



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA



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Umkhanyakude Nodal Economic Development Profile

KwaZulu Natal

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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 Umkhanyakude 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 Umkhanyakude 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 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 funded it through the Community Investment Programme (CIP). Nonetheless, it

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

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

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 Umkhanyakude

2.1 Administration

Umkhanyakude is one of the 10 district municipalities in KwaZulu Natal. The district comprises five local municipalities, namely, Hlabisa, Mtubatuba, Jozini, Umhlabuyalingana, and the Big Five False Bay Local Municipality; and District Management Area 27.

2.2 Spatial information

Umkhanyakude covers the “Elephant Coast” region of KwaZulu Natal. The name Umkhanyakude means “light in the distance” and intends to signify a place that is full of hope and promise. The local people subscribe to this name because they believe that it is only when you enter the area and really experience what it has to offer, that its true richness can be appreciated. The major towns are Mkuze, Jozini, St Lucia and Mtubatuba. Mkuze is well connected to the national road system and there are discussions about building an airport close to the city. The district is rich in natural resources such as game parks, the Greater St Lucia Wetland Park, scuba diving and fertile agricultural land.

2.3 Socio-economic information

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

- The population is about 573 341 people in an area that covers 12 818km². Approximately 97,4% of the population are rural and 2,6% are urban. The population density is 44,7 persons/km².
- Households without basic services are as follows: 80% are without electricity; 76% are without piped water; 92% are with municipal waste removal services and 78% are without a telephone. It is important to note that the majority of households number four to seven people.
- Approximately 73% of the population are younger than 29 years of age, which points to the need for youth-development programmes in stimulating nodal development.
- Over 83% of the population live below the poverty line, earning less than R19 200 per annum. Only 12,7% of the residents in the node are employed.
- Approximately 46% of the residents have no education, while 9% have completed Grade 12. Attendance of tertiary education institutions stands at 4% of the population.
- There are 49 fixed and 12 mobile clinics in Umkhanyakude. The per capita health care expenditure is R166 and the average number of patients per nurse per day is 33. There is strong prevalence of HIV/AIDS in Umkhanyakude accounting for 30% of the population.

2.4 Municipal funding and budget breakdown

The table below clearly that government transfers represents the single most important funding instrument for the district municipality.

Municipal budget

	2004/2005	2005/2006	2006/2007
Contributions from revenue	6 982 956	7 561 265	6 955 619
Government grants and subsidies	85 331 000	87 765 000	81 237 000
Total Financing	92 313 956	95 326 265	88 192 619
Total expenditure/Budgeted expenditure	93 396 912	95 326 265	88 192 619
Budgeted expenditure per capita	163	166	154

Section 3: The Economy Of Umkhanyakude

The description of the economy of Umkhanyakude is provided for under this section. The three aspects that are examined are growth of GDP, sector disaggregation and sectoral prioritisation.

3.1 Growth rate of GDP

Umkhanyakude's real GDP has shown minimal growth over the past decade, although it has slightly increased over the past five years. The GDP per capita for the node has remained at a much lower rate than that of the province, and growth remains low.

