



**the dplg**

Department:  
Provincial and Local Government  
**REPUBLIC OF SOUTH AFRICA**



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# **Ugu Nodal Economic Development Profile**

**KwaZulu Natal**

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# Section 1: Introduction

## 1.1 Purpose

This document is intended to serve as a succinct narrative report on the Ugu Nodal Economic Development Profile.<sup>1</sup> The profile report is structured to give digestible, user-friendly and easily readable information on the economic character of the Ugu Integrated Sustainable Rural Development (ISRDP) Node.

## 1.2 The Nodal Economic Profiling Project

In August 2005, in a meeting with the Urban and Rural Development (URD) Branch,<sup>2</sup> the minister of Local and Provincial 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 that an economic development programme of action (PoA) for the urban and rural nodes needed to be developed.

In response, the URD branch developed a *Programme of Action for Building Productive and Sustainable Nodal Economies* in September 2005. The PoA is intended to stimulate economic growth and development in the poverty nodes. It is important to understand the economic potential of the nodes; to identify opportunities for public and private sector investment; to identify barriers and constraints to economic activity within the nodes; to 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, namely:

- (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 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.

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<sup>1</sup> Information is sourced from a detailed PowerPoint profile of Ugu.

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

## **Section 2: An Overview of Ugu**

### **2.1 Administration**

The Ugu District Municipality covers the southern part of KwaZulu Natal. Six local municipalities fall within the district municipality. The offices of Ugu District Municipality are located in Port Shepstone.

### **2.2 Spatial information**

Ugu District Municipality is one of the 10 district municipalities of KwaZulu Natal province, on South Africa's eastern coastline. It is about an hour's drive from Durban International Airport. The district takes its name from the isiZulu word "ugu" which means "coast". The area is bordered on the north by the eThekweni Municipality; on the west by the uMgungundlovu and Sisonke District Municipalities; on the southern side by the Eastern Cape Province; and on the eastern side by the Indian Ocean. The district comprises two distinct areas that are divided by the N2 freeway – the coastal strip, which is largely urban; and the rural inland expanse.

#### **The coast**

The Hibiscus Coast, Umdoni and part of the Umzumbe local municipalities are situated along the coast. Main towns like Port Shepstone, Margate, Scottburgh and Port Edward are on the coastline, very close to each other and linked by several roads. There is a concentration of activities related to the tourism sector, mainly due to the beautiful beaches (five of them are classified as "Blue Flag"). The area is populated mainly by whites and Indians.

#### **The inland**

Umuziwabantu, Eziqoleni and Vulamehlo local municipalities are situated inland. There are no formalised towns. However, new developments, such as Dududu in Vulamehlo, are being established. Low-income housing and informal houses are common, and subsistence agriculture is the main activity in the area. The population is largely black.

### **2.3 Geographical features**

#### **Local municipalities, population and major towns**

- Hibiscus Coast: 218 168 (Port Shepstone)
- Umzumbe: 193 764 (Umzumbe)
- Umuziwabantu: 92 322 (Harding)
- Vulamehlo: 83 045 (Dududu)
- Umdoni: 62 290 (Scottburgh)
- Eziqoleni: 54 427 (Paddock)

### **Transportation**

The N2 highway connecting Durban and Cape Town goes through the node and a railway line runs from Durban to Port Shepstone along the coast. The railway line appears to be underutilised.

### **Terrain and natural resources**

The node is bordered to the east by approximately 100 km of beaches. Ugu is predominantly hilly, undulating land in the interior with some agriculture potential. This combination of natural resources and arable agricultural land ensure that there is great potential for economic growth in both the tourism and agriculture sectors.

## **2.4 Socio-economic information**

### **Population**

- The total population of Ugu is about 704 030 in an area that covers 5 866 km<sup>2</sup>. Of the population, about 97,9% resides in rural areas while the remaining 2,1% are urbanised. The population density is 120 persons/km<sup>2</sup>.
- In terms of gender distribution, 55% of the population are female with 54% of households headed by females.
- The Ugu population is young – 37% of the population are under the age of 15 years. Over 66% of the population are younger than 29 years of age. This points to the need for youth development programmes in stimulating nodal economic growth.

