



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA



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Ukhahlamba Nodal Economic Development Profile

Eastern Cape

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Section 1: Introduction

1.1 Purpose

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

1.2 The Nodal Economic Profiling Project

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

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

Three high-level deliverables form the core of the programme of action (PoA). These are:

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

In order to fund the PoA deliverables, various development partners were approached. The Business Trust believed in the credibility of this initiative, and

¹ Information is sourced from a detailed PowerPoint profile of Ukhahlamba.

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

funded it through the Community Investment Programme (CIP). Nonetheless, it needs to be pointed out that the Nodal Economic Profiling Project is a government-based project intended to raise the importance of productive and sustainable nodal economies.

Section 2: An Overview of Ukhahlamba

2.1 Administration

Ukhahlamba is a district municipality within the Eastern Cape province and one of the largest of the 21 nodes under investigation.

Local municipalities, population and major towns

The node incorporates following local municipalities Gariiep (population 31 299), Maletswai (population 37 299), Senqu (population 135 142), and Elundini (population 137 577). Ukhahlamba is composed of the towns of Burgersdorp, Aliwal North (the major town), Barkley East and Maclear. Of these, Maletswai and Aliwal North are connected to the national transportation network through the N6 linking Bloemfontein and East London.

2.2 Spatial information

Ukhahlamba was first mentioned in the 19th century with the settlement of Europeans. Small towns were formed as military outposts during the Boer war or as centres for farming and trading. Aliwal North simultaneously developed as a health resort and a transport centre, with the railway from East London reaching the town in 1885. The hot springs with high concentrates of minerals and gases made Aliwal North the third most popular tourist destination in South Africa in the 19th century. Despite the presence of towns in the district, Ukhahlamba is predominantly rural.

2.3 Socio-economic information

The socio-economic character of Ukhahlamba could be described as follows:

- The population is about 341 340 people in an area that covers 26,518km². Of the population, about 70% reside in rural areas while the remaining 30% is urban based. The population density is 12,87 persons /km².
- Households without access to basic services are as follows: 57% are without electricity, 59% are without piped water, 75% are without waste removal services, and 82% are without a telephone. It is also important to note that households in the area are large, with four to seven people per household.
- Formal dwellings are overwhelmingly in the majority at 93,1%, while informal dwellings account for only 6,9% of households.
- Over 66,4% of the population at Ukhahlamba is younger than 29 years old; while households headed by women make up 51%. This shows that there is a need to implement youth-development programmes and targeting women in stimulating nodal economic growth.

- Over 86% of households earn less than R9 600 per annum and live below the poverty line. The Ukhahlamba municipality has a high unemployment rate with only 18,5% of people employed.
- The predominant language in the node is isiXhosa.
- Functional illiteracy is relatively high (28% of people have no education), while 58% have some primary education. There is no access to higher education in the node and people seeking post-matric certification need to relocate to East London or Bloemfontein.
- There are 52 clinics in the region. The per capita annual health care expenditure is R48. Some 7 000 people are serviced; nurses see an average of 28,5 patients per day. Local communicable diseases include TB and HIV/AIDS. The lack of proper housing, water and sanitation contribute to infectious and preventable diseases.

2.4 Municipal funding and budget breakdown (2004/2005)

Municipal funding for Ukhahlamba District Municipality (2004/2005)

	2004/2005
General income	12 068 570
Government grants and subsidies	101 872 327
Total financing	128 017 314
Total expenditure / <i>Budgeted expenditure</i>	128 017 314

The table above clearly indicates that government grant transfers represent the single most important funding instrument for the district municipality. Staffing costs account for 41% of the operational budget of R128 million.

2.5 Key remarks about Ukhahlamba

The nodal overview of Ukhahlamba highlights the following development challenges:

- Lack of basic services; for example, lack of electricity and waste removal services is a major barrier to development in the node.
- Poor infrastructure (poor transportation, bad roads, long distances and few and expensive means of communication) in the area remains a major threat to development and needs to be upgraded and better maintained.
- The lack of skilled people points to the need for youth empowerment.
- Economic activities are constrained to isolated cities in the node. Two different climate zones make efficient agricultural strategies difficult.