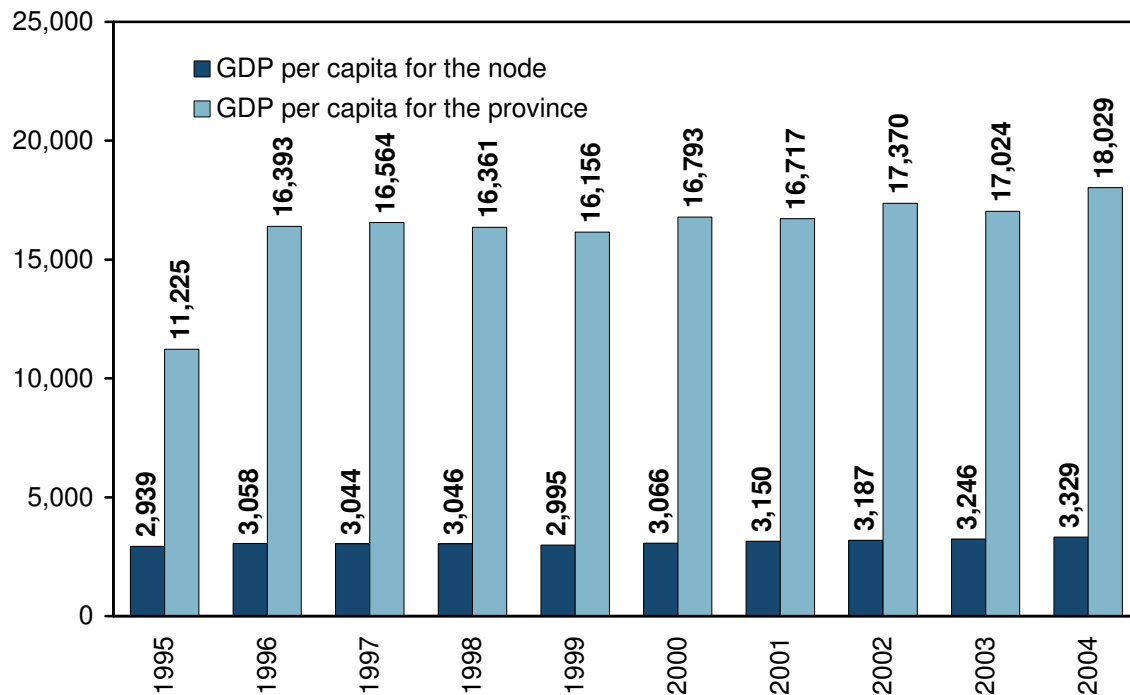


Figure 3.1.1: GDP (Constant 2000 prices): 1995-2004

3.2 GDP by sector

General government services is the largest contributor to the GDP contributing 24,9%, followed by wholesale and retail (17%). Transport and communication (10,6%), finance and business services (10,6%), and agriculture, forestry and fishing (10,4%) have similar GDP contribution. Electricity and water are the smallest contributors to the GDP contributing 1,3%.

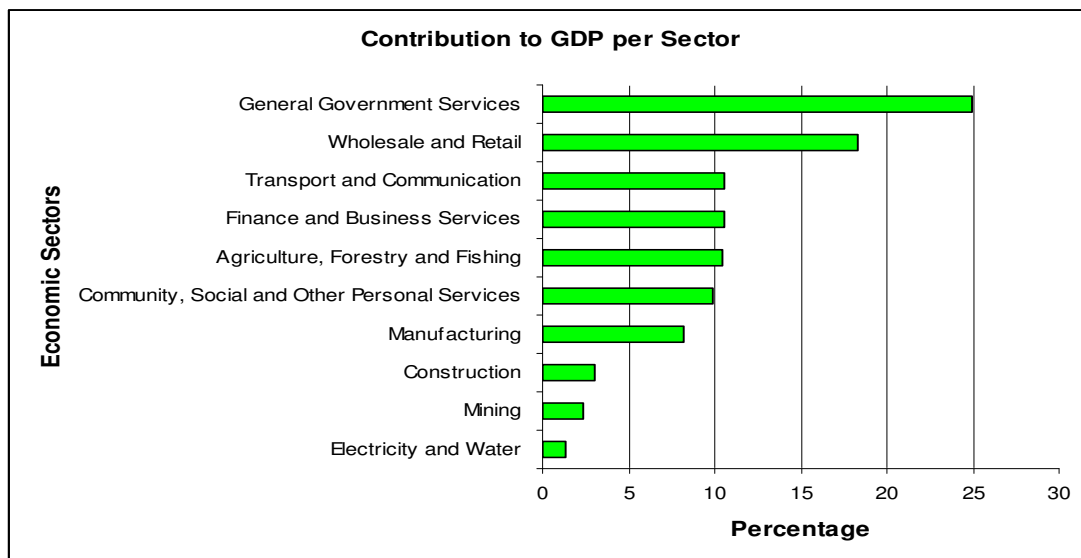


Figure 3.2.1: Contribution to GDP per economic sector

3.3 Sectoral prioritisation

The average index for the node's GDP indicates that general government services; wholesale and retail trade; community services; agriculture, forestry and fishing; 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:

