THE EVOLUTION OF LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA
– THE CASE OF STUTTERHEIM AND SOCIAL CAPITAL

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Local economic development and promoting racial reconciliation have been key foci to addressing the legacy of apartheid in South Africa. This article examines what is arguably the most well-established example of local economic development in South Africa, namely a local government and community-led development initiative in the small rural town of Stutterheim. As the project has evolved over a decade, it has changed its development focus to reflect the changing context and various internal constraints. The study reveals that, even though the project has had difficulties, its sheer survival and ability to adapt in a rapidly changing society have been important. More general lessons include the significance of key social entrepreneurs and the development of social and human capital in concert with physical and business infrastructure.
In South Africa, decades of apartheid (based upon official racial discrimination) stifled most forms of community initiative, including those in the field of economic development. Only after the collapse of apartheid and the initiation of the reform era in 1990 did such activity begin to emerge to any significant degree. It is important to note that in the South African context, local economic development (LED) is motivated by appalling levels of poverty, under-utilization of human potential and the need to address the country’s apartheid legacy, as well as the common internationally accepted motives of employment growth and wealth creation in response to factors such as de-industrialization and global competition. Within this context, and in light of the country’s history, achieving community and racial reconciliation is often a pre requisite before LED can be pursued. Since the early 1990s, many of the most noteworthy LED cases have been in areas where dynamic community organizations or non-governmental organizations (NGOs) have sought to improve human welfare and employment (Nel, 1999). Following the first multi racial elections in 1994, national, regional and local governments became increasingly involved in LED receiving considerable implicit and explicit support in a range of government policy documents, including the 1996 Constitution, the 1998 Local Government White Paper and the Municipal Systems Bill (RSA, 1996, 1998, 1999).¹ This article seeks to investigate the development of what is arguably one of South Africa’s most well-established LED initiative in recent times, namely that in the rural town of Stutterheim.

Stutterheim is a small, rural service center with a population of approximately 30,000 people located in the Eastern Cape province of South Africa. The province is characterized by some of the highest levels of poverty and unemployment in the country (Statistics South Africa, 1999). The LED initiative in Stutterheim attracted considerable attention in South Africa throughout the 1990s, with many viewing it as a role model of racial reconciliation and locality-based development that improved the lot of the most disadvantaged (Nel, 1994).
According to Palframan (1992), the town “that was once the epitome of everything wrong in South Africa ... has developed into a model of everything that can go right when people are committed to building a life and a future together” (p.1). Even though the Stutterheim initiative has sometimes been appraised in an overly optimistic light within development circles, being referred to as a cause célèbre of small-town development in the country (McCarthy, 1995), Bond (1998) has noted its difficulties and internal weaknesses. The program does, nonetheless, provide useful insights into LED processes and principles as they occur over an extended period of time in a relatively poor small town.

LED organizations or projects are not static; they may decline and die or mutate and alter course according to prevailing circumstances, obstacles, and opportunities. They may evolve through various life cycles, often commencing with enthusiasm and success that may be followed by stability, mediocrity or despondency. Each stage may require different strategies. These strategies depend on: the point in the organization lifecycle (e.g., start-up stage); the external environment (such as the willingness of funders to provide support); the organization’s competitive position (e.g., whether many other similar initiatives are seeking support); and local economic conditions and circumstances.

This article’s focus is not on explaining the emergence of the initiative, its initial successes and its later track record. Rather, we wish to consider the factors that have ensured its survival for the last decade and, equally critical, to examine how the project has evolved as a result of altered contextual and internal factors to arrive at its particular niche. These elements reflect the dynamic nature of many long-term LED projects.

The next section explores the role of the local community, leadership, and social capital in LED. The third section discusses factors that led to the establishment of the LED initiative in Stutterheim and its subsequent evolution. The fourth section discusses factors that have ensured its perpetuation, such as the importance of social and human capital, as well
as social enterprise. Also noted are the ways in which the project has evolved and become more focused through time and its relative degree of success. Finally, we draw conclusions from the experience of the Stutterheim initiative that can be of use to other LED projects.

THE ROLE OF THE COMMUNITY AND SOCIAL CAPITAL IN LED

When examining the case of Stutterheim, it is worth considering the role the local community, leadership, and social capital play. The LED process can arise when agencies or individuals seize the initiative and engage in actions that unify communities, businesses and other relevant parties in the local area to improve economic and social conditions (McQuaid, 1997; Stöhr, 1990). According to Zaaijer & Sara (1993), LED “...is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each-other, to create new jobs and stimulate economic activity in an economic area” (p.129). Similarly Bingham & Mier (1993) argue that LED is about the process of creating jobs and wealth and ensuring that this serves the short- and long-run interests of the broad population. Many different actors are involved, such as local government, NGOs, community groups, and the private sector (Blakely, 1994; Clarke & Gaile, 1998).

