

PART 2: MUNICIPAL LOCAL ECONOMIC DEVELOPMENT FRAMEWORK

3.1 OVERVIEW

This chapter focuses on programmes and activities that the municipality has been involved in, to stimulate the local economy during the period under review. The chapter would account for interventions implemented and challenges encountered in creating a vibrant economic climate of Buffalo City Metropolitan.

3.1.1. Global Context

According to the Organisation for Economic Co-operation and Development (OECD) 2012, the continuing crisis in the Euro-zone remains the single biggest risk facing the global outlook. The IMF has projected global growth to drop from 4.0% in 2011 to about 3.5% in 2012 because of weak activity during the second half of 2011 and the first half of 2012 (See Figure 1). Real GDP growth in the emerging and developing economies is projected to slow down from 6.3% in 2011 to 5.7% in 2012, then to reaccelerate to 6.0% in 2013 assisted by easier macroeconomic policies and strengthening foreign demand

During the first quarter of 2012; Japan grew by 1.0%, China by 1.8%, Brazil by 0.2% and India by 1.3% in real terms quarter-on-quarter. In this current year however, due to last year's crisis in Japan, trade deficit in Japan is expected to widen and public finances to move beyond the limits of the budget. Among developed countries, Japan has the largest government debt projected at 243% of GDP in 2012.

The Euro-zone is still projected to go into a mild recession in 2012 as a result of the sovereign debt crisis and a general loss of confidence, the effects of bank deleveraging on the real economy and the impact of fiscal consolidation in response to market pressures. Due to problems already mentioned in Europe, activity will continue to disappoint for the advanced economies while job creation in these economies will likely remain sluggish thus putting pressure on the level of unemployment.

The overall world growth is insufficient to make a major dent in high unemployment rates. According to the International Labour Organization (ILO), about 200 million people worldwide are still looking for jobs. The increase in unemployment has been very severe in advanced economies; emerging economies and developing economies leading to high youth unemployment. This also occurs in South Africa and in the Eastern Cape in particular. Large number of women and young people enters the workforce yearly causing growth in the labour force to outstrip employment creation. As a result, strict unemployment in the Eastern Cape increased to 28.3% in 1Q2012 from 26.9% in 1Q2011. The high rate of unemployment exacerbates widespread poverty, with about 3.4 million people (49%) in the province living in extreme poverty.

The question that needs to be asked is that, is *what is the effect of the European crisis on South Africa and the Eastern Cape?* The answer lies with economic globalization, mainly in terms of financial contagion and exchange rate. International economic and financial integration has created opportunities for growth and development, has also caused crisis to spread over from one country to another. The effects of the European crisis on South Africa and Eastern Cape economies are the following:

- ✓ Europe followed by Africa and North America are the top 3 South Africa export vehicles destinations;
- ✓ The Eastern Cape produces almost half of South Africa's passenger vehicles; and generates half of the country's passenger vehicle export;
- ✓ The Eastern Cape economy heavily relies on the automotive sector.

Therefore, this crisis could impact on export demand for the South African automotive sector, which could reduce output and eventually affect employment in the automotive sector. The European crisis could also affect the number of tourists coming to South Africa. At a micro level, this crisis could reduce the amount of remittances to South Africa, rendering vulnerable poor households that rely on remittances from Europe.

3.1.2 South African Context

According to the OECD (2012), the quarterly preliminary GDP estimates in the G20 area grew by 0.8% in the first quarter of 2012 compared with 0.7% in the fourth quarter of 2011. This small pick-up in aggregate G20 GDP growth still masks diverging patterns among the world's largest economies. The growth in the Eastern Cape was mainly driven by the increase in manufacturing activities which contributed the most to the economy by 8.2%. This sector has a relative size of 15% of the Eastern Cape economy

3.1.3 Eastern Cape Context

The manufacturing sector grew the fastest by 8.2% and has a relative size of 15% of the province economy (see Figure 3). Despite these impressive contributions, the business confidence in the manufacturing sector, in terms of expected real investment in machinery and equipment, is still negative. Similarly, manufacturing business confidence has not picked up to the levels it had before the 2009 recession.