Sectors	GDP		Employment		Average index
	2004 GDP in constant 2000 prices (R million)	GDP Index	Number of employees: 2004	Employment Index	
General government services	480	100	8 532	100	100
Wholesale & retail trade; catering & accommodation	353	72	4 115	47	60
Community, social and other personal services	192	37	6 814	80	58
Agriculture, forestry & fishing	201	39	3 210	37	38
Finance & business services	205	40	3 094	35	37
Manufacturing	159	29	1 997	22	26
Transport & communication	211	41	632	6	23
Construction	57	7	1 229	13	10
Mining	47	5	402	3	4
Electricity & water	26	0	124	0	0

General government services

- Most local government staff live outside the node, hence they spend their income largely outside the node as well.
- There are no monopoly endowments in this sector as far as governance skills and capabilities are concerned.
- Most of the local people do not have the skills to be hired for the kinds of jobs in this sector.

Wholesale and retail trade; catering and accommodation

- The node has great tourism resources that are only partly exploited.
- This sector has huge potential to attract an inflow of money, because the resources it has are in high demand outside the node and not readily available elsewhere.
- There are many employment opportunities in tourism establishments for the local people, which require minimal skills/training.

Agriculture, forestry and fishing

- The published GDP for agriculture in this node excludes all non-commercial (small-scale, subsistence) farming.
- The node has rich, vast agricultural resources, which are not being fully utilised.
- The Makhathini Flats area is very fertile with good access to water (i.e. Jozini Dam).
- The demand for the types of agricultural products produced in the node (especially fruit and vegetables) is high outside the node; hence, there is huge potential to stimulate an inflow of revenue to the node.
- Most local people have the skills to work in this sector.

Finance and business services

- There are no monopoly endowments in this sector as far as skills and capabilities are concerned.
- Most of the local people do not have the skills to be hired for the kinds of jobs in this sector, and substantial opportunities exist in the node for service industries.

Section 4: Enabling Environment

This section will be broken down into three sections focusing on governance, IDP assessment and development projects.

4.1 Governance

The district municipality comprises five local municipalities and a district management area. The district comprises municipal manager, an IDP/PIMS manager, a public relations officer, a director of corporate services, a director of finance, a director of WSA, a director of technical services, and a director of development planning and tourism. The assistant director of Corporate Services and assistant director of Community Services as well as the LED officer position, among others, are vacant at present.

4.2 IDP assessment

The IDP was prepared by outside consultants and signed off by Dr BV Thabethe (municipal manager of Umkhanyakude District). The most recent IDP is for November 2004. The key infrastructure needs are access to water, electricity and sanitation, as well as social Infrastructure (education and schools, health and hospitals, and other community services).

4.3 Development projects

The key development priorities are the following:

- Poverty alleviation and job creation
- Building capacity and skills development
- Addressing HIV/AIDS
- Spatial integration, environmental and land-use management
- Public safety and security
- Institutional and corporate development of the municipality.

The projects focus on the following:

- Water and sanitation
- The Land Reform Programme
- The Department of Education.

Over the previous two-year period, the focus was on ensuring the sustainability of the Umkhanyakude District Municipality. It is claimed that these goals have been achieved. The IDP does not focus on long-term economic development opportunities. It is stated that the Spatial Development Framework will accomplish this.

Section 5: Economic Growth and Investment Opportunities

Seven projects have been identified as investment opportunities.

5.1 Improvement of storage and transport facilities

There is a need to complete the construction of the cold storage facility at Makhathini Flats, which is only partially ready (i.e. a refrigerator and sorting facility are installed, but the canteen and ablution facilities are not). The access road to the cold storage facility, which is only half ready, needs to be completed. There is a need to purchase a refrigerated truck to transport produce. The size of the investment required is R7,8 million for the cold storage facility, and R24 million for the road (R4 million per km, with a further 6km to be completed). The project will improve access to markets for farmers at Makhathini Flats. It will also allow the area to meet the minimum standards set by large retail chains like Pick 'n Pay and Woolworths. The completed project is expected to create over 1 000 jobs in the area, although some of the skills (management, finance) are not available in the area. The Mkuze Airport project, if realised, would further strengthen the ability of the area to export its produce. There is an understanding in place with both Pick 'n Pay and Woolworths, who have agreed take their full production. Currently, 3 000 ha are being farmed, but there are 30 000 ha available in the area.

