

Quantitative Report

**Programme of Support to Local Economic Development in
the Eastern Cape**

**Eastern Cape
Competitive Advantage Assessment
And Training Support Project**

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Acronyms and Abbreviations

| | | | |
|--------|---|-------|---|
| BEE | Black Economic Empowerment | LG | Local Government |
| CBO | Community Based Organisation | LGSF | Local Government Support Fund |
| CMIP | Consolidated Municipal Infrastructure Programme | LM | Local Municipality |
| DBSA | Development Bank of Southern Africa | MDB | Municipal Demarcation Board |
| DM | District Municipality | MIG | Municipal Infrastructure Grant |
| DMA | District Management Area | MPCC | Multi-Purpose Community Centre |
| DoRA | Division of Revenue Act | MSIG | Municipal Systems Improvement Grant |
| DPLG | Department of Provincial and Local Government | MSP | Municipal Service partnership |
| DTI | Department of Trade and Industry | NGO | Non-Governmental Organisation |
| DHLGTA | Department of Housing, Local Government and Traditional Affairs | NSDP | National Spatial Development Perspective |
| DWAF | Department of Water Affairs and Forestry | PACA | Participatory Appraisal of Competitive Advantage |
| EAP | Economically Active Person | PBF | Partnership for Business Fund |
| EPWP | Extended Public Works Programme | PFMA | Provincial Finance and Management Act |
| EC | Eastern Cape | PGDP | Provincial Growth and Development Plan |
| ECDC | Eastern Cape Development Corporation | PGDS | Provincial Growth and Development Strategy |
| ECSECC | Eastern Cape Socio Economic Consultative Council | PIMSS | Planning, Implementation, Management Support System |
| ECTB | Eastern Cape Tourism Board | PMS | Performance Management System |
| EU | European Union | PCU | Programme Coordination Unit |
| FIF | Financial Innovation Fund | PPP | Public Private Partnership |
| GDP | Gross Domestic Product | RLCC | Regional Land Claims Commission |
| GGP | Gross Geographic Product | SACN | South Africa Cities Network |
| GIS | Geographic Information System | SADC | South African Development Community |
| HDI | Human Development Index | SALGA | South African Local Government Association |
| IDP | Integrated Development Plan | SAQA | South African Qualifications Agency |
| IDZ | Industrial Development Zone | SBP | Small Business Project |
| IPMU | Interim Programme Management Unit | SDI | Spatial Development Initiative |
| ISRDP | Integrated Sustainable Rural Development Programme | SDP | Skills Development Plan |
| KPA | Key Performance Area | SETA | Sectoral Education and Training Authority |
| KPI | Key Performance Indicator | SMME | Small, Medium and Micro Enterprise |
| LBSC | Local Business Support Centre | SWOT | Strengths, Weaknesses, Opportunities and Threats Analysis |
| LCF | Local Competitiveness Fund | UNDP | United Nations Development Fund |
| LED | Local Economic Development | URP | Urban Renewal Programme |
| LEDF | Local Economic Development Fund | | |

Glossary

Comparative Advantage: Indication of relatively more competitive, or efficient, production function for a product or service in a specific economy than in the aggregate economy.

Competitive Advantage: Indication of the production of greater value goods or services through either lower prices or greater benefits and service justifying higher prices than competitors.

Economically Active Population (EAP) (Expanded Definition): Number of employed and unemployed persons aged 15 to 65 able and willing to work. The EAP expanded definition includes persons who consider themselves unemployed and did not take recent steps to find work.

Functional Literacy: Percentage population aged 20 years and above with seven years of formal education.

Gini Coefficient: A summary statistic of income inequality, varying from 0 (equal) to 1 (inequitable).

Growth Performance Index (GPI): Indicator of growth of an economy or sector, relative to aggregate economy or sector, where a GPI larger (smaller) than 100 indicates a leading (lagging) economy or sector.

Gross Geographic Product (GGP): The total market-related value for a particular year of all goods and services produced within a geographically defined area.

Gross Geographic Value Added (GVA): A measure of production value for market goods and services relative to labour remuneration for a geographically defined area for a particular year.

