

## CHAPTER 3: 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 records the intervention implemented and challenges encountered in creating a vibrant economic climate of Buffalo City Metropole.

#### 3.1.1. Global Context

Global economic activity increasingly gained momentum in 2010, benefiting largely from the significant monetary and fiscal stimulus that continued in most parts of the world. The 2010/2011 financial year also witnessed fears of a double-dip recession brought about by the Euro Area Debt Crisis which emanated from Greece. The contagion effect of Greece's debt crisis was felt in many other countries with Spain, Portugal and Ireland being the worst affected. Despite these fears, global economic recovery continued apace in 2010/11 amid convincing signs that growth momentum in the global economy will remain largely sustained. In 2010, global economic growth continued to be characterized by a two-speed recovery where growth in advanced economies remained largely subdued whilst robust growth characterized emerging and developing countries. According to the IMF, global economic growth accelerated by 5% in 2010.

#### 3.1.2 South African Context

Economic growth in South Africa accelerated at 4.4% in the 4th quarter of 2010. This follows a 2.7% (revised from 2.6%) growth rate in the preceding quarter. The robust 4th quarter growth rate is the 6th consecutive positive quarterly growth rate recorded since the end of recession in 2009. On an annual basis, the economy grew by 2.8% in 2010 compared to a decline of 1.7% in 2009. The major drivers of 2010 economic recovery were strong commodity prices, low interest rates and faster global growth. Although the economy grew in 2010, it is important to note that South Africa's growth trajectory lags behind other emerging countries. National Treasury expects economic growth at 3.4% in 2011, 4.1% in 2012 and 4.4% in 2013. In 2011, economic growth prospects will depend primarily on strong consumer confidence and increased investment.

#### 3.1.3 Eastern Cape Context

The Eastern Cape remains by and large underdeveloped, with economic activity well below economic potential. Currently, economic activity is concentrated in Port Elizabeth, East London and Mthatha. Notwithstanding economic growth, high levels of unemployment and poverty persist, particularly in the rural areas where two thirds of the population resides.

The Province struggles to generate its own revenues: 98 percent of provincial government revenue receipts are supplied by the national government. The Eastern Cape is endowed with extensive agricultural capacity, while the automotive sector dominates manufacturing production. A reliance on manufacturing export activity contributes to the cyclical nature of economic growth in the Province: economic growth is highly dependent on changes in the external economic climate - which contributed to the minus 2.1 percent decline in economic growth in 2009.

Subsequent to the recession, economic recovery should be moderate, but is not forecast to reach pre-recession growth rates in the short term. The Eastern Cape economy is estimated

to grow at 2.6 percent in 2010 and is forecast to reach a 4.2 percent growth rate by 2014 as domestic and international conditions improve. The propensity for cyclical growth is unlikely to change without intervention and the Province's contribution to the national economy will remain stagnant.

South African economic growth is still driven by consumption expenditure rather than fixed investment, thus, with the economic downturn; the contraction in provincial consumption began as early as 2007 with falling asset prices, tightening of the monetary policy and increasing levels of indebtedness leading to deterioration in disposable income. Recovery in total provincial consumption expenditure will be dependent on changes in the economic climate and unsustainable in the long-term. After its positive trade balance in 2008, due largely to a retracting economy with declining levels of imports, trade activity reverted back to a R5.4 billion deficit in 2009. The inability to generate net export activity in the Province is the result of a heavy reliance on the automotive industry and the lack of depth in manufacturing activity shown by the high volume of imports of intermediary and final goods in the manufacturing sector.

Investment in the Eastern Cape will continue to be determined by prevailing market conditions, which have proved to be highly cyclical and unstable. Eighty-six percent of fixed domestic investment in the Province is dominated by investment in machinery and other equipment, and building and construction works. The proportion of investment in transport equipment to total fixed investment is forecast to grow insignificantly, from 14 percent in 2009 to a forecast 14.3 percent in 2014.

An average of 73 percent of infrastructure payments was spent on maintaining existing infrastructure between 2006/2007 and 2009/2010. The timing of infrastructure payments is important in contributing to sustainable growth. Significant effort has gone into a strategy to develop a new growth path based on the national economic development strategic plan of the Economic Development Department for creating work that is inclusive and equitable.

