



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA



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OR Tambo 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 OR Tambo 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 OR Tambo 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 OR Tambo.

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 OR Tambo

2.1 Administration

OR Tambo is one of the district municipalities within the Eastern Cape. The district comprises the local municipalities of King Sabata Dalinyebo; Nyandeni; Qaukeni; Mbizana; Mhlontlo; Port St Johns and Ntabankulu.

2.2 Spatial information

OR Tambo covers a major part of the former Transkei, with the major town of the area being Mthatha. Nelson Mandela, South Africa's first democratic president, was born in the Transkei and still maintains a home at Qunu. Oliver R Tambo is another major political figure who was born in the area. Tambo became the general secretary of the African National Congress (ANC) in 1955.

The area is predominantly rural. While the airport in Mthatha has daily flights to Johannesburg, the road network in the district's hinterland requires a major overhaul. The N2 connecting Durban with Cape Town passes through Mthatha and there is a current proposal to extend the N2 toll road to connect Port St Johns as well. Most of the rural roads are in poor condition. Public transport is unreliable and poorly integrated: 65% of the population have no bus service and 25% of the people in the area are more than 30 minutes away from a taxi service. The proposed Kei Rail will link Mthatha to East London.

OR Tambo covers a large segment of the Wild Coast, one of South Africa's most beautiful and unspoilt regions with an abundance of pristine beaches, waterfalls and fishing. There are timber plantations close to Mthatha and in Pondoland. The area receives 25% of all the rainfall in South Africa and has many rivers.

2.3 Socio-economic information

The socio-economic character of OR Tambo can be described as follows:

- The population is about 1 740 664 in an area that covers 15 353km². Of the population, about 92,4% reside in rural areas, while the remaining 7,6% is taken up by the urban population. The population density is 107,92 person/km².
- Households without access to basic services are as follows: 72% are without electricity, 84% are without piped water, 91% are without waste removal services, and 81% are without a telephone. It is also important to note that households in the area are large, numbering from four to seven people per household.
- Houses are built mainly using traditional materials (67,2%), and brick structures account for only 18% of houses in the node.

- Over 72% of the population is younger than 29 years of age, which indicates a need for youth-development programmes in stimulating nodal economic growth.
- Only 11% of the population are formally employed and 67% are not economically active. Over 74% of the employed population earn less than R9 600 per annum.
- Functional illiteracy is relatively high, 38% of the population have no education; 49% have some primary and secondary schooling, and only 9% have a matric (Grade 12) qualification; only 5% have a tertiary qualification. Ninety-five percent of all learners in the node walk to school, and 36% of these walk for longer than 30 minutes each way. This means that there are 245 000 children who walk for more than an hour a day to get to and from school.
- There are 169 clinics in the region. The per capita expenditure at these clinics is only R91 per annum; the number of people attending each clinic is approximately 10 300 per year, and the average number of patients per nurse per day is 22,6. Major communicable diseases prevalent in the area are TB and HIV/AIDS. HIV prevalence is recorded at 25,4% at antenatal clinics. Environmental health issues such as waste-management pollution are also prevalent.

2.4 Municipal funding and budget breakdown

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

Municipal budget

	2004/2005 (actual)	2005/2006 (full year forecast)	2006/2007 (budget)
Operating revenue	305 821	238 050	227 314
Grants and subsidies	422 952	520 716	468 180
Total financing	728 773	758 766	695 494
<i>Total expenditure/ Budgeted expenditure</i>	612 860	758 381	693 890

2.5 Key remarks about OR Tambo

The nodal overview of OR Tambo highlights the following development challenges:

- Access to basic services is still a major constraint in “modernising” the development character of the node.
- Infrastructure in the area also needs to be upgraded and better maintained.

- The high number of youth, which represent the majority of the nodal population, points to the need for youth-empowerment initiatives.
- There is an acute skills shortage in the node at municipal level.
- A complicated land tenure system exists in the node.
- There is no tradition of business or entrepreneurship in the node.
- There is a lack of co-ordination among the various development initiatives.
- The node is very densely populated.
- The growth of informal settlements is eroding natural grazing lands.
- There is a significant crime rate in the node.
- There is a stigma attached to the former Transkei.
- There is a notable lack of large-scale commercial ventures.

Section 3: The Economy of OR Tambo

The description of the economy of OR Tambo is provided at three levels: GDP (output), employment and a consolidated sectoral analysis.

