21	20	Equal
Legal Services	4	7	Swellendam stronger
Telecommunications	3	2	Equal
News & Advertising	2	-	Graaff-Reinet stronger
Trade	76	75	Equal
Vehicle industry	28	20	Graaff-Reinet stronger
General Services	19	16	Roughly equal
Professional Services	13	10	Roughly equal
Personal Services	18	10	Graaff-Reinet stronger
Health Services	17	21	Swellendam stronger
Transport & Earthworks	10	7	Graaff-Reinet stronger
Real Estate	9	11	Swellendam stronger
TOTAL	331	333	

The two towns' economies are very comparable in their size and sectors. Given that there are some differences, we can explore the reasons for divergences. For example, Swellendam's more intensive agriculture (given its higher level of rainfall) may account for its larger number of providers of agricultural support services. Swellendam's rapid development as a tourism and retirement destination may explain its stronger performance in construction, tourism and real estate. Perhaps because of Graaff-Reinet's remote desert location, and its significant regional role, has more Engineering and Technical Services, Vehicle firms, Personal Services and Transport.

Which town's economy is more diversified and robust? And which one provides more evidence of clustering? These are key questions which cannot be answered with the data currently available. They will require information on the *types* of services and industries offered, and the relationship amongst those businesses with one another. But on the face of it, it seems that both towns have diversified significantly from their original dependence on trade and agriculture.

4. Export base theory and local multipliers

The *export base theory* is a variant of neoclassical theory (Daniels 1989: 417). It emphasises the growth of businesses that export goods and services as the key to local economic growth. Their market is regional, national, or even international in scope. The usefulness of exports is

⁸ Drawn from research conducted by Dr Daan Toerien (2008). These findings are based on an overview of the telephone directory for Graaff-Reinet.

that it brings new money into the locality, which can stimulate local multipliers. Typical “exports” are agricultural commodities, processed agricultural products, mining resources, and tourism.

The same problem as that of Comparative Advantage theory potentially bedevils the export-base argument, since it may lock the local economy into current export markets, and this may change dramatically, even in the short to medium term. However, it is possible that products and services could be selected with a distinct eye to their "exp ort" potential – while keeping in mind that the global economy is a rapidly changing system.

How does Graaff-Reinet fare on the "export" criterion?

In 1970, Gillian Cook found that a significant proportion of businesses in Graaff-Reinet "exported" goods and services to customers from other towns (23% of retail stores and 43% of services) (Cook 1971: 21).

In our 2006 survey of businesses in Graaff-Reinet, businesses were asked about their main customer profiles. The survey found that 31% sell their products mainly to local residents; 9% sell to non-local residents; and 60% sell to a combination of local and some non-local residents. For 10% of businesses, tourism seasons are the most significant times to generate revenue, showing the importance of Graaff-Reinet’s tourist economy. These figures suggest that Graaff-Reinet's businesses have increased their "export" profile since 1970.

The other side of the theoretical coin is the need to promote local multipliers. Whereas "export base theory" emphasizes the need to *sell* goods and services to non-local customers, the focus on local multipliers is to encourage local customers to *purchase* their goods and services locally – thereby increasing the amount of money in circulation in the local economy. Such local purchases could be those made by local residents as well as local businesses.

In 1970, Gillian Cook found that the majority of Graaff-Reinet companies purchased their requirements locally. This included accessing auditing and legal services (around 92% of retail and service companies), advertising (also about 92% of companies), vehicles (around 68% of companies), and shopfitting (around 93% of companies) (Cook 1971: 31).

In the 2006 survey, business owners and managers were asked about their purchases of inputs and supplies. The survey found that 29% purchase supplies within the local area, 42% purchase inputs from outside the area, and 28% source supplies from both inside and outside Graaff-Reinet. These figures suggest that more businesses today are accessing inputs and services from outside Graaff-Reinet, which works as a drain on local multipliers.

Graaff-Reinet's role in the regional and global economy has therefore changed since 1970. The town is "exporting" more goods and services to areas outside the town, but it is also accessing more goods and services from outside the town. This suggests that there is potential for stronger growth by encouraging companies to "buy local" and boost local multipliers. But this may require an improvement of the quality and standard of local goods and services, to entice local businesses away from the attractions of cities such as Port Elizabeth.