3.1.3.1 Unemployment trends in South Africa and in the Eastern Cape

Since 1994, unemployment has remained one of the top three challenges facing South Africa. Despite strong expansion in the Eastern Cape economy, the Province lost 40 672 jobs in the first quarter of 2012 accelerating unemployment rate to 28.3% in in the first quarter of 2012 from 26.9% in in the first quarter of 2012 there were 504,000 people looking for work who could not find work in the province. Hence in in the first quarter of 2012 unemployment rate using the strict definition was 28.3% in the

province and 25.2% in South Africa. However, there were also 399 000 discouraged job-seekers and by adding up the number of unemployed and discouraged work-seekers, leads to 903 000 people unemployed, which then brings unemployment rate in the Eastern Cape to 43.1%.

The causes for unemployment are very complex can be attributed to several factors such as:

- A slowdown in economic activity and inadequate economic growth leading to stagnation in the labour market,
- The inability of the formal and informal economy to create sufficient employment opportunities for a growing population,
- The increasing trend towards capital intensity in the South African economy due to
- labour market unrest, the influence of trade unions, the generally low level of skills, and rigid and inflexible labour markets, and
- General uncertainty regarding future economic prospects.

3.1.3.2 Employment trends in South Africa and in the Eastern Cape

Looking at employment in the Eastern Cape, males employed in the province, 75% are in the private sector and 18% are in the public sector. Of all females employed in the province, 26% are in the public and 57% are in the private sector. Overall, the private sector employs more people than the public sector.

3.1.4 BUFFALO CITY METROPOLITAN MUNICIPALITY CONTEXT

The focus of the Department has not changed in terms of its strategic goals and objectives. There was a need to align the Department's programmatic activities and programmes to those of the province. This was to ensure alignment of programmes and synergy. The Department has placed increased emphasis on the following programmatic activities Agriculture and Rural Development, Tourism Development and Promotion, SMME Development and Trade and Investment. An additional service or function also rendered is the East London Fresh Produce Market which provides revenue for the municipality and an opportunity for trading.

There has been a requirement to review and revise sector plans based on changes in the environment within which the municipality operates and to ensure alignment with the national policies. In this regard the institution has finalized the Tourism Master plan and it awaits to be tabled to Council in the next financial year. A process underway is the review of the Integrated Agriculture Rural Development Strategy. This is to ensure that municipality has a strategic approach to rural development and both comparative and competitive advantages of rural economies.

Furthermore the institution will be reviewing the Economic Development Strategy in an attempt ensure alignment with the objectives of the National Growth. Stakeholder coordination and partnership is one of the integral components in driving economic development. The Metro has

implemented projects in partnership with other national departments i.e. Department of Tourism. In the implementation of these partnership projects Project Steering Committees were established. The Project Steering Committee meetings are chaired by the Portfolio Head and representatives are drawn from funding departments or institutions, officials from the municipality and project beneficiaries. The projects Steering Committee provide oversight and monitor progress in the implementation of all projects.

Furthermore the Metro has established various stakeholders forum in accordance to the sectors i.e. SMME Forum, Cooperative Forum, Tourism Association and Agricultural Stakeholders forum. These forums meet on a quarterly basis to discuss and input in council initiatives and they are a strong linkage between the municipality and the various sectors.

The office of the City Manager has initiated a process of establishing and coordinating a high level engagement between established business and the municipality. This forum is an Economic Advisory Forum and made up of the Chief Executive Officer of East London Industrial Development Zone, MBSA, and Heads of the two Universities [Walter Sisulu & Fort Fare]; Tourism and Parks and the Chairperson of the Business Chamber.

As strategic intervention in the nodal Metro areas, the institution is operating business support and tourism centers. The business centers are the Mdantsane One Stop and Duncan Village Business Hives. Business centers provide business information services, business development services and business registration. Tourism center are Mdantsane Tourism and Dimbaza Wall of Fame. Tourism center coordinate all tourism development activities and events in the nodal areas. Implement tourism development programmes and provide tourism information and promote the areas tourism attractions.