3.1 Sectoral contribution to GDP

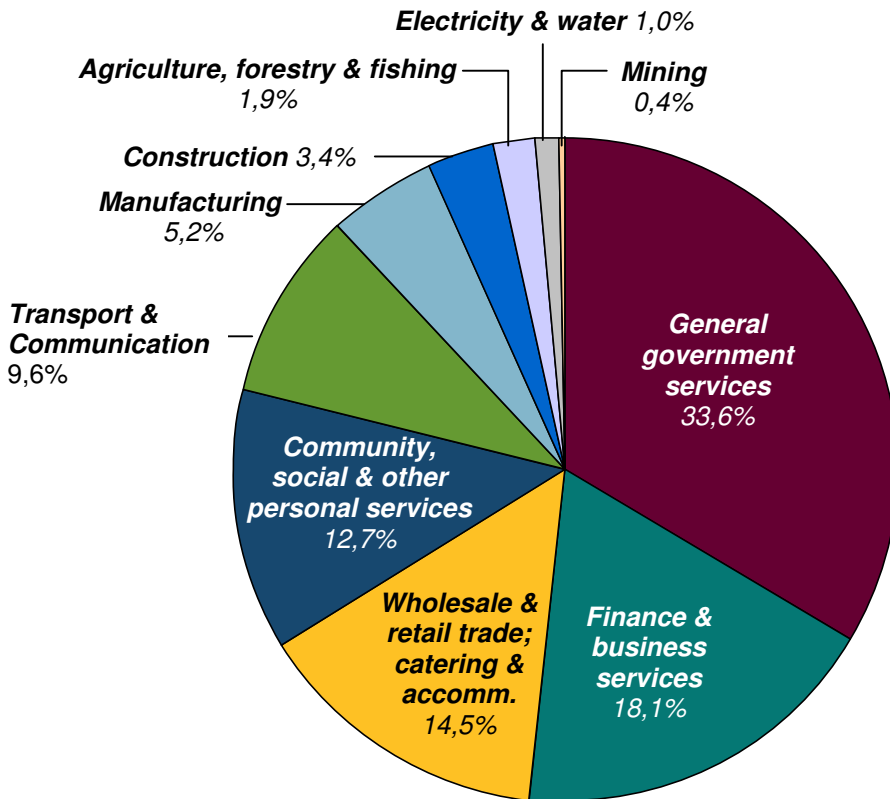


Figure 3.1.1: Sectoral contribution to OR Tambo's GDP: 2004

Government is by far the largest contributor to the GDP for the node. Finance and business services contribute 18,1%; and tourism (represented within the trade sector) is also a significant player in the economy of the region – contributing about 14,5%.

3.2 Sectoral contribution to employment: 2004

A similar picture is evident with the sectoral contribution to employment: government services is one of the most important employment sectors – contributing about 35%. Meanwhile, community services contributes about 24,7% to employment. Trade-related employment stands at about 13,7%, followed by finance and business services, which contribute about 9,8%.