5. Government expenditure

Firstly, Jesmond Blumenfeld suggested, “The sustaining factor in the regional economy has been the injection of capital by these external government agencies consequent upon the expansion of services” (Blumenfeld 1971: 12). Cook (1971: 58) argued that hospital and secondary school expenditure is very important to maintain the status of towns.

A necessary condition for the creation of livelihoods in a non-metropolitan region is the existence of a *sufficient economic surplus* in the region (Pedersen 1990: 98). Such a surplus may be derived from local agricultural production, from wages to public servants, pensions to local citizens, tourists, development aid, government grants, investment by outsiders, construction projects or military establishments. Some money must be available locally to circulate, to create the purchasing power which can be spent on second-economy firms.

In terms of this argument, it is critical that government departments examine the impact of their expenditures on small towns. In many cases, government departments decide unilaterally to establish (or, more frequently, to close) key institutions in small towns. Examples are hospitals, schools and training colleges. Such decisions have major unintended consequences on the economic viability of such towns (Atkinson and Marais 2006).

Government service provision has always been important in the case of Graaff-Reinet, and since 2005, even more government expenditure has been concentrated in Graaff-Reinet - as opposed to its surrounding towns. It has branches of the Department of Education, the Department of Social Development, the Department of Health, the Department of Agriculture, the Department of Defence, and the Department of Nature Conservation. Other departments are planning new extensions, such as the Small Enterprise Development Agency (SEDA) of the Department of Trade and Industry.

Graaff-Reinet's role in providing education has always been prominent. The first school was established in 1788, and this was followed by several private and church schools, catering for the white and coloured communities. In the early 20th Century, several private and government schools amalgamated to form the two most significant schools, Volkskool and Union High School (Minnaar 1987: 104). The boarding facilities of the schools have always drawn the farming families into the local community. Graaff-Reinet's schools have, over the years, maintained their prominence in the Karoo, and have constantly attracted Karoo children away from the smaller outlying towns. They also served to slow down the loss of middle-class families to the larger metropolises.

The educational sector was also strengthened by the creation of the Graaff-Reinet Teachers Training College in 1917. This now functions as a Police Training Academy. However, the railway line has been closed down, which has had a deleterious effect on the local economy.

A major change in the local economy is the growth of social grants (pensions, child grants and disability grants). In our 2006 survey, businesses were asked about their peak sales times. For 35% of businesses, the peak is at the end of the month (which indicates local sales based on employment). The second-most important sales day is pension day (18% of businesses recorded this as their peak sales period). This shows the importance of government social grants.

6. The skills base

Graaff-Reinet's steady population growth, combined with its long educational heritage, has provided a relatively strong skills base (up to matric level).

Education levels, 1996-2001, of people over 15 years, in the Graaff-Reinet magisterial area (Global Insight 2006)

	No schooling	Primary schooling (all grades up to Grade 6)	High school (all grades from Grade 7 - matric)	Post-matric qualifications (certificates, diplomas, degrees)
Black 1996	1 052	1 749	3 417	227
Black 2001	601	2 083	4 057	403
White 1996	15	36	3 135	919
White 2001	3	32	2 984	1 145
Coloured 1996	2 255	4 569	7 611	383
Coloured 2001	1 477	5 364	8 745	643
Total 1996	3 322	6 354	14 163	1 529
Total 2001	2 081	7 479	15 786	2 191

The increase in educational levels has been significant, and contributes to the increase in HDI mentioned above.

In our 2006 survey of Graaff-Reinet businesses, the respondents were largely school-educated. Twelve respondents (8%) had only primary school education; 14 had some high school education (9%), and 75 (48%) had completed matric. This means that 101 (65%) had had some high school education. But a significant number had diplomas (25 respondents or 16%), and 32 respondents (20%) had a university degree. A total of 36% of respondents therefore had tertiary education. This is a highly educated entrepreneurial sector.