Section 3: The Economy of Ukhahlamba

The description of the economy of Ukhahlamba is provided at three levels: GDP (output), employment, and consolidated analysis:

3.1 Contribution to GDP by economic sector

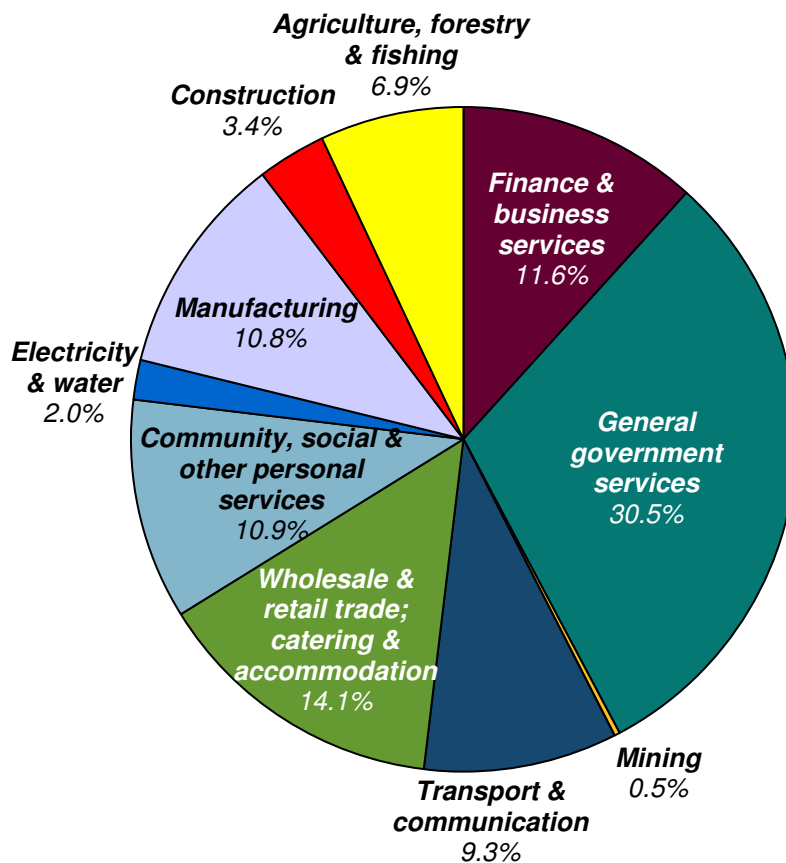


Figure 3.1.1: Contribution to GDP by sector 2004 (Constant 2000 prices)

Government (30,5%) is by far the largest contributor to the GDP of the node. Community, social and other personal services also play a significant role in the economy of the node.