3.2 AGRICULTURE AND RURAL DEVELOPMENT

Performance Highlights and Achievements:

Rural Development is one of the cross cutting functionalities of the municipality inclusive municipal services, planning and health. Agriculture is one of the main components towards achieving rural development.

The mandate of Agriculture & Rural Development within the LED, Tourism & Rural Development is to facilitate agricultural development within Buffalo City Metropolitan Municipality. During the 2010/11 financial year the Agriculture and Rural Development Unit has through the international relations department formed a partnership with the city of Tuscany (Italy) through a National Partnership known as NetsAfrica. The programme seeks to enhance economic development initiatives within the municipality. Through the partnership a tomato packaging facility which is linked to the Hydroponics project has been built. The facility would not only assist Mdantsane Tomato Growers but all tomato growers within Buffalo City Metropolitan Municipality. The packaging facility will cut the costs of the

marketing middleman and therefore create more income for the farmers. Through this partnership a Round Table Forum has been established which serves as a platform for networking and discussing issues pertaining to agricultural production. The Round Table seeks to harness the production standards of the tomato growers and link them with relevant marketing outlets.

The municipality also started rolling out the hydroponics to rural areas and had identified Newlands areas as a suitable area which has abundant water resources as required by the programme. The programme assisted one cooperative in Newlands to run a hydroponics enterprise and linked it with the Mdantsane Packshed. Other tomato farmers have been assisted with equipment such as irrigation and fertigation system, inputs (seedlings and fertilisers).

The programme assisted rural farming cooperatives with agricultural equipment such as the resuscitation of the Qongqotha Irrigation Scheme for Velanani Agricultural Cooperative, Broiler House for Umzamowethu Cooperative at Nxaruni, small Irrigation scheme for Dimbaza Farmers Association. In the provision of all agricultural equipment and construction of hydroponics the municipality after it had handed over the items continues to monitor the project to ensure sustainability. In some instances follow up interventions are undertaken to support the project where equipments such as ploughing plants and tractors were provided. The department entered into agreements with beneficiaries to ensure asset maintenance and service of the asset.

All projects that were previously assisted by equipments are still in operation although in different levels due to capacity and there is still a need for ongoing support. The department was engaging other stakeholders to partner and make intervention in various level to support the project.

The department has continued its partnership with the East London Industrial Development Zone wherein a partnership for an Agripak is being explored. Support was given to farmers by linking them with relevant funding institutions such as Industrial Development Corporation, Eastern Cape Development Corporation and other financial banks.

3.3 EAST LONDON FRESH PRODUCE MARKET

Performance Highlights and Achievements:

This is a municipal facility that provides facilities for the storage and distribution of the fresh produce. It receives and sells the produce to the public on behalf of the farmers who are the suppliers. This is also a revenue source for the municipality. The market agents operate in the allocated floor space. Transformation and economic empowerment still remains a challenge of as the Market Agents still remain a white dominated sector. Improve the infrastructure of the market to attract more traders.

Key objective of the municipality is to create enabling environment for an economy that is growing and diversifying. The market contributes in the objective by creating access for Historically Disadvantaged

institutions (HDI). For 2011/12 the Fresh Produce Market prioritised the implementation of the following projects funded through the Development Bank of South Africa:

- ✓ Extension of the sales hall;
- ✓ Upgrade of cold room facilities.

The extension of the sales hall was an attempt to create more trading space and thus allow access for HDI Market Agents. This was also an opportunity made available to SMME's and Cooperatives in the Agricultural produce sector. Phase 1 of the extension is now complete

3.4 TOURISM DEVELOPMENT AND PROMOTION

Performance Highlights and Achievements:

Tourism contributes over half a billion to the economy of Buffalo City. This was according to the survey conducted recently to determine the impact of the tourism sector to the economy of Buffalo City. The city had an occupancy rate of 49% this is despite the global recession. Even though this paints a positive picture for the city, the results further reveals that there has been a decline in the total number of foreign visitors visiting the Eastern Cape and Buffalo City receives only 20% of the total foreign visitors whilst the remaining 80% visits other parts of the province.. The lack of marketing by the city is largely to blame for the results. However; in the 2011/2012 financial year as part of the marketing plan the municipality with its limited budget implemented the following projects:

- Participation at the Tourism Trade and Consumer Shows: The municipality attended the following trade and consumer shows wherein it exhibited and showcased buffalo city as a tourist destination:
 1. Indaba International Trade Show held in Durban in May
 2. Kyalami Outdoor Show held in Johannesburg in June
 3. Getaway Show held in Cape Town in March
 4. Getaway Show held in Johannesburg in September
 5. Adventure Outdoor Show held in Cape Town in October
 6. Rand Easter Show held in Johannesburg in March
- Attended Travel Trade workshops: The municipality attended three travel trade workshops in Durban, Johannesburg and Cape Town where it had an opportunity to meet with the travel agents and tour operators to negotiate that they include Buffalo City in their tour packages.
- Advertising: the municipality advertised in the following publications:
 1. Eastern Cape Tourism Directory
 2. Buffalo City 360 Magazine
 3. Khuluma (kulula inflight magazine)
 4. Equinox Magazine (Southern Sun Hotels Magazine)
 5. Getaway Magazine

- Printing of marketing collateral: The municipality developed the following brochures as part of the marketing collateral to profile and market the city:
 1. Visitors guide
 2. Accommodation guide
 3. Crafters guide
 4. Tourist maps

Skills Development Program

Skills development in the tourism sector takes priority. The municipality continues to support SMME's through its skills development to benefit and grow tourism smme's. In the 2011/12 financial the municipality conducted the following tourism trainings:

- ✓ **Customer Care Training:** the training was targeting all subsectors of the tourism industry. The purpose was to equip people with skills that would allow them to always provide an excellent service to its visitors/clients.
- ✓ **Advance Cooking Course:** The training targeted SMMEs in the accommodation and restaurants businesses. A total of 24 were trained by a recognized hospitality school.
- ✓ **Hygiene Course:** as part of the requirement for any hospitality business is to comply with health regulations. In order to ensure that tourism SMME's understand and comply with the regulation. A total number of 75 people attended a one day course on hygiene issues.

Tourism Business Support Program:

The tourism support program was intended to provide support to tourism businesses with preference given to SMME's. In the 2011/2012 financial a total of +- 20 businesses have been supported in the following areas:

- Grading
- Signage
- Printing of marketing material

Tourism Events

Buffalo City Municipality realized the importance of events in growing Buffalo City as a tourist destination. The decision by council to incorporate the Buyelekhaya Jazz Festival to form part of the annual summer season program was to ensure that the summer season in Buffalo City offers a variety of activities and yet leave a memorable experience for the visitors as well as local people. The summer season events were attended by over 30 000 people. The City has also witnessed the return of the Port Festival which attracted well over 5000 people. The city is continuously looking at ways in which events can form an integral part of the marketing strategy to market the city as a preferred tourist destination.

Tourism Planning and Feasibility Study

As part of the tourism planning and research program, the municipality identified the need to pursue nodal development against the individual projects. In the 2011/12 financial year the municipality

conducted a feasibility study to determine the economic potential of two nodal areas i.e. Mount coke and Maclean Town. Both nodal areas have identified tourism as one of the key sectors that could assist in transforming the economy of these nodes. As part of the research program, the municipality conducted a survey to determine the contribution of the tourism sector in the economy of buffalo city. Both study results will be made available in the website.

3.5 BUSINESS DEVELOPMENT

Performance Highlights and Achievements

The Business Development Division has, as part of its mandate of developing SMMEs in BCMM, offered the following services to its clientele.

- Business registration
- Capacity building and training
- Marketing
- Provision of funding to primary cooperatives

The division has through the Mdantsane and Duncan Village business support centres registered 25 cooperatives and 12 private businesses during the reporting period. The majority of the cooperatives registered were in the Agricultural sector followed by manufacturing whereas the services sector formed the majority of the private businesses registered.

Five capacity building and training projects were implemented during the reporting period and are namely Business Management, Customer Care, Tender Advice, Cooperative Governance and Emerging Contractor Development. The above-mentioned training projects were aimed at building the capacity of SMMEs for the effective and efficient running of their businesses and for sustainability. A total of 100 SMMEs benefited from the above-mentioned training programme.