A distinctive feature of the literature in this field is the involvement of the local community, variously referred to as self-reliant, local-coping, endogenous or “bottom-up” development (Binns, 1995; Taylor & McKenzie, 1992). In practice, however, there are limits to what many communities have achieved (Dewar, 1998; Stock, 1995). Determining the various factors that cause a project to succeed or fail is critical in analyzing LED. Over and above obvious factors such as availability and utilization of financial and physical resources and questions of transport and accessibility, the role of human and social capital is crucial.
Leadership is not confined to any single group and can fall to NGOs, government agencies, community groups, key individuals, firms or a combination of such organizations. However, internal issues, politics, and the appropriateness of locally adopted support measures cannot be ignored (Zaaijer & Sara, 1993; Dewar, 1998; Reese & Fasenfest, 1996). In many cases of small town or rural initiatives, LED policies have been implemented through local NGOs (usually “Section 21” not-for-profit companies in South Africa).

In addition to human, financial, and physical capital, key to LED success is the development of factors such as civic society and social capital (Fox, 1997; World Bank, 1997). High levels of social capital appear to contribute to greater cooperation and productivity, thereby increasing living standards and economic development in developed and developing countries (Knack & Keffer, 1997; Molinas, 1998). Social capital is also seen as important for improving trust, understanding, and economic and social inclusion within a community (Etzioni, 1991). The term social capital has been used to describe many factors (generally informal institutions) including: the stocks of social or mutual trust; cooperative norms; a sense of a shared future; shared values; reciprocal relationships; and networks that can be used by a community to deal with common problems or issues, as well as those formed with other communities and groups (Coleman, 1990; Putnam, 1993). Although human capital lies with an individual, social capital is based upon links between people or groups. Hence, these links or networks can be considered the actual social capital. Others suggest that social capital is made up of the actual resources or capital that is accessed through these links or networks. Thus social capital is greater, including “the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition” (Bordieu & Wacquant, 1992, p. 119). In this article, the term social capital will specifically incorporate the network of internal and external links in the community, which,
among other things, gives rise to better access to and utilization of internal and external resources (rather than including the actual resources that are accessed through that network).

In addition to social capital, significant economic resources are important for successful LED (Samuelson, 1995; Servon, 1998). However, an adequate non-tangible (neither physical nor financial) community infrastructure in the form of social capital is crucial for local economic development in general, and community-based economic development in particular. Strong, effective networks and positive links are required within the community to ensure that the key activists or leaders have local support and to help reduce the possibility of destructive infighting among and between different groups and individuals. The community also usually needs links to public agencies and outside bodies that control resources for support initiatives (Houghton, 1999; Battacharyya, 1995; Shaffer, 1989).

Putnam (1993) sees civic infrastructure, which forms bridges between NGOs, local government agencies and community organizations, as important in forming social capital, but we need to ask how such networks are created and why people participate in them. Servon (1998) argues that policies to assist micro enterprises by providing loans also helps create two types of networks that build social capital. The first is between borrowers or clients (i.e., within the program). The second is between the program and other institutions (e.g., where lenders who know their communities well through personal networks can assess the likelihood of a successful or unsuccessful loan more accurately). People who network with both local and outside organizations can have a particularly significant impact.

The actions of community leaders, professionals, and residents are important in successfully building social capital, as are such other factors as understanding the community development process, credibility of the programs and their participants, competence, confidence and constructive critiques of efforts (Gittell & Vidal, 1998). Wilson argues that communities with professionals who have the skills and values to build social capital will be
well positioned for prosperity and adaptability (Wilson, 1997). These people are sometimes called “local champions” or animators. They may use entrepreneurial skills and behavior (such as developing innovative ways of operating, gathering and allocating resources from many areas or setting up new organizations) to achieve social goals (Glancey & McQuaid, 2000). Such social entrepreneurs may have a particular role in brokering and facilitating links between groups. They also have a wider role in promoting social outputs and using their core assets, which are the social capital of relationships, networks, trust, and cooperation to give them access to other physical and financial resources (Leadbeater, 1995). In some cases, they are independent local people; in other cases, they may be funded by an outside public-, private- or third-sector agency, but these agencies must effectively support the social entrepreneurs while involving local communities and not simply “parachute in” experts. The role of such key people was crucial to the development of social capital and the creation and continuation of the LED initiative in Stutterheim.

Finally, it is worth discussing some of the weaknesses of the concept of social capital. It has been criticized in several ways, such as having too many varied definitions (Harriss & De Renzio, 1997; Jackman & Miller, 1998; Woolcock, 1998). It is also faulted for concentrating on the role of the family but neglecting the role of the state in creating necessary trust. Putnam’s (1993, 1995) methodology for measuring social capital has been heavily criticized for ignoring many groups, for defining participation in social organizations so narrowly that he misses some ways people interact, and for not into taking account the changing purposes of organizations and their attractiveness to new members (e.g., some organizations decline as they have achieved their original goals). Social capital may also be used as a negative tool (as organized crime is rich in social capital) and may be used to enforce society’s conventions and stifle innovation and entrepreneurship (Lang and Hornburg, 1998). While it may increase trust and cooperative norms within social groups, social capital
can also widen gulfs between groups (Knack & Keffer, 1997). Finally, Fine (1999) argues that the basic terms capital and social must be constructed on the basis of systematic understandings. Hence to apply the concept of social capital to a situation such as LED requires a precise understanding of what is meant by the term and a clear analytical framework.