Human Development Index (HDI): A composite index of three measures – life expectancy at birth, adult literacy and per capita income. The HDI attempts to quantify the extent of human development of a community and ranges in value from 0 (least) to 1 (most developed).

Icon Project: Project identified on basis of potential for growth and job creation, multiplier linkages, and potential to leverage massive public and private investment into the second economy. Icon projects form part of the Presidential initiative to kickstart and accelerate implementation of high impact projects.

Index of Buying Power (IBP): A measure of a region's general capacity to absorb products and services, dependent on three factors – number of consumer units (population size); ability to spend (total income); and willingness to spend (total retail sales). The IBP ranges from 0 to 1 (with national equal to 1) and can be interpreted as the percentage of national buying power attributable to a specific area.

Labour Force: The total number of persons engaged in formal and informal economic activity together with unemployed persons.

Location Quotient (LQ): Indicator of the comparative advantage of an economy, or a particular economic sector, where an LQ larger (smaller) than one indicates a relative advantage (disadvantage).

Population Density: The number of persons per square kilometre.

Poverty Gap: The depth of poverty, as measured by the difference between each poor household's income and the poverty line. As such, the poverty gap equates to the amount by which the incomes of poor households need to be raised each year to bring all households up to the poverty line and hence out of poverty.

Poverty Income: The minimum monthly income needed to sustain a household – the larger the household the larger the income required to keep its members out of poverty.

Poverty Rate: Percentage population living in households with an income less than the poverty income.

Semi-urban and Rural areas: A semi-urban area adjoins, but is not part of, a legally proclaimed urban area, such as informal settlements. Global Insight includes semi-urban areas with rural, or non-urban, areas. A rural area is a non-urban area, including commercial farms, small settlements, rural villages and other areas, which are further away from towns and cities than semi-urban areas.

Shift-Share: Indicator of relative growth of an economy, or economic sector, relative to the aggregate economy gained by applying the aggregate growth rate to the sub-economy or sector and comparing the results. A comparative advantage (disadvantage) is indicated where there is a positive (negative) shift in share.

Total Disposable Income: Total disposable income is calculated by subtracting taxes from total personal income, which is the sum of all households' incomes.

Tress Index: Indicator of the level of concentration or diversification of an economy, ranging from 0 (diverse) to 100 (concentrated).

Unemployment Rate (Expanded Definition): Percentage EAP without work. The expanded definition includes unemployed persons that are not looking for work but would accept work if it were offered to them.

Urban area: An area legally proclaimed as urban, including towns, cities and metropolitan areas

1 Introduction

This quantitative report results from a desktop study aimed at providing a rapid quantitative insight into the competitive advantage of each of the 44 Eastern Cape municipalities. In the pending participatory assessment and training phase the findings of this quantitative report will be shared and discussed with workshop attendants. The findings will also be tested for reliability and embellished with local knowledge – a reciprocal process which should add value to the project and its deliverables.

The limited timeframe allocated to the study does not permit a comprehensive competitive advantage baseline to be established, but the “competitive advantage snapshots” compiled below may be used to highlight opportunities and needs and to inform decision-making with regards to investment, training and LED interventions.

2 Methodology

Information used in the report has been gathered and analysed from a range of secondary sources and builds upon the research results of related LED Support Programme projects undertaken in the Eastern Cape. Secondary sources include Statistics South Africa, Global Insight, Municipal Demarcation Board, Provincial and national departments and parastatals, local and district municipalities and various consultant reports. It is recognised that the data gained from these sources is of varying degrees of accuracy and reliability, which is discussed in Annexure ***

This desktop quantitative analysis of the Eastern Cape economy has resulted in the formulation of comparative snapshots across the local and district municipalities. Each of the municipal snapshots is comprised of indicators and indices developed to integrate the large quantity of available data into brief comprehensible assessments of identified elements of competitive advantage. All indicators and indices are scored out of 100 and have been formulated such that a higher score consistently reflects a positive measure. The process of developing indicators and formulating composite municipal competitive advantage indices is detailed in the metadata report (Annexure ***).