3.2 Contribution to employment by economic sector

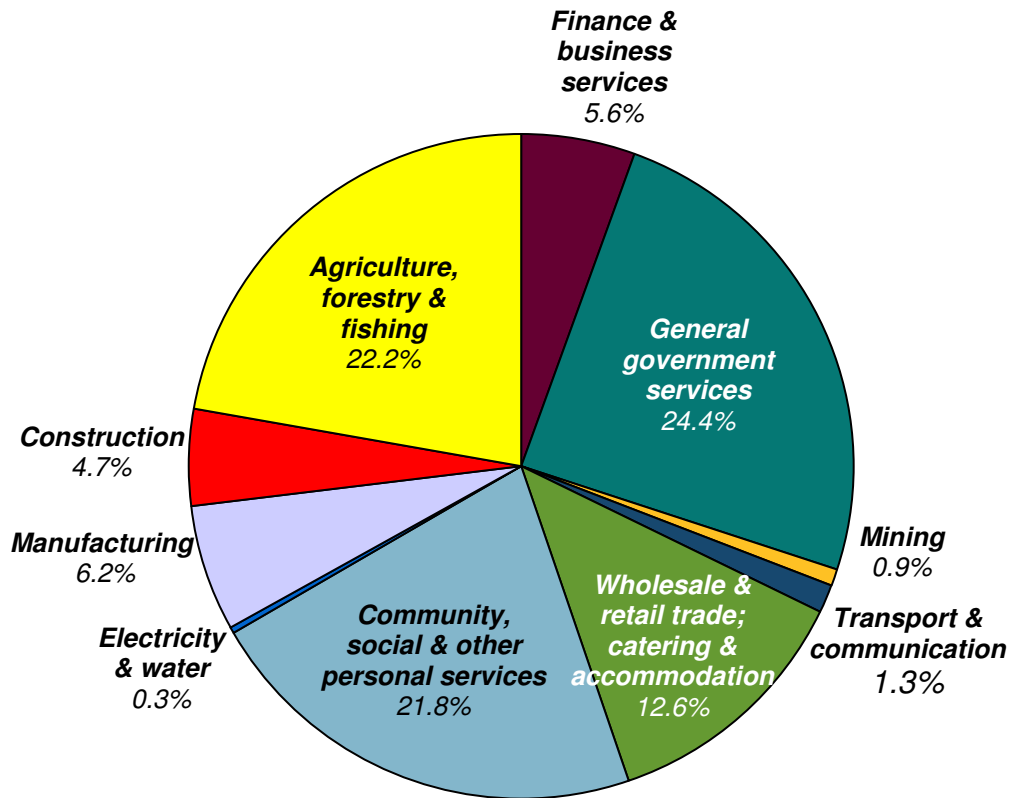


Figure 3.2.1: Contribution to employment by sector: 2004

Government and community services, as well as agriculture, forestry and fishing remain the most important employment sectors – contributing 24,4%, 22,2% and 21% to employment respectively. Meanwhile, other sectors such as manufacturing, transport and communication also contribute to employment in the node.

3.3 Sectoral prioritisation

The average index³ (from 100, high, to 0, low) represents a quantification of the potential for economic growth and job creation of the 10 different sectors.

³ An index ranging from 100 (high potential) to 0 (low potential) has been used to quantify the relative potential for economic growth and job creation across the ten sectors.

Sectors	GDP		Employment		Average index
	2004 GDP in constant 2000 prices (Rm)	GDP index	Number of employees: 2004	Employment index	
1 General government services	534 762 292	100	6,766	100	100
2 Community, social, personal services	191 771 109	35	6,045	89	62
3 Agriculture, forestry and fishing	121 925 492	22	6,161	91	56
4 Wholesale & retail trade, catering, accom	248 295 592	46	3,509	51	48
5 Finance & business services	203 716 347	37	1,564	22	30
6 Manufacturing	190 110 749	35	1,707	24	29
7 Transport & communication	163 102 941	29	350	4	17
8 Construction	59 209 759	10	1,300	18	14
9 Electricity & water	30 549 374	4	97	0	2
10 Mining	8 256 834	0	254	2	1
		/100		/100	/100

The average index for both the GDP and employment indicates that general government services; community services; agriculture, forestry and fishing; wholesale and retail trade, and catering and accommodation; and finance and business services offer a relatively higher potential for economic growth and job creation. However, a qualitative assessment of the potential of the top five sectors points to the following economic growth and development options:

Agriculture, forestry and fishing

This sector offers good potential for growth for the following reasons:

- A R1,6 billion investment in forestry has been undertaken by PG Bison (chip board factory in Ugie).
- Good opportunities exist for agro-processing plants for wool and potatoes.
- Agro-processing in the node would lead to farmers being encouraged to increase production.
- The upgrading of roads, water and sanitation has been planned (the lack of basic services is currently a major constraint for all farmers in the area).

Wholesale and retail trade, catering and accommodation

This sector also presents good potential for growth because of the following advantages:

- The untapped tourism market.
- The many areas of natural beauty.
- The large variety of leisure activities (hiking, skiing; 4x4 driving, etc);
- It is a historically significant area (the birthplace of many freedom fighters and many battle sites like the Battlefields from the Boer war).

Finance and business services

Finance and business services offer some potential for growth, but are linked to the performance of other sectors like tourism. This sector requires an educated and skilled workforce.

Community social and other personal services

The sector has limited opportunities for growth due to the following:

- Lack of suitable intervention points.
- Absence of sustainable wealth-creation for the people who live in the node.

General government services and community, social and other personal services

The sector has limited opportunities for growth due to the following:

- Lack of suitable intervention points.
- Absence of sustainable wealth-creation for the people who live in the node.

Section 4: Enabling Environment

This section discusses governance, the IDP assessment and development projects.

4.1 Governance

Ukhahlamba incorporates the following municipalities: Gariiep, Maletswai, Senqu and Elundini. An executive mayor, together with four political heads of services, constitutes Ukhahlamba's political structure. These services incorporate financial, corporate, technical, and community services and planning. This structure encompasses following challenges:

- Limited capability exists at senior levels within the node.
- Nepotism exists amongst managers.
- The educational qualification of managers differs across municipalities (Elundini managers are apparently not well-educated).
- There are low levels of co-operation among divisions.
- There is some evidence that alliances were based on the racial identity of the managers.
- There are allegations of corruption from some municipal managers.

4.2 IDP assessment

The IDP was authored by the municipal manager and, despite being adopted and submitted to the MEC on 9 June 2006, no implementation has thus far been undertaken. A distinct criticism of the document is that the IDP is a high-level document and does not detail specific action plans and intervention strategies for the node. The following key components are mentioned in the document:

Infrastructure needs

- Water
- Electricity
- Roads
- Telecommunications
- Social infrastructure (hospitals, taxi ranks, schools, libraries).