Company owners were asked whether they had received formal training in skills related to their business. Of the 98 respondents, 35 had received relevant training (35%), while 63 had not received any relevant training.

Company owners were asked about their type and level of training. Of the 34 respondents who answered this question, 23 had received some kind of technical training, 4 had a degree, 5 had received corporate training, and a few had received training in labour relations and estate sales.

These figures indicate that the skills level of the Graaff-Reinet business sector is quite high. This is not a typical third-world economy. There is a strong formal sector, with a base of formal skills and qualifications.

7. Geographic location

In the international literature on small towns, a common concept used to describe these localities is “service centres”, serving the local market. *Central place theory* describes communities according to the size of trade area and the economic functions of the community (Daniels 1989: 417). Lower order central places have small businesses that offer day-to-day convenience goods and services, but the trade areas are rather limited. Higher order central places offer a wider range of goods and services. The key variable here is the nature and density of interactions between a town and its rural hinterland, or between a town and its smaller urban satellites.

The classical theorist of spatial distribution of towns was Christaller (1933), who drew attention to the regular progression of orders of place. They are typically arranged in a regular geometrical lattice of hexagonally shaped service centres, whose size increases with the order of place. In the case of the Eastern Cape Karoo, the distribution of towns does not quite fit Christaller's model, due to the arid environment and the generally lower density of population, together with the lower buying power of a large proportion of the inhabitants (Cook 1971: 11).

The status of different service centres vary. Towns are based both on a horizontal specialization among local enterprises interacting with the same local market (e.g. a grocery store, butchery and garage serving the same local population). But towns may also slot into a vertical specialization and interaction with enterprises at higher levels of the urban hierarchy (e.g. a local doctor referring patients to more specialized physicians in the city) (Pedersen 1990: 96). The small town receives inputs from the larger higher-order centres. This system of service centres builds up into a hierarchy of settlements.

In 1970, Gillian Cook described Graaff-Reinet as a "Country Town" – in the same category as Cradock, Middelburg and Somerset East.⁹ The defining feature was that they have an almost full range of functions, compared to Country Towns in the rest of South Africa. This includes various speciality shops, such as women's clothing, furniture, and hardware. Each Country Town tends to have a service area of a radius of about 70 km. Based on Gillian Cook's research, "Both rural and urban residents have clearly indicated that these centres are patronized for high order goods and that the majority of trips are multipurpose in character ... It is in the provision of professional services in particular that Order 5 places show their importance and record the maximum range of influence, e.g. doctor 100 km, dentist 180 km, surveyor 160 km and veterinarian 480 km" (Cook 1971: 35).

The role of small towns vis-à-vis larger centres may change, depending on extraneous variables. For example, very low rural incomes will reduce the local market, and discourage local entrepreneurs. Efficient long-distance transportation may reduce the local market, because local consumers may prefer to travel to larger centres where there are more sophisticated services and shops.

In the Midlands-Karoo reports, it was suggested that urban places most vulnerable to decline are those that are in close proximity to higher order centres which, besides providing similar convenience shopping services, also offer a wider choice and therefore encourage multipurpose shopping trips (Cook 1971: 57). In the case of Graaff-Reinet, the largest nearby shopping centre is Cradock (150 km away), and Port Elizabeth (250 km away). Graaff-Reinet therefore has a fairly unchallenged status of supply point for most goods and services

⁹ An Order 5 town, in a typical "hierarchy of central places".

– with the exception of sophisticated and specialty goods and services (such as medical specialists). In 1970, Graaff-Reinet had eight private doctors and three dentists, and in 2008, 17 private health practitioners were active in Graaff-Reinet.

Graaff-Reinet has strengthened its position in relation to the surrounding country towns. Gillian Cook argued, in respect of Order 5 Towns, that "Every effort should be made to take full advantage of increasing consumer mobility and to attract greater support for these important Country Towns ... Efforts could be made to consolidate support within the trade area and new customers should be relatively easy to attract from the marginal zones" (Cook 1971: 35-6). In effect, this is exactly what has happened, as Graaff-Reinet has constantly attracted residents and clientele from towns such as New Bethesda, Aberdeen and Pearston.