**THE EMERGENCE OF THE DEVELOPMENT INITIATIVE IN STUTTERHEIM**

Stutterheim lies in an area characterized by livestock farming and forestry. Unemployment levels in the town exceed 50%, and conditions for the Black majority are well below those of White residents. The town lies close to two of apartheid’s racial reserves (the Homelands); high levels of poverty and destitution are a feature of the region and the town itself (Nel, 1994). In the late 1980s, Stutterheim was the scene of considerable racial and political conflict. A consumer boycott of White-owned businesses was crippling the town’s economy, police brutality had created bitterness and resentment in the Black community, and it was difficult to see any hope of improving conditions.

Living conditions in the poverty-stricken townships (areas reserved under apartheid for Black people only, usually immediately beside the main town) were appalling. For instance, the Mulungisi township had only 120 water taps to serve 23,500 people (Community Self-Reliance, 1999). It is to the credit of community leaders, both Black and White, that they came together to improve such abject conditions. Independent of the national political process, local leaders, realizing the harm being done to the community, sought their own political reconciliation.

Despite intense suspicion, leaders of the Black and White communities agreed to meet in May 1990 to resolve their differences. It is a reflection on the strength of local social and
human capital that this process was initiated, given the degree of continued animosity that prevailed in other, similar areas of the country. Representatives of all Black and White communities and members of local government came together for regular meetings that became known as the Stutterheim Forum. Participants agreed that, even though broader national-level issues of politics could not be addressed at that juncture, the local boycott should be lifted and steps should be taken to improve conditions of the disadvantaged. The significance of this achievement, prior to the much-publicized national reconciliation within South Africa should not be underestimated. According to Chris Magwangqana (the local African National Congress party chairman and later the first post apartheid mayor of the town): “We had met and we had managed not only to build bridges, but we had walked across them and joined hands as the people of the town” (Community Self-Reliance, 1999, p. 3).

This explicit creation of links is a clear reflection of building social capital to overcome divisions in the community. In 1990, a series of committees, detailed below, were established to address what were perceived to be the most pressing social and economic development needs in the town.

Critical to the success of the reconciliation process, and later to LED, was creating a spirit of trust between people of very different backgrounds, operating the forum in a democratic and “non-party-political” fashion, mobilizing local resources and achieving early concrete results, as detailed below. The considerable level of human and social capital being developed within the local community obviously both drove the process and ensured its success. Parallel community meetings were held for often hundreds of people on a near-daily basis to keep the broader community informed of and involved in the process. The process included all racial groups in the town; elected structures and management bodies reflected the town’s racial make-up. Between 1990 and 1992, surrounding rural Black villages (where only Black people could live under the previous apartheid regime) located in the town’s hinterland,
were drawn into the process and were able to secure tangible development interventions in their areas. In 1992, the Stutterheim Development Foundation (SDF) was established as a non-profit agency to overseeing the considerable development project the forum had brought into being.

THE EVOLUTION OF THE PROJECT

For LED in Stutterheim, the era since the fall of apartheid can be divided into two main periods, separated by the setting up of the first integrated local government system in 1995. The first period is the inception of the project from 1990 to 1995, and the second is the transformation phase from 1995 to 2000.

Inception of the Project: 1990-1995

One of the most interesting dimensions of the LED initiative in Stutterheim is the degree to which altered circumstances, practical experience, and local dynamics have molded and shaped the direction and focus of the project. At its inception in 1990, the initiative strove for broad-based, multisectoral development to improve the socio-economic conditions of all Stutterheimers, but especially those in the disadvantaged townships (Nussbaum, 1997). To achieve this, nine working groups were established to coordinate the activities of local community groups, the local authority, and the SDF that was set up in 1992 to oversee the process. The committees addressed the following issues: constitutional matters; planning; public works - which focused on issues of service provision and housing; economic matters - subdivided into the Business Information Center for small business support and the Marketing Association to encourage rural markets; education drop outs - intent on upgrading the English language standards in schools and training drop outs; health; agriculture -
designed to support emerging Black farmers and encourage those who had ceased farming, as a result of apartheid restrictions, to recommence operations; recreation; and tourism (SDF, 1993).

The period from 1990 to 1995 was clearly a halcyon one for the LED initiative. Through accessing international and national resources and seeking appropriate external technical advice, significant funds were raised and a diverse range of projects initiated. Critical to the success of the projects was directly consulting community groups in various parts of the urban area and surrounding rural villages about their immediate needs and employing local people in the projects’ implementation. Some key achievements in that period included:

1. Establishing the Stutterheim Business Advice Center to support emerging entrepreneurs from the township.
2. Providing 988 serviced housing sites or plots, which helped address the town’s chronic housing shortage. More than 600 community contractors and laborers from the township gained part-time employment and received skills training through this action.
3. Building schools and community halls.
4. Reticulating water in the townships.
5. Upgrading educational programs in the schools.
6. Establishing pre-schools in the townships (Community Self-Reliance, 1999).