Stimulation of the economy

- Skills, training, mentorship
- Access to banking
- Marketing the district
- Business support services.

Focus areas

- Agriculture

- Tourism
- SME development
- Labour-based programmes.

However, there has been no prioritisation of needs and no implementation strategies have been undertaken.

4.3 Development projects

The table below indicates the projects that have been identified and that are in progress:

Projects	Water services infrastructure development	Not stated	R27,7m
	Working for Water establishment of 20 local entrepreneurs to rehabilitate the land	Planning stage	R14m
	Infrastructure development projects. The projects include water, sanitation, roads, solid waste sites and social facilities	In progress	R245,8m over 10 years
	Upgrading of 48km of roads in Elundini and Senqu	In progress	R5,88m
	Construction of a youth centre, pre-schools and the Mt Fletcher clinic in Elundini, a community hall in Senqu, and a taxi and bus terminal in Aliwal North	In progress	Not stated
	Development of waste services infrastructure	Not stated	R22m
	The project aims to stimulate tourism and agricultural development at Holo Hlahatsi Dam	Planning stage	R16m
	Livestock improvement programme	Not stated	R7,3m

Section 5: Economic Growth and Investment Opportunities

5.1 Agriculture

Two different climatic zones exist in the node (one above and one below the mountain), which has led to different crops being grown in these areas. The hot, dry climate above the mountain offers good potential for livestock farming (predominantly sheep). Less potential exists for crop farming in this area. The area below the mountain receives a high rainfall. Here, the climate is favourable for growing crops such as potatoes. Forestry is also a mainstay in the area (the R1,3 billion PG Bison chip board factory will be the largest in South Africa when it is completed in 2008).

Constraints

The agricultural sector faces major challenges in running from production to distribution. These include the following

- Poor infrastructure, which affects costs (of transport, water, etc) and productivity.
- Smaller farmers' prices are undercut due to smaller yields, low levels of business acumen and poor networking ability.
- Smaller farmers lack awareness of market-price fluctuations, often selling their produce at prices below market rates; 60% of livestock, crops and wool are sold to markets outside the node including East London, Port Elizabeth, Bloemfontein and Durban. Hence, the large distances to get to market impacts profitability.
- Companies are reluctant to conduct value-add processing within the node due to infrastructure and volume concerns.

Solutions

- Improvement of roads, access to water and irrigation will increase the volume of production and enhance competitiveness of farmers in the node.
- The promotion of co-operatives between small and large farmers will increase and develop skills and networks.
- The improvement of the process of value-added agro-processing in the node will generate employment and increase the volume of production, thus encouraging investment in the node.
- A mentorship programme with commercial farmers will improve skills development.
- Subsidies for irrigation systems will be granted to medium farmers.

5.2 Tourism

The local Eastern Cape market is the dominant source of tourists. There are many attractions in the area, which, if upgraded and packaged collectively, could increase visits from international and local tourists. These consist of 4x4 driving, hiking, skiing, world-class trout fishing, beautiful untouched mountain landscapes, theme walks (geology, flowers), Bushmen paintings and Boer War battlefields.

Annual tourism events include the Passion Play (Easter), Rhodes Marathon (July), Mac Nab Hunting Competition (June) and the Tiffindell ski season (May). Accommodation is varied and includes six hotels/lodges, 74 B&Bs/guest houses, 21 self-catering resorts and 13 others. In 2004, only 332 people were employed in the sector. Their skills are as follows: low level (cleaning, housekeeping, etc), and semi-skilled (construction workers, plumbers, etc).

Constraints

Challenges in the tourism sector include the following:

- B&Bs are the dominant accommodation type; these generally make up secondary income for owners and are often of low quality.
- Poor infrastructure.
- Lack of activity-based tourism products; potential exists, but there are few formalised activity-based products to attract tourists.
- There is a lack of investment from the private sector, mainly because the tourism sector is still very underdeveloped.
- Limited accommodation in the area presents a major challenge.
- There is a lack of skills in the node.

Solutions

- A municipality-driven initiative to improve basic infrastructure in the node.
- Workshops and training to upskill local people.
- Give the local bank a mandate to approve funding of up to R100 000.
- Establish locally based investment clubs to encourage investment within the node.

A tourism master plan is needed to guide people in their economic and entrepreneurial efforts.