5.2 Production of starch from cassava

The project involves growing cassava (a root vegetable with a high starch content) in the Makhathini Flats area. The starch will be extracted and sold to paper manufacturers. The project requires a R250 million investment (payable at conceptual stage). The factory would work 180 000 tons of cassava per annum, aiming to extract 40 000 to 50 000 tons of starch. A factory would be set up to extract the starch and sell it to the paper industry. South Africa currently imports 60 tons of starch annually and this production would aim to substitute part of these imports. A partnership is envisaged between the Agriculture Research Council, which will provide the technical input for cultivation, and local farmers managing the production and getting a share of the profits from the starch sales. The local farmers have the skills required. There is, however, a need for the resolution of access to land issues and changing the mindset of farmers from subsistence to commercial principles. The challenges surrounding the project include the fact that the land is owned by the state, but there is a strong presence of tribal control and local communities; hence, the government has asked the project managers to negotiate with those communities and come to a mutually agreed decision regarding the access to the land.

5.3 High-end hotel resort development

A high-end, luxury resort is planned at Cape Vidal with a golf course, spa facilities, whale watching, canoeing, boat trips, game drives, etc. The IFA group is currently analysing this opportunity, with a view to investing an amount of R240 million. The resort would appeal to wealthy domestic tourists with families and high-spending overseas tourists. The local people would be employed as housekeepers, waiters, receptionists, etc. Training would also be provided to enable local people to assume managerial roles and the development is expected to create 300 direct jobs. The improvement of road infrastructure and airport access will be required, and signage, public ablution facilities and better booking systems for local attractions will need to be developed. The resort is expected to have 400 rooms. An environmental impact assessment has been done to determine how to implement the project while avoiding damage to the local ecosystem.

5.4 Budget game lodge with local community

A three-star lodge is planned near the entrance to the Hluhluwe Game Reserve, and adjacent to one of the local communities. The location will allow for easy access to the game reserve, as well as guided tours through the community to get a feel for how the local people live, while providing consumers with comfortable, reasonably priced accommodation. Management would most likely come from outside the node, but most of the positions (for waiters, housekeepers, local guides, etc.) would be filled by local people. Greater marketing exposure is needed around the concept of “cultural tours”. Most overseas visitors who do a cultural tour really enjoy the experience, but only do it if it is part of their package; they do not know enough about these tours to request information from their travel agent. An environmental impact assessment is currently being undertaken.

5.5 Upgrading of the Mkuze Regional Airport

The existing airstrip at Mkuze will be upgraded to a regional airport, and additional facilities are required for the airport to handle commercial flights on Boeing 737s. The project is expected to cost R56 million, R10 million of which will be provided from DEAT to resurface the airstrip. The rest of the funding will be used put up a new terminal and build hangars and a craft centre. The airport upgrade would boost tourist activity in the area by providing easier access to the node. It would also stimulate the export of agricultural products. Presumably, the airport itself would create a limited number of jobs for the local people and DEAT has agreed to use 30% local labour force in its share of the project. The development of the airport would also stimulate two key sectors of the nodal economy, namely agriculture and tourism, and would create a large number of jobs indirectly. Supporting jobs would be created for maintenance of the runway,

fuelling and maintenance of planes, pick-up/drop-off services, etc. A more detailed analysis of the demand side would be required to determine the involved. Estimates that over 30 000 passengers would fly to the destination in the first year and 50 000 would travel through the airport at full capacity seem overly optimistic. Improvement of the road infrastructure would also be necessary to ensure ease of access.