Ten SMMEs were assisted by the municipality to exhibit their products and services in the Business Connect Expo held in November 2011. Also, seven SMMEs also exhibited during the Home Expo Exhibition held on the 14th to the 17th of June 2012. Lastly, eight SMMEs also participated through exhibiting their products and services during the Buyers Guide Exhibition held on the 25th to the 27th of December 2012. The above-mentioned events assisted SMMEs in profiling their businesses whilst presenting them with the opportunity to sell their products.

As part of the division's endeavour create a conducive environment for SMME access to finance, twelve primary cooperatives from the city benefited from the R1 million Cooperatives Development Fund. Each cooperative received equipment to the value of R100 000 to boost its business.

3.6 TRADE AND INVESTMENT

Performance Highlights and Achievements

Trade and Investment is critical for sustained economic development and growth. Key strategic objectives of the department were to increase and attract foreign and domestic investment. These objectives were planned to be achieved through implementing programmes which were aimed at selling BCMM to potential investors:

- Participation in local and international trade shows to market business opportunities of BCMM;
- Support SMME's to expose their business products at national level
- Establishing strategic Partnerships for promotion of Trade and Investment.

Initiatives Implemented

A number of initiatives which were planned and were implemented included

- Attendance and Participation in two local trade shows which showcased business opportunities of BCMM
- Participation in an international exhibition in Germany to showcase investment opportunities of BCMM in partnership with Eastern Cape Development Cooperation

The local trade shows were a great spectacle to showcase the products of our SMME's. SMME's from Buffalo City participated in South African Industry Trade Exhibition [SAITEX] which was held at Gallagher Estate in Johannesburg. This was a collaborative exhibition between provincial players which include ECDC, East London Industrial Development Zone, Five District Municipalities, Two Metros (BCMM and NMM) and SMME's that fall within various jurisdictions in the province.

The second local exhibition was intended to showcase business opportunities of BCMM. There was also overwhelming interest from various business people in South Africa and abroad at developmental opportunities through which BCMM can form strategic partnerships to unearth.

Participation of BCMM at international exhibition was a resounding success due to many business leads that we are currently pursuing. The interest of companies to partner with BCMM especially on renewable energy initiatives was overwhelming in the exhibition that we attended in Germany.

With regard to partnerships for promotion of Trade and Investment, the City engaged relevant stakeholders which include DTI, ELIDZ, ECDC, NAFCOC and Border Kei Chamber to establish working relations between various players. Such relations have assisted BCMM to deal collectively with developmental challenges together with other provincial role players.

3.6.1 Key Challenges of the Department

- Human Resource Capacity and funding for critical unfunded posts;
- Lack of economic intelligence data for planning and review. It is rather difficult to analyse the impact, identify impediments for economic growth contribution by companies within municipal boundaries and number of job created by the local economy. The department relies on economic information provided by Statistics South Africa and ECSECC.

- Delayed appointment of task teams, steering committees for projects i.e. Tourism Heritage Route as the project can't move as it needed political champion.
- Limited interaction between municipality and Business sector
- Red Tape and cumbersome municipal processes
- Lack of clear policy to regulate the Informal Sector and Trading
- Moratorium on land disposal has a major impact on limiting investment opportunities

3.6.2 Key Areas of Improvement

- Monitoring and Evaluation
- Ensuring an effective Economic Development Forum
- Develop a Special Purpose Vehicle to drive Trade and Investment
- Improve co-ordination of Trade and Investment activities between departments, external stakeholders and politicians (central point of co-dation of trade and investment activities)
- Develop policy and strategic framework for promotion of Trade and Investment (pan for 2012/13)
- Fastracking of decision making to ease doing business
- Partner with real businesses that understand the industry and create space for private sector to play a central role in attraction of Investment and promotion of Trade
- Strengthen relations with ELIDZ to a sustainable partnership with BCMM with clear goals of attracting investment within the whole jurisdiction of BCMM

3.6.3 Status on developing the LED strategy/plan

BCMM has an Economic Development Strategy which was approved by council in 2008. The strategy is a 5-year Implementation Plan. The department has reviewed sector plans

- Tourism Master plan being reviewed;
- Integrated Agriculture and Rural Development Strategy being reviewed;

The availability of a LED expertise:

All management positions for the Local Economic Development Department are filled except for the Lower level positions in the organogram that still remain vacant; however there is process underway to design new organogram for the metropolitan municipality.