8. Impacts of business corporates

The presence of local branches of large retail companies is always a mixed blessing for local economies. Such companies could drive out local stores, because of their superior buying power and pricing strategies; but their presence could also attract a greater local clientele and thereby stimulate local economic multipliers.

Graaff-Reinet's important role as a trading centre during the 19th Century was reflected in the fact that it served as the headquarters of several trading companies, which established branches all over the country. These stores included a wide range of products, from food and clothing to farming implements and hardware (Minnaar 1987: 61).

By the mid-20th Century, this situation had become reversed, with national chain stores opening their branches in Graaff-Reinet. Cook (1971: 58) referred to the impacts of opening of chain store branches in small towns. She notes that, even though local storekeepers often regard such branches with dismay, the local businesses can in fact benefit from the increased number of people attracted to the urban area by the new shopping focus. Her observation appeared to be prophetic, because those Karoo towns with some chain stores have functioned as magnets to draw the purchasing power from the towns without chain stores (as the case of Graaff-Reinet and Aberdeen shows).

In our 2006 survey of 170 businesses in Graaff-Reinet, 120 businesses (75%) have their head offices located in Graaff-Reinet, while 41 (26%) have headquarters located elsewhere. This suggests that a large number of national or regional companies have established branches in Graaff-Reinet, as an important retail centre. This has had the effect of drawing in purchasing power from the surrounding towns, and has had a generally beneficial effect on the local economy.

Only 13 companies (8% of the total sample) had received any support in setting up their businesses. Of these, 7 were large corporates providing support to local branches or franchises. This again illustrates the importance of corporate links, referred to earlier. Only one business mentioned a government department that had provided support.

9. Relationship with agriculture

The authors of the Midlands-Karoo reports in the 1970s emphasized the importance of agriculture for Karoo towns. Cook (1971:58) suggested that it is very important for centres to continue to act as a collection and distribution point for farm products, for it to retain their functional status. WJH Vrey also reflected on the future relationship of farmers and small towns (1974: 186).

Graaff-Reinet has always depended on its relationship with the farming community, by acting as a distribution centre for agricultural inputs, household goods and farming produce. By 1920, the local storekeepers depended primarily upon the farming community (Minnaar 1987: 65). The rural population in 1920 consisted of about 2 200 whites, 2 700 coloureds and 4 200 black people (Minnaar 1987: 151) – an important clientele for local shops. In 1929, the first major produce purchasing agency was established. By the 1940s, Graaff-Reinet still prided itself on the produce grown within the town's vineyards and orchards.

The town's role as economic adjunct to agriculture gradually declined. The urban erven became increasingly subdivided for housing, which led to the disappearance of agriculture within the town itself. The woolwashing enterprise ended in the mid-1800s. The relationship between Graaff-Reinet and its farming hinterland is a complex question which has not been adequately studied. To what extent are farmers by-passing smaller centres when they market and distribute their produce and purchasing inputs? It may be the case that farmers will simply not need the small towns any longer, and that economic boundaries will expand.

But there is evidence to suggest that Graaff-Reinet still plays an important service role for agriculture. Daan Toerien's survey of businesses in the telephone directory found 20 firms which provide agricultural inputs and services, as well as eight processing plants. Furthermore, the social services offered by Graaff-Reinet, such as schools, churches and doctors, appear to be important for the surrounding community. In fact, many farms have established guest farm facilities, and this is creating a synergy of interests with the tourism sector in Graaff-Reinet. There is currently an initiative underway in Graaff-Reinet to draw up a coherent marketing plan for Graaff-Reinet and its hinterland. It seems, therefore, that the economic relationship between town and country remains a healthy and dynamic one.

10. A community ethic

An important aspect of a local economy is the "social capital", networks and community ethic in which businesses are embedded. The greater the degree of trust and co-operation, the more businesses can use their own resources to the greatest effect. When businesspeople are linked to one another and their clients or service providers within the social sphere, such relationships strengthen their business activities.