5.6 Development of a hydro-electric power plant at Jozini Dam

The development of a hydro-electric power plant at Jozini Dam is expected to be able to produce electricity for the entire area. Approximately R50 million is required as capital for the project and sufficient electricity would be produced to sell electricity to other parts of the country and to Mozambique and Swaziland. The revenue from these sales would be used to address public service backlogs, which would have a multiplier effect on economic development. However, there is a need to resolve the land-claims issues that are stopping the project from getting off the ground. The Department of Water Affairs has not confirmed the allocation of water resources to the project and the project is expected to take four years to complete.

5.7 Sugar mill/ethanol plant on the Makhathini Flats

One of the most exciting opportunities for generating large-scale employment in the area lies in the construction of an industrial cluster on communal land on the Makhathini Flats (communal land administered by the Ingonyama Trust). The construction would include a sugar mill with potential for co-production of ethanol and electricity. The cost of the project is approximately R900 million for the sugar mill alone, a further R500-R600 million for construction costs, and R200-R300 million for irrigation systems. Tongaat-Hulett Sugar has completed an initial feasibility study in partnership with the DTI and the Makhathini Consultative Forum, an association of growers in the area. It is anticipated that the mill operator would provide growers with inputs (e.g. irrigation, seed, training and transportation). Planning is in the preliminary stages, but it is likely that the project would be co-owned by the mill operator and the community.

Section 6: Summary

The district municipality comprises five local municipalities and one district management area. The district is rural in nature. However, it has huge potential for investment.

The initial impressions of the node are that it is largely impoverished and desolate, as evidenced by low-cost housing, poor roads and run-down vehicles. The natural beauty that permeates the entire area contrasts starkly with the poverty of its people. The economy depends largely on agriculture and tourism, with a few indications of manufacturing. Its potential is not being realised because the municipalities lack the expertise to effectively utilise the rich natural resources at their disposal. The node is fragmented, with little integration across different service providers in terms of marketing, or of developing a cluster approach. Black entrepreneurs feel that existing white-owned businesses are unwilling to transform. The value proposition is unique, exciting and compelling. The node has huge economic potential, with fertile soils and a favourable climate. However, the potential does not seem to have been recognised, so the sector is under-funded and the development of an enabling environment has not been given priority.

The short-term goals for development in the node are as follows:

- To realise the agricultural potential in the area (especially growing fruit and vegetables).
- The development and sale of electricity through a hydro-electric plant at Jozini Dam.
- To reduce the importation of agricultural products by taking advantage of the node's ample resources.
- To enable SMMEs in tourism to address consumers' most critical needs.
- To assist farmers to be more productive.
- To create more vibrant marketing campaigns around the unique "beach and bush" experience.

The long-term goals include the following:

- The possibility of developing the leather-production sector due to the abundance of cattle in the node.
- To upgrade access routes, signage and public facilities (ablutions, picnic sites, etc.) in order to improve the tourism experience.

Municipalities in the node generally lack the skills or the motivation to implement projects. In addition, many municipal employees have been hired because of their affiliations rather than on merit. The majority of them live outside the node, so they have little interest in getting things done. Co-operation between the public and private sectors on the tourism front is virtually non-existent. They have

different ideas about how investment in the node should be spent, and their initiatives tend to conflict with each other. This may be due to the perception that the private sector is not committed to transformation. There is no clear focus on addressing land-claims issues, or on developing a programme to inform the zoning of the node for different economic activities.

It is essential for the right skills to be hired in order to enable the node to reach its full potential. Co-operative working arrangements will lead to greater efficiency and help to alleviate uncertainty over land ownership and usage, which seems to be the biggest impediment to attracting investment and stimulating economic growth.

A large, landmark tourism investment is needed to increase the profile of the area. This will have positive spin-offs for small businesses as well. The agricultural potential of the area needs to be realised through provision of funding for local subsistence farmers to upscale to commercial ventures, and the upgrading of infrastructure such as irrigation systems, market access routes, storage facilities, etc. Investments that provide direct revenue for the municipality will help to address public service backlogs. The proposed hydro-electric plant at the Jozini Dam is a prime example, since it will address electricity backlogs, and will generate revenue through the sale of electricity to other parts of the country and neighbouring states.