### **Infrastructure**

- Households without access to basic services are as follows: 52% without electricity, 67% without piped water, 79% without waste removal and 72% without telephones. Households in the area are fairly large, with about four to seven people per household.
- Half of the Ugu population is not economically active, while only 21% are employed; consequently, 79% of households earn less than the subsistence level of R1 600 per month.

### **Education**

- Poor education and low skill levels are the greatest impediments to economic development in Ugu. Functional illiteracy is relatively high, with only 5% people having some form of higher (tertiary) education. About 56,7% of adults have little or no school education, while 24% have some primary education.
- Besides HIV and AIDS affecting teaching and learning (as many teachers are often on sick leave), other key issues in the area include the high pregnancy rate among students, and the substantial difference between education in rural and urban areas, and in private and public schools.

## Health

- There are 47 fixed and 14 mobile clinics in the region.
- The per capita health expenditure is R165
- Approximately 26,8 patients are seen per nurse per day.
- Communicable diseases include TB, HIV, AIDS and STIs.
- There is also a strong prevalence of environmental health issues such as water provision, sanitation services and waste removal.

## 2.5 Municipal funding and budget breakdown

The table below indicates that contributions from revenue and service charges, and government grant transfers, represent the important funding instruments for the district municipality. Consequently, the budgeted expenditure per capita is extremely high if compared with other nodes in KwaZulu Natal. All the major expenditure categories have increased between 2003 and 2004.

### Municipal budget (Rands)

	2003	2004
Contributions from revenue and service charges	145 375 185	185 972 321
Grants received	130 474 912	150 232 760
Total financing	275 850 097	336 205 081
<i>Total expenditure / Budgeted expenditure</i>	<i>246 766 235</i>	<i>339 653 244</i>
<b><i>Budgeted expenditure per capita</i></b>	<b><i>350</i></b>	<b><i>482</i></b>

## 2.6 Key remarks about Ugu

The nodal overview of Ugu highlights the following development challenges:

- Agricultural products are brought to Durban for processing/packaging and then returned to the node for sale.
- The new Durban airport will be approximately one hour's drive further from the area than it currently is. This may endanger tourist activity in the South Coast as well as any other business activity linked to Durban. There is a small, underutilised local airport in Margate; however, using such a small strip would prove prohibitively expensive for regular flights.
- Road networks are prone to congestion during peak tourist times.
- The R620 and the roads across towns (e.g. Marine Drive) become heavily congested, while the toll road (R61) between Port Shepstone and Port Edward is relatively empty.
- The rural infrastructure requires considerable upgrade and maintenance.
- The biggest challenge is the difference between the developed/tourist coastal strip and the underdeveloped/rural part of the node.
- The different needs and demands must be combined, i.e. more effective marketing strategies should be developed while at the same time providing basic services.
- Projects and policies must be correctly prioritised.

# Section 3: The Economy of Ugu

## 3.1 Contribution to GDP by sector, 2004

The GDP per capita for the node has grown at a much lower rate than that for the province. The same has occurred for the total GDP. Government remains by far the largest employer and the largest contributor to GDP, with general government services and community, social and personal services combined making up 23,4% of the total contribution to GDP in the node. However, tourism, as a part of the wholesale and retail trade sector, is quite large as well.