By 1995, some R17 million (approximately $3.5 million in U.S. dollars) had been raised, a considerable sum to secure in a small rural center in South Africa. What was achieved is both a testimony to the generosity and positive support of the donors and the local human capacity to attract funding and to oversee successful implementation of projects. Developing social capital in terms of explicitly fostering networks, links and trust across the community was important in attracting these external resources.
The nine committees experienced mixed fortunes, with the most active and successful being public works, education and economic matters. The remainder, either owing to lack of adequate powers or support, did not appear to achieve a great deal. Noteworthy improvements in providing services and housing were achieved several years before they were made in other towns in the country, hundreds of people were trained, and conscious attempts were made to stimulate the development of small businesses. What had been achieved was supported by the climate of reform in the early 1990s, the emergence of various negotiating forums throughout the country (as part of an informal and largely spontaneous process of encouraging racial reconciliation and joint planning for the future), the availability of donor funds for well-organized community initiatives, and the support for community-based activities to fill the legitimacy vacuum existing during the final days of the last apartheid government.

The Transformation of the Project: 1995-2000

The events of 1995 marked a key break in the development path the town pursued. Until that year, the SDF had enjoyed widespread support and legitimacy through its high profile in the community, the regular forum meetings that endorsed its activities, and the direct delivery of services and infrastructure, such as schools and community halls. Also of importance was the fact that there was no legitimate, integrated, local government in place to serve as a channel for public debate and policy implementation and the fact that all the town’s political parties and leaders, both Black and White based, participated in the development process. This period of widespread legitimacy and the diverse and multisectoral focus of the SDF’s activities ended in 1995 with the first post-apartheid local government election (Ferreira, personal communication, 25 March 1998). This event was of particular importance for the future of LED for a variety of reasons:

1. The Forum’s role as a venue for public debate was questioned because a legitimate
and popularly supported town council had been put in place to undertake that function.

2. Many of the new town councilors argued that development activities should be taken on by the new local government and should not be the preserve of the SDF. This issue was particularly contentious in terms of a planned housing program in which the SDF had been engaged.

3. The new, more extensive powers contemplated for local governments in the draft constitution clearly suggested that the SDF’s role might become superfluous.

The result of the mid-1990s transition was a clear blow to the structure and operations of the SDF, and it appeared that the organization came close to folding. This did not happen, but instead a radical shake-up occurred. Many of the preexisting activities and committees were terminated and largely taken over by the new local government while the SDF came to focus on a limited number of core activities (certain education- and economic-related ones) that did not fall within the conventional mandate of local governments in South Africa. The once-popular forum effectively ceased to exist, and the SDF became purely a development corporation with a limited core business focus. Hence, some of the social capital that had been created, in terms of community networks and discussion forums, was transformed by the new legal institutions. In 1996 LED in Stutterheim came to be subdivided between the local government and the SDF. Local government took over planning, public works, constitutional, recreational and tourism matters, while the SDF was streamlined to the core areas detailed below (Ferreira, personal communication, 1997, 25 March 1998).

Unfortunately, the local government, hampered by capacity, resource, and internal constraints, does not appear to have made much progress in the areas it identified for itself and, according to Bond (1998), may have even aggravated conditions as a result. The remainder of this article, therefore, focuses on the activities of the SDF, which, though
constrained, has continued to make progress and carry forward the principle and practice of LED in the town. It is important to note that the SDF is still driven by the same core group of resourceful local leaders (some of whom also became local government leaders) and that, in light of the racial history of the country, both Black and White people continue to serve on the SDF and occupy key positions in its operational and decision-making structures. Local political changes do not appear to have impacted on the principles of reconciliation and the SDF’s ultimate objective improving conditions in the disadvantaged Black townships.

Despite the tension that had existed in 1995 between the two bodies (the SDF and the local government), a compromise was reached, such that the SDF has become the de facto development arm of the local government. Two town councilors sit on the SDF board and both bodies have striven to ensure that cooperation occurs. The principles of public-private cooperation (McQuaid, 1999), including having a clear focus, common purpose and agreement, clear incentives, and shared contribution of resources, are implicit in this arrangement and are important in the town’s development activities (Community Self-Reliance, 1999). Again, the organizational structures sought to maintain and develop social capital by creating and maintaining meaningful links across the community.

The rationalization and reduction in the functions of the SDF relates to the limited success that had been achieved by the various committees from 1990 to 1995. The farming support program encountered problems in raising loans and securing access to land and markets. The marketing program, though it still continued to exist and had led to the establishment of a series of village markets in the district, did not bring significant improvements in the local production base. Many of the other original committees, such as planning, simply could not continue to function because of their limited legal mandate and capacity constraints. As a result of the committees’ limited success and the compromise arrived at with the local government, the SDF has been reduced to three primary activities:
1. The Business Advice Center, which offers small business advice, training and support;
2. The Kei Development Trust, which offers micro-loans to individuals and businesses; and
3. The Stutterheim Education Trust, which is active in 39 schools throughout the district, promoting English literacy and computer, entrepreneurship and technology training. It also oversees the 32 pre-schools established by the SDF (Community Self-Reliance, 1999).

