

SALGA FREE STATE

LED CASE STUDY: MASILONYANA

A brief study of the ZR Mahabane Brick
Manufacturing Cooperative in Masilonyana

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1. Introduction

Local economic development (hereafter referred to as LED) constitutes a very critical component of economic development and growth. A large amount of literature agrees that local economic growth and development, if it is sufficiently sustainable, can address the challenges of poverty, unemployment and inequality in developing economies.

It is highly assumed that local employment creation improves the buying potential of the community, which then ultimately leads to accelerated consumption of goods and services. It is for this reason that many scholars, especially in developing economies, put a lot of emphasis on local development.

In its position paper on LED, SALGA in Free State has found, amongst others, that “while there is no clear spatial pattern with regard to LED successes, better resourced and staffed areas fared better than their poor counterparts in improving and stimulating local economies” (SALGA Free State, 2010).

As a consequence, the paper also recommended deeper studies into the success and failures of LED initiatives in a selected number of municipalities. Masilonyana Local Municipality, which includes the towns Theunissen (main town), Brandfort, Verkeerdevlei and Soutpan, is one of the municipalities selected by SALGA for the purposes of these Case Studies.

This brief study will then focus on a brick making project in the Theunissen (Masilo) area of the municipality.

2. Socio-economic situation of Masilonyana

Masilonyana is one of the five (5) local municipalities within the Lejweleputswa District Municipality. It had a population of 63,548 people in 2009. This population declined by almost 4.0 percent from an estimated 66,139 people in 1996. The main reason for this decline could be attributed to the decline in the mining sector, which is the key contributor to growth in this locality.

In 2009, 53.9 percent of all people in Masilonyana were living in poverty. This poverty rate had increased from 49.8 percent in 1996. The unemployment rate, which stood at 30.0 percent in 2009, is mainly responsible for this high poverty rate. Masilonyana's unemployment rate is higher than the provincial average, which was 26.4% in the same period.

What is amazing is that, a staggering 62.6 per cent of all those who were 20 years or more had attained grade 7 or higher. This indicates that the educational level of those who were of working age was not necessarily suspect. . And it provided an opportunity for socio-economic development.

Masilonyana contributed a mere 1.1 percent to the Gross Domestic Product of the whole Free State in 2009. This is a very small contribution. This contribution declined slightly from just less than 2.0 percent in 1996.

3. Brief description of the initiative

The name of the project under review is **ZR Mahabane Brick Manufacturing Cooperative**. This is a cooperative of 45 registered members wanting to establish a brick manufacturing plant in Theunissen.

The cooperative receives support from Beatrix Mine (Gold Fields Ltd.), Harmony Gold Mining Company Ltd. and Star Diamond Mine (Petra Diamonds), as well as from the Masilonyana Local Municipality. This comprises financial support and expertise from the

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mines and the donation of a plot by the municipality, supplemented with expertise and political support.

The business plan is based on the premises that the available capital is about R 3.1 million and that the project should offer employment and skills development to all of the cooperative's members.

The project requires funding amounting to **R 3.15 million** to finance the site and buildings, machinery, an LDV, furniture and office equipment, etc. It is assumed that funding will be provided by the mines in terms of their enterprise development initiatives. This funding would essentially be in the form of an interest free loan to the Cooperative.

The project has a separate account, which is managed by Price Waterhouse Coopers (PwC), to ensure accountability and oversight over the finances of the project.

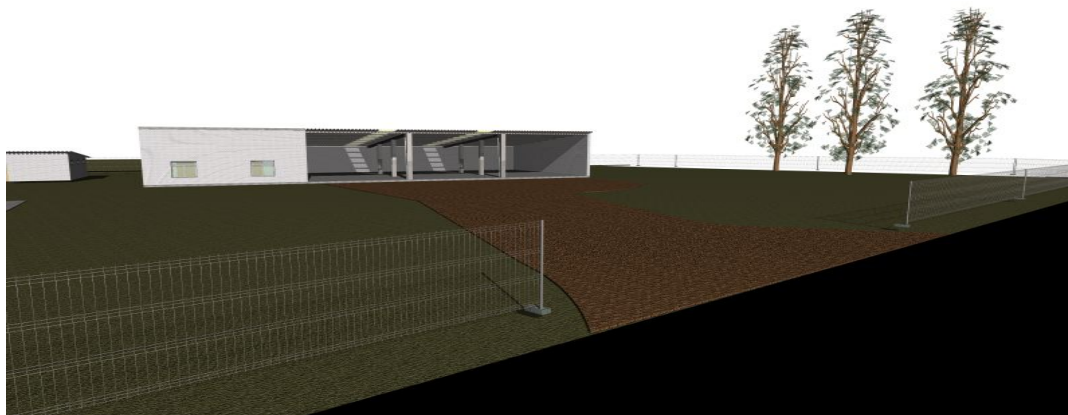
4. What we can learn from the project

- The role of government, and local government in particular, is essentially to facilitate interactions between the private sector and civil society
- Cooperatives are better models of business enterprise as all members work hard because they are equal shareholders
- The role of private business in job creation and further economic development should not be undermined
- Employment creation is critical in economic development. This is true because employment income is important in fighting poverty and increasing consumption of goods and services
- Local authorities must ALWAYS maintain healthy relationships with their communities as well as businesses in their areas
- The critical roles of provincial and national government departments must not be overlooked
- A separate bank account, managed by independent body, can improve accountability and transparency regarding the finances

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- Municipality must sign MOU/MOA with external stakeholders, to ensure that project runs smoothly

Figure 1: An artist's rendition of the proposed project



5. Way forward

- The municipality will engage sector departments, especially Department of Human Settlements, on preferential procurement of bricks from this project
- The municipality would also engage a host of relevant strategic partners in an attempt to ensure the sustainability of the initiative
- SALGA will pay another visit to the site in four (4) months time
- This site visit will update us regarding progress made since the last visit
- The municipality will continue to engage with the mines to ensure that, amongst others, the Cooperative becomes a supplier of choice

Sources

SALGA Free State, 2010. *Local Economic Development as a key driver for growth in developing economies: Key perspectives for the Free State Province.*

IHS, Global Insight, *Rex*, 2010