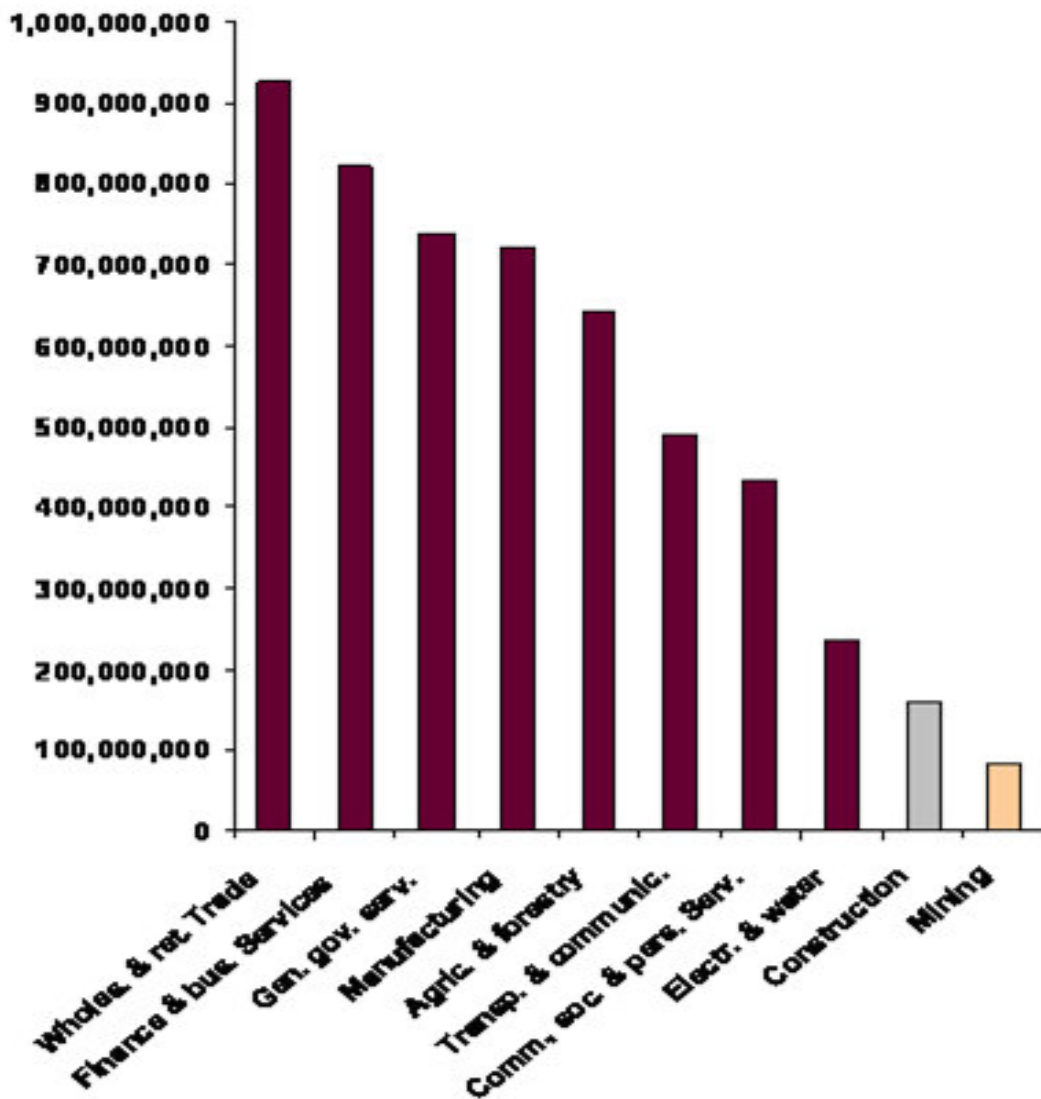
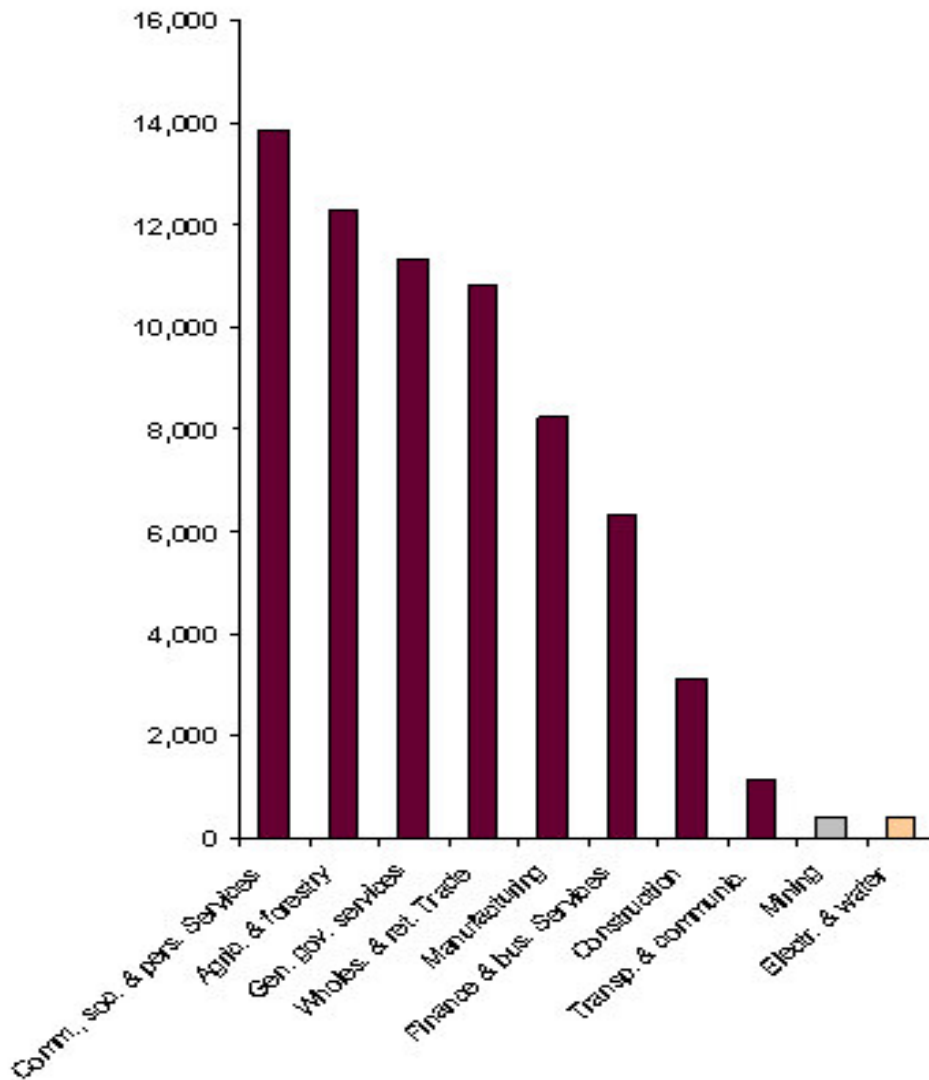