Various LED sector Forums have been established i.e. Tourism stakeholders Forum, Cooperatives Forum, SMME Forum. At high level the City Manager has established an Economic Development forum. The purpose for the forum is to have engagement about the strategic direction of the city as an economic hub of the region. The department also participate in other relevant sector forum i.e. District Support Team driven by the Department of Economic Development, Environmental Affairs and Tourism and Export Forum driven by CEDC. Funding of LED initiatives depends on external funding sources as follows:

- Department of Tourism Kiwane Campsite and Tyolomnqa;
- Department of Tourism for Mdantsane Community; and

- Partnership with the city of Tuscany [Italy].

Progress towards achieving the LED key objectives

As enshrined in the LED Strategy below are the objectives. The BCMM Local Economic Development Strategy needs to meaningfully impact on economic growth, job creation and poverty reduction.

The following four overall aims and objectives were developed are aligned to the Provincial Growth and Development Strategy (PGDS)

Municipality Economic Development Aims & Objectives

Aims	Objectives
i) Get the basics right and retain existing businesses	i) Reduce number of households living below poverty line by 48% by 2014
ii) Grow competitive business	ii) Increase economic growth to average of 4.5-6% per year by 2014
iii) Attract new investments and funding	iii) Reduce existing unemployment to 20% by 2014
iv) Share the benefits of growth	iv) R500mIn of investment annually in priority sectors between 2009-2014

In creating an enabling economic environment key interventions in a form of programmes were implemented for the 2011/12 financial year.

A. Tourism Development and Promotion

- ✓ Tourism Business Programme;
- ✓ Tourism Events;
- ✓ Tourism Infrastructure Programme; and
- ✓ Tourism Skills Development.

B. Agriculture and Rural Development

- Urban and rural development agriculture programme;
- Support emerging farmers;
- Hydroponics initiatives

C. Enterprise support and Business Development

BCMM has two SMME Support centres and planned for the next financial year

- Mdantsane One Stop Shop,
- Duncan Village Business Hives
- Planned Cooperative Development Center

Services offered to SMME's include:

- Capacity building programme
- Cooperative Development Support
- Emerging Contractor Development Programme
- How to start a tourism business
- Informal Sector Support and Development

D. Trade and Investment

The following programmes were earmarked and implemented:-

- ✓ Participation in International Trade Shows.
- ✓ Automotive Development Center

Table 30 Annual performances as per key performance indicators in LED

	Indicator name	Target set for the year	Achievement level during the year (absolute figure)	Achievement percentage during the year
1	Percentage of LED Budget spent on LED related activities.	100%	90%	90%
2	Number of LED stakeholder forum held	5 Sector Forums	7 Sector Forums 3 Cooperatives Forum meetings 2. Tourism Stakeholder sessions. 3. Informal Traders Session	7 Sector forums
3	Percentage of SMME that have benefited from a SMME support program	90%	90%	100%

	Indicator name	Target set for the year	Achievement level during the year (absolute figure)	Achievement percentage during the year
4	Number of job opportunities created through EPWP	1534	716	47%
5	Number of job opportunities created through PPP	N/A	N/A	N/A

3.6.3.1 Challenges regarding LED strategy implementation

Changing economic environment because changing economic environment;

- Vacancies in the lower level positions in the department;
- Budget constraints;
- Lack of economic intelligence;
- Poor coordination between economic development institutions in the region.
- Lack of Monitoring and Evaluation
- Technical capacity to implement mega economic initiatives

3.7 WAY FORWARD

- Align Economic development strategy and City Development Strategy
- Improve capacity of the department
- Development of an institutional monitoring and evaluation tool; and
- Implement Red Tape Reduction measures.