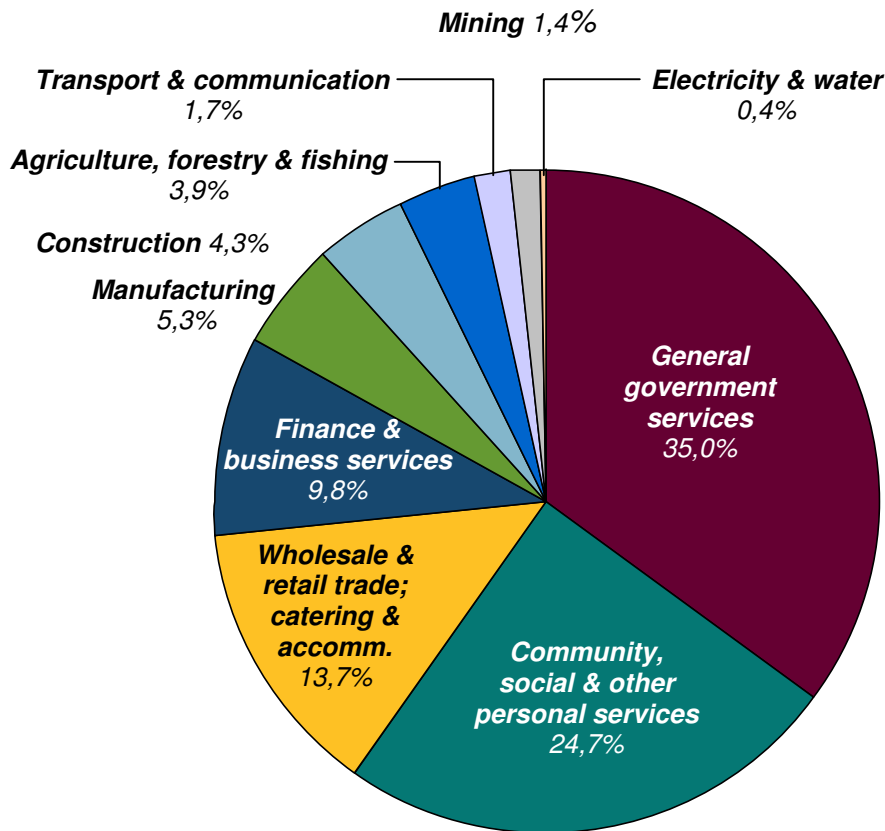


Figure 3.2.1: Sectoral contribution to OR Tambo's employment: 2004

3.3 Sectoral prioritisation

The average index³ for both the GDP and employment indicates that general government services; community services; wholesale and retail trade along with catering and accommodation, the finance sector, and transport and communications offer the highest potential for economic growth and job creation.

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 (R million)	GDP index	Number of employees: 2004	Employment index	
1 General government services	2 301 807 460	100	26 023	100	100
2 Community, social & other personal services	865 793 155	37	18 345	70	54
3 Wholesale & retail trade, catering & accommodation	991 012 074	42	10 186	39	40
4 Finance & business services	1 239 855 229	53	7 262	27	40
5 Transport & communication	635 387 818	27	1 272	4	15
6 Manufacturing	354 012 136	14	3 900	14	14
7 Construction	234 131 813	9	3 159	11	10
8 Agriculture, forestry and fishing	129 838 260	5	2 889	10	7
9 Mining	24 166 848	0	1 017	3	1
10 Electricity & water	68 314 190	2	265	0	1

A qualitative assessment of the potential of the sectors points to the following economic growth and development options:

- **Tourism development**

There are a significant number of tourism resources in the node that are only partly exploited. Secondly, the sector presents huge potential to attract an inflow of money because the resources available in the node are in high demand and not readily available elsewhere. Lastly, there are employment opportunities in tourist establishments that require minimal skills/training, which could generate significant growth in the sector's employment. There is huge potential for growth, as the tourism market is largely untapped; there are many areas of unique natural beauty; a variety of leisure activities and significant national historical sites.

- **Agricultural development**

Good rainfall and soil quality make the area well endowed for agricultural production. Although there are a number of commercial farmers in the node, most are subsistence farmers whose production could be increased. With increasing demand from the bio-fuel industry, maize grown locally could be exported to fill the market demand inputs for the generation of bio-fuel. Additionally, the area has ample grazing land for livestock and dairy farming. Additional value can be extracted through the development of downstream agro-

processing industries. The Eastern Cape has been identified as one of the only areas remaining in South Africa that is available for new forestation, Furthermore, demand for timber products is strong in South Africa and abroad. OR Tambo has the potential for new large-scale forestation, especially of pine trees. The components of a forestry cluster are already emerging, with investments of billions in the nearby Khahlamba and Alfred Nzo poverty nodes.

Section 4: Enabling Environment

Integrated Development Programme (IDP)

The OR Tambo District Municipality undertook a review of its IDP in 2006, without the use of external service providers. The IDP information is derived from Census 2001 data and is generally viewed as a high-level needs assessment. The objectives of the document lack precision for growth strategies and there appears to be an acute lack of understanding of local economic development (LED).

The IDP focuses exclusively on government- and municipality-related initiatives, with very few ideas for private sector initiatives; there is a project databank available online. For each project, well defined goals, strategies and target groups are presented. Most of the projects here are of a social-upliftment nature (e.g. HIV awareness campaign), rather than focusing on economic growth or skills development.

Ntinga Development Agency

This agency is charged with implementing LED projects within the node. Little has been accomplished due to a split in focus between the development of Mthatha and the rest of the node. Agriculture, tourism and clustering initiatives have been the most successfully implemented.