Figure 3.1.1: Contribution to GDP by sector, 2004

### 3.2 Sectoral contribution to employment



**Figure 3.2.1: Contribution to employment by sector, 2004**

In terms of employment contribution, general government services contributed 19,8%, while community, social and personal services contributed 16,2% to employment, making the government sector the largest contributor to employment in the node. Wholesale and retail trade (including tourism) contributed 15,4%. Agriculture, forestry and fishing added 17,5% to employment in the node, as can be seen from the graph above.

### 3.3 Sectoral prioritisation

Analysis of the contribution made by the various sectors to the local economy and to local employment show that the five priority sectors are as follows:



Priority sector	Growth potential
Wholesale and retail trade, catering and accommodation	The node has great tourism resources, which are only partly exploited. The Blue Flag beaches on the coastline, the Oribi Gorge, etc., could be exploited. This sector already generates a huge inflow of money, because the resources it has are in high demand outside the node and are not readily available elsewhere. The hospitality industry could target the high-end market more effectively.
General government services	Most local government staff live either outside the node or on the coastline, hence they do not spend their income in the underdeveloped rural inland. There are no monopoly endowments in this sector of the node, 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 available in this sector.
Agriculture, forestry and fishing	The published GDP for agriculture in this node excludes all non-commercial and informal farming. The node has agricultural resources that are not fully utilised. The demand for the types of agricultural products that could be produced and processed in the node (especially fruit and vegetables) is high outside the node, hence there is potential to stimulate an inflow of money to the node. Most local people have the skills to work in this sector.
Community, social and other personal services	Most of the staff, even those employed in the rural areas, live on the coastline. There are no monopoly endowments in this sector of the node, 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.
Manufacturing	Some sub-sectors are related to agricultural activity in the area. An example is wood furniture manufacturers, some of which are successful in exporting products to Europe, and who could buy the input from timber plantations in the area. Other sub-sectors or related sectors are growing very fast (i.e. the building industry, the manufacturing of bricks and blocks related to the property boom). According to the official statistics the sector employs over 8 000 people.

The average index for both the GDP and employment indicates that wholesale and retail trade, and catering and accommodation; general government services; agriculture, forestry and fishing; community services; and manufacturing offer a relatively high potential for economic growth and job creation.