At one level, streamlining SDF activities needs to be seen as an inevitable consequence of the SDF’s emergence during the reform era before a legitimate local government was established and the resultant need for it to find a new role after 1995. At a second level, the SDF’s new focus needs to be seen as part of the life cycle of a development project, involving the self-recognition of strengths and weaknesses, on-the-ground failings and successes, and the resultant identification of an appropriate development focus and niche.

The effective withdrawal of the SDF from direct delivery of housing and infrastructure activities, in which they had played such a prominent role in the early 1990s, has focused attention on the three areas of human resource development, small business support and micro loans. Although these activities had been pursued since the project’s inception, the greater attention paid to them after 1995 clearly indicated the degree to which the project focus had shifted from that of direct delivery of services to that of local business and human capital development. SDF’s new mission emphasized training and skills development, both within district schools and through the activities of the Business Advice Center. This is evidenced through the principled support for the inculcation of the concepts of entrepreneurship and self-reliance. According to the 1999 SDF annual report:

We increasingly believe that community self-reliance and economic growth are the most crucial issues for the survival of small towns and rural communities in South Africa today. ... A self-reliant spirit, the belief that one’s economic and social destiny
lies in the community’s hands, and that the full use of resources, human, physical and financial, will carry rural communities through difficult times and into the future. (Community Self-Reliance, 1999, p. 4).

It is interesting to note that since late 1998, the SDF has hosted joint, monthly LED meetings with the local government in an effort to encourage greater community interaction, capacity creation and broader development (Ferreira, personal communication, 2000). Again, this can be seen as an attempt to increase social capital.

Another important transformation within the initiative resulted from project leaders recognizing that the SDF had an obvious and defined development role to play within South Africa, namely that of providing guidance and setting an example (as opposed to being a role model) for other community-based development initiatives within the country. By 1998, representatives from more than 100 other towns had visited Stutterheim to see what they could learn from the town’s experience. According to Nico Ferreira the Director of the SDF “Stutterheim is becoming an LED center of excellence” (Community Self-Reliance, 1999, p. 6). After the 1995 shake-up, SDF’s role had become far more defined, possibly in response to the curtailment of many previous activities and the search for new ones. This explicit attempt to increase external linkages differed from earlier ones in that it did not focus solely or primarily upon gaining external funding (although funding was sought).

Hallmarks of this new found role have included hosting a national newsletter, the *Community Self-Reliance News*, training community groups from other towns for 3 to 4 days at a time using South African and foreign sponsorship, launching an active visitation program to other centers, and hosting a series of national and international conferences about development matters. Nearly 170 people from 68 towns participated in a 1998 LED conference in Stutterheim organized by the SDF. In 1999, the SDF hosted the fifth Commonwealth Association for Local Action and Economic Development conference in the
town, attracting delegates from 23 commonwealth countries (LED News, 1999; SDF, 1999). Support for other towns has included actively assisting an emerging LED initiative in the relatively nearby Port St. John’s area. One SDF director took the role of encouraging LED at the provincial level in South Africa, having been appointed chairman of the Eastern Cape’s provincial branch of the South African Local Government Association’s LED unit in 1999 (July, M., personal communication, 2000; Chairman Mlungisi Civic and Stutterheim Development Foundation, Stutterheim. personal communication, 21 January 2000). These activities are all clearly in line with the SDF’s statement that it is striving “to give people the knowledge, confidence and ability to improve their well-being and that of their communities by sharing our experiences” (SDF, 1999, p. 4).

The way in which the SDF has transformed itself from being a development agency active in a single locality to one that is positioning itself on the national stage is vividly reflected in the changing goals the organization has set for itself through time. In 1993, “our main goal is the development of our people. We need to inculcate a work ethic and a will to succeed” (SDF, 1993). By 1999, the position had shifted to a far broader one, namely: “to contribute to improved quality of life for all our citizens in our town, other towns and rural communities” (SDF, 1999, p. 3). These radical shifts can probably be attributed to a series of factors: first, the obviously changing environment represented by the introduction of the new local government; second, the limited results achieved in certain programs within the town and its hinterland (e.g., farming support); third, the operation of certain programs, such as small business support, at levels that could not realistically be expanded further because of the small size of the town; fourth, the increasing national and even international recognition being paid to the town and what it had achieved; and finally, the obvious recognition by local leaders that they had a product to “sell” to other communities, namely a development “experience” and practical guidelines. These factors led to a questioning of the position and
role of the SDF, resulting in some functions being removed and greater emphasis being placed upon others. In other words, there was greater focus on the external linkage aspects of social capital.