A very useful analysis of the "social capital" dimension of local economic communities is provided by Reese and Rosenfeld (2002). By using the term "civil culture of local economic development", these authors analyse the qualitative and subtle local processes of economic decision-making in private and public life (2002: 41). The authors then analyse different types of civic culture in different American towns and cities. Their analysis of Cadillac, Michigan, is uncannily similar to the local culture of Graaff-Reinet. The key social ethic is

"civil volunteerism", with business leaders and municipal staff co-operating closely. Many firms have been owned by local families for a long time. There is still a "home-grown flavor" to business in this town, with a diverse array of local enterprises, and a growing tourism sector, boosted by local pride in the town's heritage. There are comfortable and long-standing relationships between economic and political elites. "Politics" are disdained, and there is a strong sense of professionalism in the public and private sectors. Economic development policies are characterized by complex and creative funding arrangements, often using state grants (2002:263).

Studying the local business and community ethic of a town is a complex endeavour, and will require further research. This paper can offer a few pointers to highlight the social ethos of Graaff-Reinet. The community has always been strongly religious, but without a hegemonic denomination. The church life of Graaff-Reinet has always been vibrant, with many religious denominations established from 1792 onwards (Minnaar 1987: 84). In 1970, there were at least 11 churches or missions (Cook 1971: 6). Today, numerous smaller denominations have been established. Graaff-Reinet has also had an active welfare and charitable organization sector from 1819 onwards (Minnaar 1987: 113). Furthermore, the relationship between English- and Afrikaans-speaking people in Graaff-Reinet has evolved over the years into an easy and egalitarian bilingualism.

The sense of community was tested in our 2006 survey by asking businesses whether business owners or managers would be prepared to provide mentoring to other companies. As shown above, 56 respondents were interested in *receiving* mentoring. It was significant that 60 respondents (37% of the total respondents) were willing to *provide* business mentoring. This illustrates a strong sense of community-spiritedness and willingness to assist fellow citizens to make a living.

Furthermore, businesses were asked whether they belonged to business organizations. A surprisingly small number (34 businesses, or 21% of the sample) belonged to any trade organizations. The most popular organization was the Graaff-Reinet Publicity Association (with 9 respondents), followed by the Graaff-Reinet Chamber of Commerce (with 3 respondents) and the Camdeboo Spaza and Hawkers Forum (2 respondents). A total of 59 respondents (36% of the sample) maintained that they would join the Graaff-Reinet Chamber of Commerce – an organization which had become moribund and was poised to be re-established. This is a rather small percentage of respondents. It seems that Graaff-Reinet businesses do not have much faith in formal organizations, even though the level of informal, interpersonal co-operation is extensive.

When asked about their relationship with Camdeboo Local Municipality, 60 respondents (or 37% of the sample) maintained that they had received some kind of assistance from the Municipality. This was generally in the form of municipal purchases (19 respondents) and infrastructure provision (12 cases). Fourteen respondents welcomed the pro-growth responsiveness of the municipality.

But a larger number of respondents felt that the Municipality had done nothing for them, or had obstructed them in their business enterprises. Some of the frustrations were its "inactivity" (15 cases), lack of communication (5 cases), and a "hostile environment" (3 cases). In some cases, the municipality found itself in a no-win situation, with 2 respondents complaining about inadequate controls on the informal sector, and 4 respondents complaining about too much control. Given the rapid political changes in the municipal arena since 1994,

these contradictory sentiments are hardly surprising. It suggests that the municipality still needs to develop an appropriate and supportive relationship with some components of the business sector.

Interestingly, only one respondent mentioned corruption. This suggests a generally ethical governmental and business environment, which probably holds many uncalculated and unappreciated blessings for the business environment.

11. Local leadership

Internationally, the role of local government in promoting a positive local business environment is increasingly recognized. Municipalities can undertake numerous supportive measures to assist and attract businesses, for example, by providing tax breaks, loans and subsidies to attract wealthy individuals and companies (Daniels 1989: 418). In South Africa, the new municipal order since 1995 emphasises the role of "developmental local government" in promoting economic and social development.