## Section 4: Selected Sectors

### 4.1 Tourism

Currently the node relies on its pristine beaches and marine life. There are five “Blue Flag” beaches, and other attractions include whales and dolphins, the annual sardine run, and adventure tourism, especially in the Oribi Gorge area where the “Wild 5” experience is offered. There are also 10 world-class golf courses.

A large number of B&Bs and guesthouses, but only a few hotels, cater for tourists. There are also self-catering opportunities in the area and camping sites. Major activities for tourists include: at the beach – swimming, surfing, fishing; offshore – whale and dolphin watching, deep sea fishing, scuba diving; adventure – abseiling, white water rafting, wild slide, wild swing, hiking and bike trails; and sport – golf and water sports.

The area has traditionally been the destination of choice for South African domestic tourists and has therefore developed according to these needs. Therefore, 90% of total visitors are domestic, while international visitors come mainly from the UK and Germany. The node aims to grow their share of South Africa’s international tourist arrivals. They market the node mainly through Tourism KwaZulu Natal (TKZN) and South African Tourism (SATOUR), as well as trade shows and feature articles in magazines. The Hibiscus Coast Tourism Association is also active in attending local and international trade shows. Most international visitors are reached via tour operators as part of a tour package that includes Durban or the Hluhluwe Game Reserve.

As a beach destination, the node is unrivalled in South Africa, with five Blue Flag beaches and two pilot Blue Flag beaches. However, there are few other tourism products and the node can therefore not compete effectively for the international tourist market, which requires a wider range of experiences than the node currently offers. Tour guides in the area often need to include visits to Hluhluwe Game Reserve and the Drakensberg in their packages.

Unresolved land claims have caused uncertainty over who owns the land that will be developed and this has hampered investment in the area, particularly in high-end products. This issue could be resolved by proactively addressing the land claims and prioritising land with high tourism potential, and using this as a lever to convince the key stakeholders of the economic benefit of expediting the process.

Tourism promotion is uncoordinated; there are currently three different tourism associations in the area, leading to a lack of integration when communicating with TKZN. This could be resolved by creating a single tourism association. The limited range of tourism products could be extended by exploiting the Oribi Gorge, local nature reserves and cultural villages. To achieve this, more infrastructure needs to be developed. There is a lack of skills among rural people and, therefore, more

information, training and assistance need to be provided to help people in the rural areas understand the industry and its dynamics better.

The current market view of the area being purely a beach destination can be counteracted by increased exposure to the area's other attractions, and the development of infrastructure around the lesser-known activities in the area. The areas outside the coastal strip are not easily accessible. Although the Tourism Association is keen to grow its share of South Africa's international tourist arrivals, the current accommodations are more geared towards the domestic market. Therefore, more establishments such as five-star resorts, golf courses, spa facilities and private beaches need to be developed to attract international visitors.

## 4.2 Agriculture

About 90% of Ugu's land is fertile, although assessments of high/low potential are still pending. The node experiences a temperate, mild climate with no winter zones allowing for a large variety of crops to be grown. In addition, there are over 70 small rivers and several small dams spread around the node. However, irrigation schemes need to be upgraded to realise the full potential of this sector.

Sugar cane is the main crop produced, and while there are forestry plantations, timber processing takes place mainly outside the node. Bananas are farmed on 1 400 ha, and a new ripening centre will benefit this industry. Poultry, cattle and goat farming, as well as vegetable farming, occur on a limited scale. There is, however, high demand for vegetables in the area and vegetable farming also offers export opportunities. Tribal land is used for subsistence farming and only a small part of the land is dedicated to commercial farming.

Sugar cane is sold to the two sugar mills present in the node, and the possibility exists to use sugar cane for biofuel opportunities. Timber is sent to Durban for processing and local furniture manufacturers buy the material back from Durban once it has been processed. Timber is experiencing decreased profitability. Vegetables and poultry are largely sold to people in the local communities. There is easy access to Durban from the coastal strip (Port Shepstone is 120 km from Durban on the N2).