5.3 Infrastructure

Constraints

Infrastructure is one of the major constraints for the agriculture sector and the PG Bison model (with public sector involvement) can be replicated for agricultural value-added processing. The district seems to have some very good people with the right combination of capability and drive in both the public and private sectors. They need to use this strong skills base and continue doing what they

are doing, but more skills transfer has to happen in the node, so that overall productivity is increased.

Solutions

- More effort is still needed to improve basic infrastructure such as road, water and electricity.
- Creating a public-private sector model to motivate private sector investment in agricultural value-added processing is required.
- A collective marketing strategy for the node and neighbouring nodes is needed.
- There is a need for a forum for all types of farmers to share their experiences, knowledge and networks.
- There should be an incentive structure in place for small and large farmers to form co-operatives or joint ventures.

This requires co-ordinated involvement of the following key stakeholders:

- Ukhahlamba Municipality
- Department of Provincial and Local Government
- Department of Trade and Industry
- Department of Environmental Affairs and Tourism
- Emerging Farmers Union
- Large commercial farmers.

5.4 Investment opportunities

Aliwal Spa

The development of Aliwal North requires the revitalisation and re-opening of Aliwal Spa as a holistic and well-integrated hydro treatment/wellness centre with a 25-room hotel reflecting an upmarket service at three- to four-star prices. The project will offer hot baths in mineral-rich water directly from the springs, combined with massage and other treatments. The spa employs 22 people, with development of an additional 100 (five executive-management positions, 12 middle-management positions, 25 supervisory positions, and 58 positions at craft level). The spa lies in Aliwal North, which has good roads and infrastructure.

Small retail project – bottled water

The retail project will bottle 100% natural mineral water from the source outside Aliwal North. A supply chain is required, and bottles need to be supplied and transported. The project needs 50 low-skilled labourers for the scale-up. There is a need for improved road to the water source. An excellent distribution channel exists through the local retail sector.

The proposed Nelson Mandela Route

This is an internationally recognised tourist route in the Eastern Cape stretching from the Wild Coast to the southern Drakensberg, with a historical focus on the

freedom struggle. Establishment of the route will be used as a marketing tool to highlight the various attractions in the area. The successful establishment of the route will result in the upliftment of the tourism sector as a whole, which will result in a large-scale employment opportunity. Upgrading of key roads across the area is a major requirement. A large hotel development in Mthatha is also needed, as is buy-in from the ECTB, ECDC, DEAT and municipalities.

Section 6: Summary

- The node's location is remote (the nearest major city is Bloemfontein, which is 219km away).
- Part of the node was formerly part of the Transkei and it retains associated negative perceptions.
- There is a lack of basic infrastructure (roads, water and electricity).
- 70% of the population live in rural areas.
- The GDP per capita is only 42% of the Eastern Cape average.
- 57% of households lack electricity; 59% lack piped water.
- The poverty incidence is 86% and the unemployment rate is very high (81,5%).
- The tourism sector is underdeveloped, and highly constrained by the lack of infrastructure.
- The node encompasses many areas of natural beauty and many unique leisure activities (trout fishing, 4x4 trails, skiing), but the poor complementary services like garages and restaurants, as well as the lack of collective marketing strategy in the node, threaten development.
- Lack of infrastructure (roads, water) adds cost and limits agricultural productivity.
- There is diverse crop and livestock farming in the node.
- The deep rural setting is a major disadvantage to getting produce to market.
- The lack of value-added processing in the node results in the export of raw material only.

Potential sources of economic growth – short term

Providing basic infrastructure (roads and water) will:

- Allow farmers to increase yields and to decrease transportation costs.
- Decrease cost and increase efficiency of irrigation.
- Create a positive spin-off by encouraging basic tourism development.

Encouraging joint venturing and mentoring between large and small farmers is crucial because:

- Small farmers lack business skill and business networks.
- Small farmers lack market price knowledge and are often undercut by their clients.

Potential sources of economic growth – long term

The presence of value-added processing in the node for agricultural products is significant because it will do the following:

- Alleviate a major competitive disadvantage for farmers; the remote location of the node creates major transport costs for farmers.
- Increase growth and employment in the node.
- Stimulate private-sector investment in the node.

- Create a demand for ancillary services (garages, accommodation, etc), which will act as a platform for tourism development.

A collective marketing strategy incorporating all the attractions and activities in the node and neighbouring areas is needed to:

- Create awareness of the available tourist attractions in the node.
- Change negative perceptions about the node.
- Increase the volume of tourists visiting the node.

Finally, as such a large percentage of the population is young (38% are between 0 and 14), there is a need to help the youth to secure training and employment.