Manpower constraints

The municipal structures of OR Tambo are fraught with a variety of human resources constraints. These have been summarised into the following categories: poor communication, low capability, capacity and corruption. All constraints feature strongly within the node's upper and lower management structures and are major concerns for the future growth and development within the node. The constraints are outlined as follows:

Communication

- There is a lack of communication between local municipalities.
- There is evidence of an antagonistic relationship between local municipalities and district municipalities – “Local municipalities want to belong to KZN”.
- Although the IDP for the district as a whole should be based on the local IDPs, this district IDP was completed before those of the local municipalities.

Low capability

- There is a lack of understanding of LED at local and district municipality level.
- There is greater focus on social upliftment than on economic development.
- A lack of strategic insight is evident.
- Low skills levels abound in the node.
- Consultants tend to generate key documentation.

Low capacity

- Motivation levels are not optimal
- There are no sector experts (forestry) in the node
- Compared with other nodes, the number of LED managers is low, resulting in a small personal complement having to cover all sections.

Corruption

- There is a poor image of the district due to media coverage that highlights ghost workers, nepotism and theft within the node.

Section 5: Economic Growth and Investment Opportunities

Various investment opportunities exist within the node. The current review identified the following projects as the most important (this is not an exhaustive list of ongoing projects in the area, but merely an indication of the diverse nature of economic potential found in the node):

Mkambathi Tourism Project

The project has been designed to provide accommodation in the Mkambathi Nature Reserve. The proposed scenario would create at least 175 permanent jobs for the accommodation establishments and an additional 17 for the park management. Approximately 420 local jobs would be created over the construction period. The estimated required investment for the tourism products is R 77 340 000. The net present value over 30 years is R34 million for a fully outsourced commercialised option and approximately R31 million for a community developed, operations-outsourced option. The project, however, requires considerable road infrastructure (R80 million) to be put in place in order to become feasible.

Freedom Route

The route requires a major investment in the local road network, as the major thrust of the project is corridor branding for the Wild Coast, something akin to the Wine Route in the Western Cape. The emphasis of the route would be on the historical figures who were born in the region.

Commercial dairy

Three areas around Port St John's (Selwane, Mantusini and Mbabalane) could use water from the nearby Umngazi River to irrigate land and create a good environment for cattle. The milk would be sold to a proposed processing plant nearby. Milk production and processing would work on a co-operative basis where the plant has the right of first refusal of the milk produced, and at the same time, would provide the farmers with access to a competitive market. For the milk production unit, 15 permanent labourers are needed. A high degree of management skill is necessary to effectively implement irrigation, fodder and fertiliser systems. Approval from DWAF is needed before water from Umngazi River can be used for irrigation. This is a critical point since the whole region could potentially be under irrigation. The farmers in the region have Permission to Occupy (PTO) rights to the land. Potential land-claim issues need to be resolved. The capital requirement is around R13 million (excluding the processing plant).

Xolobeni Mineral Sands

There is potential to mine the heavy mineral sand deposits in Pondoland on the Wild Coast. The lease area extends for 22km along the coast from Mzamba River in the north, to the Mtentu River in the south, covering some 3 300ha. The project would generate between 200 and 300 direct employment opportunities. The induced employment multiplier is believed to be 4,2, giving 840 to 1 260 additional employment opportunities. Several key issues need to be resolved, including water requirements, road traffic to and from Xolobeni, and security of power supply. The affected land is owned by the state and held in trust for the local people. Resettlements and resource loss to the local communities will require some form of compensation. Pre-feasibility work shows a 22-year "life-of-mine" for a R1,6 billion capital investment.

Section 6: Summary

Negative perceptions associated with its past as part of the Transkei continue to plague OR Tambo. It is a densely populated, predominantly rural area, lacking supportive infrastructure for investment as well as basic infrastructure. The GDP per capita is only 33% of the Eastern Cape's average. Opportunities for economic development and growth lie in two key sectors: tourism and agriculture. However, significant constraints in these areas include the following:

- Tourism is an underdeveloped sector, constrained by the lack of infrastructure.
- Land tenure is a barrier.
- There is no collective tourism marketing strategy
- Lack of infrastructure (such as roads, water services) adds cost and limits productivity.
- There is mainly subsistence farming in the node.
- The area is beset by a lack of skills.