#### **3.1.4 Buffalo city Metropolitan Municipality**

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.

In terms of organizational environment the department has vacancies that need to be addressed as a matter of urgency [within the next 6 months]. A review of the municipal structure in lieu of the new metropolitan dispensation is being undertaken to ensure that there is adequate capacity to implement the legislative mandate.

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, it is due to be tabled to Council for. 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 will 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 NetsAfrica programme also seeks to train 50 cooperatives on organisational development, business and financial management as well as marketing.

The municipality has 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 are provided the department enter into agreements with beneficiaries to ensure asset maintenance and service of the asset. Furthermore the beneficiaries provide names of the people responsible for operating the machines to be trained if there is a need. Budget is made available from the project funds to operate and maintain the assets. 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 is 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.

Key objective of the municipality is to transform the East London Fresh Produce Market. This objective would be met by facilitating access into the market by Historically Disadvantaged institutions (HDI). For 2010/11 the Fresh Produce Market prioritised the implementation of the following projects funded through the Development Bank of South Africa:

- ✓ Extension of the sales hall;
- ✓ Replacement of the standby generator; and
- ✓ Upgrade of cold room facilities.

The extension of the sales hall is an attempt to create more trading space and thus allow access for HDI Market Agents. This is also an opportunity made available to SMME's and Cooperatives in the Agricultural produce sector. Phase 1 of the extension is now complete. To improve the service provided by the market, the old 250KVA generator was replaced with a new 1000KVA generator. The generator is used for back-up during power outages. In terms of financial performance of the Market, the annual turnover is at an average of R273

million. The market is supplied by about 850 commercial farmers of which 2% are emerging farmers. The informal traders (hawkers) constitute 35% of the traders at the market.

### **3.4 Tourism Development and Promotion**

#### **Performance Highlights and Achievements:**

Tourism is one of the key growth economic sectors of municipal economy. Despite the recession it has continued to show prospects of job creation, skills development and marketing of the Buffalo City Metropolitan Municipality as tourism destination.

The 2010/2011 has been the difficult year in so far as the implementation of many planned activities by the Department. This is due to the cash trap situation that the institution was experiencing in the first and second quarter of the financial year. Despite this challenge the unit concluded its planning processes in so far as the following projects are concerned and as a result they were implementable at the beginning of the 2011/12 financial year. These include amongst other the following projects:

- ✓ Tourism Business and Attractions Audit and Database development program;
- ✓ Economic Planning project (Feasibility study to determine the economic potential of two rural nodes); and
- ✓ Liberation Heritage and Tourism Route Projects.

All the above-mentioned projects although were planned for the previous financial are currently being implemented in this financial year. Even though it was a challenging year, this did not halt the institution in its endeavours to develop tourism in the area. As part of the programs implemented in the 2010/2011 is the market access program for the SMME's in the accommodation and Art and Craft Sector. The crafters were supported to participate in the following trade shows:

- ✓ Rand Easter Show in Johannesburg;
- ✓ Grahamstown Festival in Grahamstown; and
- ✓ Home Expo in East London.

All of the above platforms are created to give crafters an opportunity to showcase and sell their products. In their report to the municipality they have indicated that they have received numerous orders as a result of their participation in these shows. As part of the marketing support given to crafters, the unit assisted the crafters with the design and printing of a comprehensive brochure that profiles various crafters available in BCMM.

The institution also gave an opportunity to the accommodation subsector to participate in Indaba Trade Show which is an international trade show held in Durban. They also participate in the Destinations Expo held in Cape and the Kyalami Outdoor show held in Johannesburg.

#### **Skills Development Program**

One of our key focal area is skills development in the tourism sector. The institution conducted two training programs which are as follows:

- ✓ **Product Design and Development:** the program was for the crafters to be taught new innovative ways of developing a diversified product in relation to bid work. Such program was informed by the demand in the market;
- ✓ **Beginner's course in interior decoration:** the target market for this program was the owners of guest houses and B&B's to assist them with skills on various aspect of decorating their guest houses so that they are attractive and appealing to the market; and
- ✓ **Customer Care Training:** the training was targeting all subsectors of the tourism industry. The purpose is to equip people with skills that will allow them to always provide an excellent service to its visitors/clients.