SDF’s transformation from a “bottom-up” community-based organization that sought initially to provide for the immediate infrastructure and social needs of its constituency to one that rendered selective support in the home area and simultaneously positioned itself as a national development agency is quite striking. Through the passage of time, SDF has evolved so that the organization now recognizes the critical success factors at work in Stutterheim and is actively seeking to encourage human and social development in other towns. According to one SDF document, “Development must be people-centered: it is about people, not about things. It is not a short-term event, but a long-term process. Sustainable development means growing human capacity, both at the human and individual levels” (Community Self-Reliance, 1999, p. 7).

DISCUSSION AND ASSESSMENT

In terms of organizational life cycles, the SDF has clearly moved past the start-up stage, where it had a supportive external environment in terms of foreign and South African sponsors willing to fund the organization and its projects and where it experienced limited competition from similar initiatives. However, the introduction of the new local government structure, together with the growth of other initiatives in South Africa (and possibly a lessening of interest in the country by foreign donors), reduced the range of activities and scope for funding. In addition, some original policies or projects deemed relatively ineffective were curtailed.

When assessing the initiative, it is essential to bear in mind how the project has
evolved and the critical importance of the initial racial reconciliation. Local residents acknowledge that the credit for the conflict resolution of the late 1980s must be given to the numerous charismatic community leaders who live in the town (personal communications, 1993, from: T. Collett, Co-coordinator of the activities of the East London Chamber of Business in the Stutterheim area; C. Driver, Project Engineer, Ove-Arup, Stutterheim; Small business operators, Stutterheim). The leaders’ ability to look beyond short-term conflict and to realize how it was causing permanent harm to the town ensured that a turning point was reached in 1990. Local leaders, such as Chris Magwangqana local ANC chairman of the time, and then-Mayor Nico Ferreira, drew their respective communities from a position of conflict to one conducive for resolution of difficulties (Erasmus, B., Town Clerk, Stutterheim, personal communication, 1993). According to Magwangqana, the “politics of talking were bogging us down” and the decision was taken to move from the “politics of protest to the politics of challenge” (Finance Week, 1993, p.16).

In addition, there was a clear decision to build social capital by creating bridges between different community groups (although the term ‘social capital’ was not used). Leaders sought to improve relationships, networks, trust, and cooperation between previously antagonistic groups. They also sought to build these networks and trust within the individual groups (e.g., within the township with groups of people focused upon new businesses or infrastructure provision). It is important to note that this process sought to involve all parts of the society, particularly the previously disadvantaged.

As interviews verify, the presence of leaders in the community is too significant to ignore in assessing what has happened and in trying to gauge what other towns could achieve (Small business operators and Wartburg farmers, Wartburg, Stutterheim district, personal communication, 1994). Black political and civic leaders such as Chris Magwangqana and SDF staff member Max July were able to look beyond the immediate crisis to a new future. In
addition, the forum benefited from the experience of the then-Mayor Nico Ferreira, a man skilled in small-business operation and development who simultaneously held the post of small business advisor for one of the country’s largest corporations (and so had strong important links to potential external resources). These considerations illustrate just how critical a role human and social capital played in the initiative and, in particular, the importance of social entrepreneurs. The availability and development of skilled, talented people in the town clearly contributed to the initiative’s success. This reflects on the local human capital in Stutterheim and its explicit capacity to help create social capital to drive the initiative. Of importance was the local leaders’ ability to recognize that conflict had to be replaced by cooperation, a focus on development and not political ideology, and the gradual creation of trust. July noted: “We had the right people - they were creative initiators who were sensitive to community needs” (Nussbaum, 1997, p.17.).

Young (1983) suggests that social entrepreneurs follow a process similar to other entrepreneurs, a course that has parallels in this case study. Social entrepreneurs begin with idea generation (in this case, overcoming the crisis in Stutterheim and achieving racial reconciliation). Resources then must be gathered or developed; in Stutterheim, this meant gaining new resources from external stakeholders and making better use of existing resources. The next, path-clearing, phase involves overcoming institutional barriers (in particular, creating social capital by overcoming the distrust and animosity between different groups in the community) and agreeing on organizational mandates and objectives. Then, the leadership and management of the venture must be organized so that the venture will be self-sustaining although the original social entrepreneurial team may not necessarily take on the management role. In Stutterheim, the entrepreneurial team continued to cooperate and work together, but only Ferreira and July worked for the SDF full time. Chris Magwangqana became mayor and other leaders retained their previous occupations. Finally, after the plans, resources, and
leadership were in place, the project itself was organized and implemented by obtaining and directing staff, premises, and other resources. In addition, the SDF was able to transform itself when circumstances changed (especially with the introduction of democratic local government).

Tangible gains made by the LED initiative in Stutterheim include raising some R32 million (around U.S. $6.5 million) in external grants, establishing nearly 100 people in small business or agricultural employment, continuing support for educational and small business activities, providing nearly 1,000 serviced housing sites or plots, building schools and community halls, and extending municipal services to township areas. In terms of education, more than 3,000 pupils are participating in educational upgrade programs in the district (Nussbaum, 1997).