## 4.3 Overview of other major sectors

	Challenges	Opportunities/Potential
<b>Manufacturing</b>	Local authorities do not usually fund this sector. Manufacturers are quite small and suffer from competition from larger factories outside Ugu. The few bigger manufacturers often struggle to find a reliable long-term supplier locally (e.g. within the furniture sub-sector, suppliers of inputs like wood and lacquer).	Labour is relatively cheap and the coastal area is connected to bigger centres like Durban. If provided with the right incentives in terms of services, the sector is likely to grow fast. The housing and property sector is booming (i.e. increasingly more people want to move or retire to the South Coast), and some

	<b>Challenges</b>	<b>Opportunities/Potential</b>
	<p>Cost of utilities provided is too high.</p> <p>Suitable land for industrial activity is not available.</p> <p>Lack of basic and technical skills: companies need to train local people or hire in bigger centres.</p> <p>The exchange rate appreciation over the last few years has made it more difficult to export from the country: exporting firms have declined by over 50% in some sub-sectors.</p>	<p>manufacturing sub-sectors (such as furniture manufacturing) should benefit.</p> <p>Agri-processing opportunities may arise with the development of the Ugu Fresh Produce Market.</p>
<b>Retail</b>	<p>Local authorities could be more proactive when it comes to rates or availability of land and services.</p> <p>Accurate data on disposable income is not always available.</p> <p>Tourism trade needs to grow at a faster rate.</p>	<p>The tourism sector in the South Coast is expected to grow with the influx of foreign tourists, and the retail sector will benefit from this.</p> <p>The sector is currently made sustainable by locals in the off-season, and made profitable by tourists in peak season.</p>
<b>Construction</b>	<p>Lack of basic skills: companies need to train local people or hire in bigger centres.</p> <p>AIDS affects reliability and regular attendance of workers.</p> <p>Lack of communication between local authorities and the predominantly white building fraternity.</p>	<p>The industry is developing very fast.</p> <p>Growth will go south from Durban: if the proposed new N2 goes ahead, the building fraternity in Ugu will reap massive benefits.</p>

## **Section 5: Economic Growth and Investment Opportunities**

### **5.1 Development of the Port Shepstone beachfront**

The development of the Port Shepstone beachfront is part of a wider urban renewal programme, but has the specific aim of stimulating the tourism economy in the area. It will include the development of the following:

- Residential property along the seafront and riverfront
- Office blocks in the commercial core
- Four new hotels (four- and five-star), including a conference facility
- The “Settler’s Park”.

The development is expected to cost R2 billion. The expectation is that it will benefit the node via increased rate collections and increased activity in the retail and tourism sectors. Jobs will be created at the new hotels (approximately 1 000), as well as a smaller number at the new commercial and residential complexes.

It is expected that the development will stimulate job creation in the construction industry, specifically cement production, brick makers and building contractors. However, the project is being held back by two issues:

- A land ownership dispute between Spoornet and the Hibiscus Coast Local Municipality.
- A land ownership dispute between the Department of Public Works and the Hibiscus Coast Local Municipality over an under-utilised airstrip.

Non-resolution of these issues means that the approval for the development from the Department of Agriculture and Environmental Affairs may expire in the near future.

### **5.2 The Banana Express**

The Banana Express is a tourist train that runs from Port Shepstone to Shelley Beach, then inland to Izotsha and back to Port Shepstone. However, the track is built all the way to Paddock (40 km inland), so it has the potential to expand tourism into the rural areas. The train is a huge tourist attraction; in December 2005, it ran at full capacity, i.e. 200 people per trip, three trips per day. It has stopped running because the company that managed it has gone bankrupt. There is a potential to create 40 direct jobs, as well as jobs for craft sellers along the route who became unemployed when the train stopped running. As the infrastructure is in place, all that is needed is a private sector entity to run the train.

### **5.3 Upgrading Margate Regional Airport**

The existing airport in Margate can be upgraded to a regional airport with adequate facilities to handle commercial flights of Boeing 737s and cargos. However, the current 1,4 km airstrip would need to be extended and the cost of the upgrade is

estimated to be between R50 million and R60 million. SA Airlink operates daily flights between Margate and Johannesburg and it has the monopoly until 2021. The airport also handles charter flights, scenic flights and microlight flights.