#### **Tourism Business Support Program:**

The institution assisted three tourism SMMEs with signage, grading and printing of promotional material. Even though the department targeted a large number of SMME's this was not achieved as most of them already received assistance from other organizations.

#### **Tourism Events**

In spite of the limited capacity in the unit, the unit once again organized a successful summer season events program. The program had over 20 000 people attending various activities at various days. The season kicked off with the Switch on of the festive lights wherein the East London area had counted well over 10 000 people attending the event. All events were incident free and were well received by local citizens.

#### **Tourism Infrastructure Program**

As part of the tourism infrastructure program, the municipality supported two community tourism projects. These are Kiwane Campsite Resort which is located in Tyolomnqa area. The project is assisted with the provision of electricity supply to the project. The project is earmarked to be launched in December 2011. The second project is the Tyolomnqa Wilderness Camp which is assisted with the access road leading to the project. Both projects are funded by the National Department of Tourism in partnership with the municipality. This is part of the poverty relief and employment creation initiative by government. Both projects involve the construction of tourist chalets, conference centre, restaurant facility and recreational facilities. Both project currently employs 135 people.

### **3.5 Business Development**

#### **Performance Highlights and Achievements**

Small micro and medium enterprises (SMMEs) contribute significantly to the municipality's economic growth and employment creation. During the reporting period, the Business Development unit focused on creating a conducive and enabling environment for SMME growth and development through the following programmes:

- ✓ Capacity building and training
- ✓ SMME marketing
- ✓ Information sharing
- ✓ Research
- ✓ Financial support

The Institution has through its SMME support centres (Mdantsane One Stop Shop and the Duncan Village Business Support Centre) provided eight (8) capacity building and training workshops to 160 identified SMMEs (including cooperatives) trading in East London,

Mdantsane, King William's Town, Zwelitsha, Dimbaza and surrounding areas. The training workshops were aimed at capacitating SMMEs in customer care, tenders advice and general basic business management skills. Also, 20 emerging contractors from Duncan Village benefited from the Emerging Contractor Development Project which was aimed at building the capacity of these emerging contractors in contract management in general. More than 50 cooperatives were registered at the above-mentioned business support centres and some of these participated in the above-mentioned training workshops.

On SMME marketing, ten (10) identified SMMEs from within the municipality participated in the two-day Business Unlimited Expo where they exhibited their products and services they were offering to their customers. This event provided a platform for these SMMEs to profile themselves to their customers and to also network with big corporate.

Three SMME Information Seminars, aimed at providing a platform for sharing information to SMMEs were held in Zwelitsha, Duncan Village and Tsholomnqa. Access to information has been identified as one of the hurdles negatively influencing SMME access to development opportunities. The Duncan Village Skills Audit, a project geared towards profiling and assessing the skills of Duncan Village residents aged between the ages 16 to 60, was conducted during the reporting period. The skills databank will be utilised as a vehicle to develop the township's residents.

The municipality provided financial support to the tune of R2 million to ten (10) primary cooperatives within the city. Each cooperative received R200 000 worth of equipment for the development of their businesses. Cooperatives are instrumental in the municipality's endeavour to push back the frontiers of poverty in the city. BCMM also provided R400 000 worth of industrial umbrellas to 530 street hawkers from Mdantsane, King William's Town, Berlin, Dimbaza, Zwelitsha and East London. This project was aimed at providing shelter to hawkers during adverse weather conditions. The informal sector also contributes significantly to the economy of the municipality.

### **3.6 Trade and Investment**

#### **Performance Highlights and Achievements**

Trade and Investment is critical factor for sustained economic development and growth. Key objective was to increase and attract foreign and domestic investment. This objective would be met by implementing three programmes which are research initiatives:

- ✓ Economic Intelligence;
- ✓ Business Retention and Expansion (BRE); and
- ✓ Invest Buffalo City.