The typology of municipalities utilised in the Local Government Research project is carried through to this study. The space economy mapping is informed by the frameworks of the National Spatial Development Perspective (NSDP), Provincial Growth and Development Plan (PGDP), and existing municipal Spatial Development Frameworks (SDF's), and by the corridors identified in the Value Chain Study.

3 Setting The Context

3.1 National and Provincial Frameworks and Strategies

Economic Growth is viewed as a prerequisite for converting South Africa's hard-won political freedoms into freedom from poverty and deprivation. Much of the first decade of South Africa's democracy was spent in defining a modern macro-economic growth strategy, reducing the budget deficit, curtailing inflation and re-establishing an outward-oriented economy. It is within the context of the achieved macro-economic strength and stability that Government is looking to LED to convert increasing economic competitiveness into opportunities that can be exploited - particularly by previously disadvantaged South Africans - to alleviate poverty and increase household income.

In spite of the emphasis placed on LED, it is only in the past two years that LED policy has gained a semblance of coherence. Many of South Africa's initial experiments with LED were characterised by competing paradigms and confusion over the State's role and responsibility (Hindson & Vicente, 2005)¹. An MXA review of the LEDF established that LED strategies were too often associated with State-initiated projects managed by municipal officials. Typically these projects involved passive, disempowered beneficiaries and were financially dependent on public funds (MXA, 2003).² Local government driven and financed projects represent a misinterpretation of the enabling role envisaged for local governments in the 1996 Constitution and in the Municipal Systems Act (2000). DPLG's 2005 paper, *Guidelines for LED Policy* re-iterates that local governments are to play a strategic role in co-ordinating the activities of national departments so as to stimulate and facilitate LED, with the support of provincial and national government.

During the same period there was an acknowledgement that the distribution of fiscal investment and resources since 1994 did not adequately address the spatial distortions of the apartheid economy (NSDP, 2003). In an attempt to align development spending across all spheres of government with spatial priorities, several spatial co-ordinating and integrating mechanisms were initiated culminating in the National Spatial Development Perspective (NSDP). The key objective of the NSDP includes the provision of a common framework for investment and development strategies. The focus is on mapping potential and need with regards to natural resources, infrastructure and economic activity.

Whilst some tensions between the spatial and the sectoral LED strategies persist, the emerging perspectives on LED have informed the launch of DPLG's Municipal Infrastructure Grant (MIG), the Integrated Sustainable Rural Development Programme (ISRDP), and the Urban Renewal Programme (URP) focussed on rural and urban poverty, the Spatial Development Initiatives (SDIs) and the demarcation of industrial development zones (IDZs).

¹ Hindson, D & Vicente, V (2005) *Wither LED in South Africa: a commentary on the policy guidelines for implementing local economic development in South Africa* (July).

² MXA (2003) *Evaluation of the CMIP and LED Fund Programmes (DPLG)*, McIntosh Xaba & Associates, Durban.

The Eastern Cape's Provincial Growth and Development Plan (PGDP) reflects the changing policy context. Appropriately, the PGDP assigns priority to the former homelands and targets the systematic eradication of poverty, the transformation of the agrarian economy, and the development and diversification of tourism and manufacturing. The PGDP also, however, emphasises the importance of promoting competitiveness, financial sustainability and global integration in LED initiatives and reiterates that local authorities should focus on development facilitation, governance and administration, and regulation and service delivery as opposed to the direct creation of jobs and the financing of small local projects (PGDP, 2003)³. More than most provinces in South Africa, the Eastern Cape was isolated from international and national markets between 1960 and 1990 and suffered under low investment in human and economic capital (UNDP, 2003). In spite of acute capacity constraints, the Eastern Cape has embraced the challenging notion that LED should be systemic to the activities of a range of Government departments. This approach is evident in the alignment of responsibilities within the European Union's LED Support Programme (which has been adopted by the Provincial Growth and Development Strategy) with the respective mandates of a range of line departments and economic parastatals⁴.