Less tangible but equally important gains have been made in transforming the town from one of the most racially and politically tense centers in the country to a place where conflict has been addressed. Serious efforts have been made and continue to be made to improve the overall quality of life for all residents. Important gains include easing racial tension, facilitating interracial contact, fostering a general sense of peace and reconciliation that prevails and giving traditionally disempowered people greater confidence to seek advice and support. The initiative has promoted a sense of belonging in the community, has helped make the town a desirable place in which to live, particularly for wealthier Black people, and has encouraged migration to the town (Ferreira, 1996).

On the negative side, a study by Mcwabebi and Bond identified a series of issues that reduces the sense of optimism with which the Stutterheim experience has traditionally been interpreted (DCD, 1998). Although many of the issues raised in their study reflect more on the limited achievements of the post-1995 local government than on the SDF, they are nonetheless important to bear in mind in terms of the overall context in which the
development initiative has been taking place. The researchers found that despite the LED activities, the majority of the Black population had “effectively been left out of resource distribution, local democracy and planning for future development”, even though leading members of the new local government were predominantly Black (DCD, 1998, p. 27). In addition, they argued that the SDF projects had been limited in scale and were frequently unsustainable. In terms of the local government, poor service provision and failure to effectively subsidize services rendered to the poor were found to be aggravating conditions in the district. Although many of these concerns may be valid and the issue of service provision is clearly a key problem, LED initiatives around the world suggest that one is seldom able to achieve the improvement of mass welfare from small, spontaneous, localized projects alone. Perhaps more realism concerning what impact a local initiative can have, especially where state support and resources are limited and greater recognition of the difficulties involved in SDF attempts to improve local conditions, are required. Indeed, even in developed countries, it is usually recognized that there are limits to what can be achieved even by well-resourced local initiatives (Eisinger, 1995; Porter, 1997).

At a more general level, it would be fair to argue that, despite noble ideals and several noteworthy successes, the SDF has not been able to bring about mass improvement in welfare levels throughout the whole town and district. Difficulties encountered in the pursuit of this ideal include:

1. The sheer scale of the development backlog and the comparatively limited personnel and financial resources of the SDF in relative terms, which means that any assessment of success or failure must recognize the paucity of resources in comparison with the needs of the community.

2. The “competing” agenda of the local government from 1995.

3. The difficulty faced by low skilled, community based businesses in trying to produce
4. The reliance of the entire initiative on the drive, skill and commitment of a limited number of individuals.

Despite the problems that clearly exist, it is interesting to reflect on a comment by Pumla Kubukeli of the Development Bank of Southern Africa: “The founders of the Stutterheim Foundation were pioneers in showing this country that different communities can work together ... theirs was the only town in the country to achieve what it did on such a scale at that time” (Nussbaum, 1997, p. 1). In his assessment of the program, Professor David Dewar, one of the SDF initiators, commented: “Perhaps the most important achievements, however, are not reflected in projects. They are reflected in the tangible growth in trust, confidence, and management capacity of the people who have been involved in the process” (Dewar, 1998, p. 87). Such development of social capital no doubt helped provide a more suitable and sustainable environment for local economic and social development than would otherwise have happened. In his own assessment, SDF chairman Nico Ferreira identified that one of the key achievements of the initiative was that people realized they needed to learn to work together in order to make things happen (Ferreira, personal communication, 2000). He admitted that success with small business development had been rather limited, but noted that the greatest success and impact had been with human resource development.

However, our expectations of the effectiveness of LED in general, and the role of the town as a model of LED, specifically must be realistic. The questions should not be whether or not the initiative had solved the huge problems faced, but whether it had made a significant difference, given the resources available and the local, national and indeed global circumstances. It would seem that the experience of LED in Stutterheim has not in itself laid the basis for broad-based sustainable development in the area. It does, however, show that under certain circumstances, particularly where the right blend of resources and capacity
exists, communities can identify and initiate limited LED projects that make a worthwhile difference and improve the lives of people.

One of the key features of the Stutterheim initiative is the fact that, because the forum launched the first true LED strategy in contemporary South Africa, it was able to access significant amounts of national and international grants in the absence of many other suitable community-based projects in which donors could invest their money (Nel, 1999). In any development initiative, the passage of time can have a profound impact. In the case of Stutterheim, this has led to rationalizing and streamlining the development process. Initially high levels of available funding now appear to be restricted, which could constrain the project and its credibility at the local level. Some of the difficulties experienced in the town include its reliance on external grant sources and the temporary nature of many of the jobs created. On the positive side, local leaders have noted the seriousness of such a situation and have actively sought to promote local self-sufficiency, sustainable growth, and entrepreneurial endeavors.

The overall sense one is left with when assessing the SDF initiative is that even though it has encountered difficulties, not attained all its goals, and accounted for limited job creation, living conditions have improved for many of the town’s residents, confidence has been restored in the town after the agony of the 1980s, and a basis for racial reconciliation has been clearly laid. The participants, although not bringing about major transformations, have clearly made a significant difference in their community.