Economic recession had a negative in the investment recruitment and attraction. Further more limited internal and external resources comprised the implementation of projects earmarked to achieve this noble objective.

Annual Business Unlimited Expo was successful event held to promote local businesses. Five SMME's were supported by the department to participate in the event. The support included the registration to the pre-event training, exhibition stand to exhibit products and participates in workshop targeted to SMME's.

Partnerships with institutions involved in Investment recruitment was explored with East London Industrial Development Zone (ELIDZ), Eastern Cape Development Corporation and the Border Kei Chamber on the Invest Buffalo City initiative.

### 3.7 Key Challenges of the Department

- ✓ Lack of financial support and technical staff for Agriculture and Rural Development;
- ✓ Lack of clear provincial approach on Integrated Rural Development;
- ✓ 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
- ✓ Opening and the functioning of the Duncan Village Business was delayed due to budget constraints and staff recruitment only commenced in the last quarter of the financial year. Budget allocation still remains a challenge for the operations of the center.

#### 3.7.1 Key Areas of Improvement

- ✓ Integrated Project Planning
- ✓ Monitoring and Evaluation
- ✓ Ensuring an effective Business Forum
- ✓ Improve communication

#### 3.7.2 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 and it clarifies:

- ✓ The BCMM Economic Development Vision; Objectives; and action plan.

LED strategy has made recognition and a need for the development of sector plans.

- ✓ Tourism Masterplan being reviewed;
- ✓ Integrated Agriculture and Rural Development Strategy;

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. There is need for support for Agriculture and Rural Development as funding for LED initiatives

Various LED sector Forums have been established i.e. Tourism stakeholders Forum, Cooperatives Forum, SMME Forum. These forums are meeting a monthly and quarterly basis. Underway for Trade and Investment is the process of establishing an Export Forum in partnership with Eastern Cape Development Corporation and East London Industrial Development Zone.

Funding of LED initiatives depends on external funding sources as follows:

- ✓ DBSA-4 million for the Fresh Produce Market



- ✓ Department of Tourism Kiwane Campsite and Tyolomnqa
- ✓ Department of Tourism 5 million for Mdantsane Community
- ✓ 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)

Table 29 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)	R500mln of investment annually in priority sectors between 2009-2014

In creating a enabling economic environment key interventions in a form of programmes were implemented for the 10/11 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: Focus is on food production and entrepreneurship

**c. Intensify Enterprise support and Business Development**

BCMM has two SMME Support centres and partnership with The Business Place in King Williams' Town:

- 1) Mdantsane One Stop Shop,
- 2) Duncan Village Business Hives

Services offered to SMME's include:

- ✓ SMME Infrastructure
- ✓ Capacity building programme
- ✓ Cooperative Development Support
- ✓ Emerging Contractor Development Programme
- ✓ How to start a tourism business

#### d. Trade and Investment

As part of the department's intervention to attract and retain investment, the following programmes were earmarked to be implemented:-

- ✓ Trade and Investment Programme

**Table 30 Annual performance as per key performance indicators in LED** [*indicators reported below are for public information and have not been audited*]<sup>viii</sup> mandatory requirement in terms of municipal reporting template.

	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% 6,7 million of Capital budget spent on LED capital projects	3 Million	64%
2	Number of LED stakeholder forum held	5	6	100%
3	Percentage of SMME that have benefited from a SMME support program	30	200	130%
4	Number of job opportunities created through EPWP	80 000 (man days)	119 880 (man days)	N/A
5	Number of job opportunities created through PPP	N/A	N/A	N/A

### **3.8 Challenges regarding LED strategy implementation**

- ✓ Changing economic environment because changing economic environment and new metropolitan;
- ✓ 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

### **3.9 Way Forward**

- ✓ Review economic development strategy and sector plans to be in line with New Growth Path;
- ✓ Improve capacity of the department by filling vacant funded and unfunded posts;
- ✓ Development of an institutional monitoring and evaluation tool; and
- ✓ Institutional wide approach on Business Retention and Red-Tape reduction process.