The Province is home to four designated ISRDP nodes, Ukhahlamba, Alfred Nzo, Chris Hani and OR Tambo, two URP nodes at Mdantsane and Motherwell, and two "reduced tax obligation" Industrial Development Zones at East London and Coega. Sustained investment from the national fiscus in conjunction with increasing policy coherence, appear to have yielded positive developments with regard to competitiveness and economic growth, job creation and poverty alleviation in recent years, particularly in the urban centres. Notable economic sectors include the automobile industry (40% of the national automobile industry is based in the Province), the wool and mohair sector (65% of global supply), processed agricultural goods (pineapple and tea), and newly established ecotourism ventures (which have contributed to consistent double-digit growth in this sector over the past 4 years). In addition, the export potential of the Eastern Cape's industry has been enhanced by the increasing capacity and efficiency of the Province's two ports and through targeted export assistance.

3.2 District and Local Municipalities in the Provincial Context

The district and local municipalities of the Eastern Cape manifest diverse economic, social and environmental conditions. Five of the six districts include areas of the former Transkei and Ciskei homelands – the exception is Cacadu, which is principally Karoo semi-desert and has by far the lowest population density. The Nelson Mandela Metropole is overwhelmingly urban and has the highest population density, followed closely by Buffalo City within the Amatole District. Amatole presents the greatest range in fortunes, incorporating poor and underdeveloped, largely former homeland areas, alongside areas of relative prosperity. Alfred Nzo and OR Tambo cover the bulk of former Transkei and include the poorest areas of the Province, with the lowest HDI and per capita GDP. Only marginally

³ Certainly there is scope for simplifying the regulatory environment. In 2004 compliance procedures cost South African businesses an estimated R79 billion, and impaired economic growth by up to 1.4% (SBP, 2005)³. Critically, the burden was disproportionately large on small and emerging businesses.

⁴ ECDC, ECTB, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Consumer Tribunal, Coega Development Corporation, and East London Development Zone Corporation are the Eastern Cape parastatals within the economic cluster.

better-off are the districts of Ukhahlamba and Chris Hani which are predominantly former Cape Province areas with portions of the former homelands.

Discerning comparative advantage in the Eastern Cape is complicated by the fact that a number of industries in the province received State support both during and subsequent to the apartheid era. Each of the districts of the Eastern Cape is, however, associated with a degree of specialisation and competitive advantage:

- Cacadu in agriculture – the district contributes the greatest share of agricultural value added and is the centre of the Provincial fruit, wool and mohair industries;
- Alfred Nzo and OR Tambo in forestry – the two districts are home to much of the Province's forests and contribute the bulk of forestry value added;
- Chris Hani in cattle and dairy – the district includes the centre for the cattle trade and has a growing dairy industry;
- Ukhahlamba is competitive in a range of agricultural goods and is the Province's main district for maize and wheat production, with irrigation along the Orange River;
- Nelson Mandela Metro and Amatole respectively generate the greatest share of value added in the Province, most of which is attributable to manufacturing in the automotive sector.

Given the central role that developmental local government is to play in facilitating LED and in service delivery, considerable emphasis has, of late, been dedicated to the alignment of IDPs with the PGDP and NSDP, as well as to improving intergovernmental (including parastatal) coordination and strengthening municipal capacity and IDPs. Another key initiative, emerging as the Spatial PGDP, is the integration of spatial and land-use planning and the alignment of the Provincial Spatial Development Framework with the NSDP. In this regard, several corridors of economic opportunity have been identified, including the Fish River SDI (Amathole/Cacadu/Metro), the Irrigation Belt (Ukhahlamba/Chris Hani/Amatole/Cacadu) and the Wild Coast SDI and Agro-Tourism Corridor (OR Tambo/Amatole/Alfred Nzo). Other corridors are identified as the Umtata-East London Corridor (Alfred Nzo/OR Tambo/Amatole) and the Karoo (Cacadu/Nelson Mandela Metro/Chris Hani) and Addo Elephant/Tsitsikamma (Metro/Cacadu) Agro-Tourism Belts. Within this framework, ECDC has identified a series of economic investment opportunities, by sector and by IDZ.