CONCLUSIONS

This article considered local economic development in Stutterheim, South Africa, and how it moved through various phases. LED in Stutterheim was forged by a number of
competent, experienced and enthusiastic social entrepreneurs and community leaders. They, along with other people in the community, developed new and innovative ways of linking formerly antagonistic groups, pulling them together to promote the development of the town and its economy, gather resources, and set up a new organization, the Stutterheim Development Foundation. In so doing, they significantly improved the social capital of the town.

The definition of social capital used in this article encompasses the network of links and relationships. If a wider definition of social capital is taken (i.e., one that includes the resources accessed through the networks) then, over time, the social capital in Stutterheim can be seen as varying greatly, as initially external resources were brought in through the network but then some of these later declined as the types of resources and their conduits changed.

The LED initiative in Stutterheim has been altered by practical experience, local dynamics, a changing external environment (including the policies of funders), and a changing environment within the town (particularly the introduction of democratic local government). The SDF and its strategies have also changed to reflect this altered environment, the life cycle of the organization, and a loss of competitive advantage (e.g., there are many other similar initiatives now seeking funding or other support from the same sponsors).

At its inception in 1990, the initiative strove for broad-based, multisectoral development to improve the socioeconomic conditions of all Stutterheimers, especially those in townships, building links between groups within the community and also between the community and outside bodies with resources. This policy of building the community’s social capital creating links between groups within the community and between the community and outside bodies with resources resulted in improvements in local living standards. Significant
improvements in providing of services and housing were achieved several years before such results were seen in similar towns. Hundreds of people were trained, and conscious attempts were made to stimulate the development of small businesses.

Until 1995, the SDF and its activities had enjoyed widespread support and legitimacy because all stakeholder groups and leaders were included. Regular community forums were held and generally endorsed SDF activities, and the initiative provided direct delivery of such services as building schools and community halls. In that year, the first post-apartheid local government election led to the effective withdrawal of the SDF from direct delivery of housing and infrastructure services. The SDF transformed itself from a bottom-up, community-based organization initially focused on providing for the immediate infrastructure and social needs of its constituency into one providing more selective support in the local area (offering human resource development, small business support and micro loans) and simultaneously positioning itself as a national development agency. There has been relatively limited success in creating sustainable business and employment through these economic development activities although it is important to recognize that there are limits to what can be achieved, even by well-resourced local initiatives.

The initial building of social capital had tangible results, such as reducing inter racial conflict and fostering trust, confidence, and management capacity of the people who were involved in the process. This was particularly beneficial in the early stages of the initiative. Later, as discussed above, the new democratic local government took over some of the roles of developing and maintaining social capital. However, for longer-term business and job creation the influence of the wider economic environment, the availability and development of resources (particularly the skills and aspirations of the local population, as well as financial resources and business support infrastructure), and the identification and realization of opportunities were crucial to success. Hence, the form of both initiatives and social capital
changed, emphasizing external links to attract financial expertise and other resources and to expand the market and activities of local programs and firms.

The experience of the SDF sheds light on the overall LED process, and certain key lessons can be discerned. These include the fact that development is a long-term, drawn-out, time-consuming process and that initiatives must evolve and alter as contextual and localized factors change and the program itself matures. Clearly, projects need to focus on those areas where they are having the greatest impact and success, which, in practical terms, means finding both the right development niche and economic niche where their endeavors yield the greatest fruits. In this regard, a focus on long-term programs, such as upgrading skills can help secure such a niche and represents a commitment to long-term development as opposed to short-term delivery of less substantial services. This adjustment needs to be undertaken even if it means rationalizing and streamlining. Initiatives need to be flexible in both focus and operational structure to respond to the changing social and economic context in which they operate. Development organizations must continually adapt.

The Stutterheim experience emphasizes just how critical it is to undertake community building and reconciliation before launching any development initiative. The existence and dedication of a core group of leaders who sustained and developed the initiative over the last decade emphasizes that enduring initiatives require the commitment of motivated social entrepreneurs who invest in the community and seek to encourage and enhance overall levels of social capital. Economic development is clearly a complex process in which there are no easy solutions. Observing how well-established initiatives, such as that in Stutterheim, have evolved over time does help us to understand the complexities involved and the broader considerations that impact the overall success of development initiatives. It also indicates that development of social capital may be a necessary, but is not a sufficient, condition for successful local economic development.
AUTHORS’ NOTE

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REFERENCES


**NOTES**

1 The latter Bill sets out the legal position and expectations of local government in terms of developmental issues, however concrete action is still largely at the level of preliminary planning within local government.

2 While social capital can be considered mainly as a public good, although not entirely so as all links are not available to all people. If the links create synergy then the presence of social capital should increase utility for those involved (subject to negative social capital discussed later).

3 There are different measures of social capital and how it varies across locations (such as the rates of civic participation, including volunteer activity and networks and voting rates), although which measures and types of organisations to include are subject to debate.