The Margate airport is currently underutilised; flights are too few and too expensive. Both business and leisure travellers fly via Durban. However, the new Durban airport near La Mercy will be approximately one hour further from the node. An upgraded Margate airport would sustain the tourist activity in the area by providing easier access, as well as stimulating the export of agricultural products processed at the Ugu Market.

The airport itself would create a limited number of jobs for the local people. However, it would stimulate the two key sectors of the nodal economy, namely tourism and agriculture, and create jobs indirectly.

The Pilot School may be re-opened at the airport and the Air Force may use it as well, at least in the short term. Improvement of the road infrastructure would be necessary to ensure consistent ease of access.

## **5.4 Low to middle income housing project**

The Ugu District currently has a large number of high-income housing developments (R600 000+) and very low cost housing in the rural areas. The idea is to develop housing in the R200 000 to R300 000 range for the emerging middle market.

Many people in the district feel that their low-cost houses are inadequate, but are unable to afford the current residential offering. These new developments will create additional rates income for the municipalities.

Employment opportunities will be created in the construction industry, specifically for cement producers, brick makers and building contractors. There will also be spin-off benefits for the furniture manufacturing industry. The Hibiscus Coast Development Agency plans to meet with the Social Housing Committee in the near future to discuss the number of potential jobs that the project might create.

The municipality needs to support the project by providing incentives to developers, e.g. waiver of reticulation fees, lower planning fees as well as rate reductions for the first five years.

## **5.5 Honey production in the Umuziwabantu Municipality**

It is estimated that 250 beehives can be established in eight to ten apiaries (usually 25 to 30 hives per apiary) near gum plantations or natural forest. The establishment of a small building (250 m<sup>2</sup>) to meet the requirements of a honey processing facility (electricity, tap water, concrete floor and equipment) will also be necessary. The building should be as close as possible to the apiaries. Start-up funding requirements are estimated to be R0,5 million annually, for the first three years.

Indigenous spring-flowering trees and exotic winter-flowering trees (suitable for bee-keeping and honey production) are present in the area. South Africa does not produce enough honey for its domestic markets but the local market for honey is very sound. Honey is relatively easy to produce, store, pack and market. Honey production requires very small pieces of land on which to place hives. This land could even be agriculturally unproductive.

About 25 community members have shown an interest in participating in a small commercial venture, which will require the following:

- Twenty hive owners (self employed)
- A honey house manager (employed by co-operative)
- Four honey-house workers (employed by co-operative).

A partnership between the project and existing commercial producers would ensure transfer of technical skills, and a simplified export procedure could stimulate honey export.

## Section 6: Summary

It is immediately apparent that this area consists of essentially two different communities: The wealthy, tourism-driven economy along the coastline and the impoverished rural people just 4 km inland across the N2 freeway. It is clear that the economy of the node is driven by tourism, with some contributions from agriculture, manufacturing and construction.

The tourism sector revolves largely around the many attractive beaches in the area, which mainly draw holidaymakers from within South Africa (particularly Gauteng). The tourism sector (both tourism establishments as well as retail outlets) is dominated by white business owners. A major impediment to black people entering the industry is their lack of knowledge about how the industry operates. Commercial farming is dominated by large timber and sugar cane companies. Most local black people are engaged in subsistence farming.

There is a small manufacturing sector, driven by the presence of timber and the subsequent need for support services. However, the sector is not attractive to new entrants because the cost of utilities and rates is too high.

The following potential sources for economic growth have been identified:

Short term	Long term
<ul style="list-style-type: none"> <li>• Develop new tourism activities focused on the high value international market</li> <li>• Reduce import of agricultural products by taking advantage of the node's resource of fertile land</li> <li>• Enable black entrepreneurs to participate in the tourism economy by providing them with more training</li> <li>• Municipalities should create incentives for further investment in the area by reducing planning and services costs</li> </ul>	<ul style="list-style-type: none"> <li>• Improve integration and co-operation between businesses in the private sector</li> <li>• Link up with the Durban Chamber of Commerce to expand the base of opportunities</li> </ul>

All these developments require involvement of the key stakeholders, namely:

- District and local municipalities
- KwaZulu Natal Department of Agriculture and Environmental Affairs
- Land Claims Commission
- Tourism KZN
- Large hotel and resort developers
- Spoornet
- The Department of Public Works.