4 Competitive Advantage

The concept of competitive advantage is frequently misunderstood and often confused with the notion of comparative advantage. A comparative advantage reflects the given strengths of an area (principally in terms of low-cost input factors such as natural resources and labour) relative to other areas and the aggregate economy. A region's natural attributes and resources influence the opportunity cost at which it can produce specific goods. Differences in relative opportunity costs, derived from differences in natural endowments, constitute comparative advantage.

Competitive advantage is often established on the back of comparative advantage, but involves actual not opportunity costs, and can be influenced by economic and business strategies. Porter identifies two basic types of competitive advantage, namely cost advantage and differentiation advantage. Competitive advantage can be realised by using resources and capabilities to achieve either a lower cost structure or a differentiated focus. Innovation, effective marketing and enhancing the productivity of labour and capital resources are key determinants of sustained competitive advantage, which in turn is capable of enhancing standards of living and per capita income of the employed. In an increasingly integrated global economy, companies and regions that are able to defend some form of competitive advantage are more likely to prove financially sustainable.

5 Developing Competitive Advantage Indicators

Whilst most people are able to recognise competitive advantage where it exists, it is not easy to quantify. In assessing and comparing competitive advantage across districts within the Eastern Cape, this study makes use of proxy variables that provide insight into certain components of competitive advantage. Proxies, by definition, do not measure the actual item that is being analysed and, taken individually, can be misleading. Collectively the proxy variables developed for this study facilitate insight into existing and future competitive advantage.

Proxies used in this study are grouped into the four identified elements of municipal competitive advantage, briefly explored below.

- **Infrastructure and Services:** principally “hard” tangible infrastructure such as roads and telecommunications, public good infrastructure and related basic services. Infrastructure is significant in reducing transaction costs (eg. transport costs), enhancing market function through increasing factor mobility, and can facilitate the clustering of businesses with mutually enforcing activities. The provision of public good infrastructure enhances quality of life and “human capital” and enables freedom from survivalist strategies, thereby facilitating higher productivity and lowering incidental costs associated with low human development in terms of education, health and welfare.
- **“Rules of the Game”** or the Institutional Environment: includes aspects of “soft” infrastructure, such as enterprise support and financial services, and features which impact on economic growth and the business environment, such as crime, tenure security, planning and economic policy, and the economic structure and organisation. Rules of the game that support competitive advantage are those that provide legislative certainty and assistance to developing enterprises, and those that reduce risk and transaction costs.
- **Economic Indicators:** includes classic indicators of economic performance (eg. GGP and employment, dependency, income and expenditure, Location Quotient, Tress Index, and growth performance index) and shift-share analysis as the classic indicator of economic

advantage. Economic activity in formal and informal, public and private, sectors is considered, as is the flow of funding (investment, transfers/allocations, welfare). “Trade and Transactions” (imports-exports, consumption indicators, and trends in growth rates), identified as a separate element in the Inception Report, is incorporated largely within this category of economic indicators. Particular strengths, opportunities and local economic advantages, including agro-ecological potential, are further included in this element of competitive advantage.

- **Capacity:** includes human development in respect of education and training, the availability of a range of skills, the presence of LED units and/or officers within local government, and the involvement of women in economic activity. Higher educational qualifications indicate greater human capital and capacity to exploit economic opportunities, while the availability of appointed LED officers provides a measure of municipal capacity to engage with the local economy. The presence of women amongst the employed population reflects on the effectiveness of public policies and provides insight into the ability of the economy to convert employment into “virtuous” economic growth spin-offs, which can be viewed as a component of competitive advantage.

The above four categories are not intended to stand alone, although each element does explore crucial aspects of the economic development environment. Nevertheless, these elements interact to provide a composite index of a region’s capacity to gain, and sustain, competitive advantage.

6 District Profiles

Annexure 1: District & Metro Profile Cacadu District (DC10) and Nelson Mandela Metropolitan Municipalities

Annexure 2: District Profile Amathole District Municipality (DC12)

Annexure 3: District Profile Chris Hani District Municipality (DC13)

Annexure 4: District Profile Ukhahlamba District Municipality (DC14)

Annexure 5: District Profile O.R. Tambo District Municipality (DC15)

Annexure 6: District Profile Alfred Nzo District Municipality (DC 44)