The main instrument for the municipality's economic leadership role is its Integrated Development Plan (IDP). In Graaff-Reinet, the municipality has largely focused on its core business of providing utilities and infrastructural services. This has provided a stable environment for businesses to function. In addition, an active Local Economic Development officer has undertaken innovative work to liaise with the business sector and to attract government funding for selected enterprises – particularly those which would diversify the economy and provide employment. At this stage the Camdeboo Municipality is still in the process of developing an LED Strategy Plan. This has been outsourced, and is being financed by a combination of Provincial and donor funding (Camdeboo Local Municipality 2008: 50).

The Municipality is careful to stipulate what is, and what is not, its appropriate role. Some projects are supported in principle, and the municipality lends its authority to them to secure funding. Projects in this category include Radio Graaff-Reinet and the Grasrand Landcare Project. In other cases, the municipality operates in partnership with other agencies, such as the promotion of tourism in partnership with the Graaff-Reinet Publicity Association, then upgrading of tourism facilities in partnership with the Camdeboo National Park, and the provision of truck facilities, in partnership with Thusano Empowerment (Camdeboo Local Municipality 2008: 49).

Various new industries and programmes are either being implemented or are under consideration, including an aloe processing plant, an agave distillery, wool and mohair processing, tunnel farming, poultry and livestock production, and the production of fruit, vegetables, flowers and essential oils. In the tourism arena, the Municipality is actively investigating the creation of a Khoisan Heritage Route, rail-based tourism, eco-tourism and hiking trails, the training of tour guides, and the preservation of historical buildings (Camdeboo Local Municipality 2008: 51).

One potential concern is that the wide scope of economic programmes will require more institutional capacity than the one-person Local Economic Development office currently in existence in the Municipality. More staffing and operational resources will have to be dedicated to this function in future.

12. Water resources

Water provision is an important aspect of urban growth, for household water use as well as agricultural and industrial production.

Graaff-Reinet is located in the Nama Karoo desert. Rainfall is erratic, and water is scarce. During the 1880s, Graaff-Reinet's need for sustainable water supplies led to important water works and the construction of a dam at the confluence of the Sundays River, Pienaars River and the Gats River. But this meant that the town was, for a long time, saddled with considerable debt, which translated into heavy rates imposed on ratepayers (Minnaar 1987: 64). High rates and water tariffs undermined Graaff-Reinet's economic prospects – particularly in comparison with Cradock, which was blessed with a perennial river as well as the new railway line to the north.

In 1971, Gillian Cook (1971: 58) warned of finding adequate water supplies for the towns. In particular, industry can only be attracted by the provision of large quantities of cheap water. At present, water supplies in the Eastern Cape towns are unreliable. The Camdeboo Local Municipality's IDP notes that "The main constraint facing economic growth in the Camdeboo is the shortage of water. This problem needs to be addressed as a matter of urgency" (2008: 48). Since industry is the most effective counter to unemployment, the lack of water provision for industry is likely to undermine the prospects of dealing with unemployment.

But Graaff-Reinet's water prospects are not promising. For many decades, a potential water scheme has been mooted, to pump water from the Orange River, via the Fish River at Cradock, to Graaff-Reinet. Given that the water of the Orange River is increasingly in demand, it is unlikely that such an expensive and possibly unsustainable scheme would ever be implemented. For the time being, Graaff-Reinet is dependent on the rainfall in its three river catchments. The Ncweba Dam, which is its main source of supply, is becoming heavily silted up, and this affects water quality as well as water storage. In the meantime, Graaff-Reinet's population is growing apace, with constant demand for new housing and services.

In the long-term, Graaff-Reinet will have to recognize that it is, intrinsically, a desert town, and it will have to promote economic development and water resource use in line with this reality.

Conclusion

This paper examined the twelve key elements of Graaff-Reinet's economic success. We do not claim that this list is complete or exhaustive. But it provides an indication of the multi-faceted research which is required to investigate a town's economic status or prospects. Promoting local economic development is not a matter of addressing one or two issues or launching one or two projects. It is an all-encompassing endeavour which includes population growth, the skills base, the investment climate, the relationship with the town's hinterland, the relationship with national and global companies, the local social ethos, the local leadership style, and the natural resource base.

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