

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

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

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

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1 District Profile Alfred Nzo District Municipality (DC 44)

The Alfred Nzo District Municipality (ANDM), one of the four ISRDP nodes in the Eastern Cape, is a mountainous landlocked district in the north-eastern portion of the province characterised by high rainfall and grassland vegetation. The District is situated from 1000m above sea level, rising to the southern Drakensberg. ANDM is bordered by Lesotho and the KwaZulu-Natal Province and by the Eastern Cape districts of O.R. Tambo and Ukhahlamba (refer to 1.3). ANDM's administrative centre is Mount Ayliff, whereas the District's economic centre, Kokstad, falls beyond its borders.

Until recently, ANDM consisted of two local municipal areas and covered an area of 7870.28 km². One local municipality, Umzimkhulu, was an island within the neighbouring KwaZulu-Natal Province and has since been incorporated into that Province. The remaining District extends over 5434.15km² and incorporates three former Transkei magisterial districts into the local Municipality of Umzimvubu and O'Connors Camp District Management Area (ECDMA44). ECDMA44, established for the reason of being a Provincial nature reserve, extends over 136.34 km² and is uninhabited. The DMA has, for all practical purposes, been combined with an Umzimvubu ward and has been recommended for disestablishment (MDB, July 2003).

Alfred Nzo¹ has a small population, accounting for 5.62% of the Provincial population. However, the District only claims 3.16% of Provincial land, pointing to higher density levels – in fact, the District's population density is more than double the Provincial average (40.95). Nonetheless, ANDM is almost entirely rural (with an urbanisation rate of 0.60%), has the greatest rate of female presence (54.65%) and of people aged under 20 years (53.66%) in the Province. ANDM is classified as a Category C2 municipality, reflecting on its largely rural character and low urbanisation rate, as well as on limited municipal staff and budget capacity. Umzimvubu is classed as a Category B4 municipality, similarly reflecting on limited institutional capacity, a low urbanisation rate and a rural character, and pointing to general economic characteristics of subsistence agriculture and of small resource-poor centres, limited SMMEs and market opportunities, dependence on public support, and LED activities that are principally at the level of the small project.

Along with OR Tambo, the District has the lowest HDI (0.44), with the overwhelming majority (84.38%) of the population living in poverty and an unemployment rate of 77.58%. The poverty gap of R676.64m accounts for 7.59% of the Provincial total, which is significant given the District's small population. Alfred Nzo contributes less than one percent (0.85%) of GDP to the Provincial economy, faring slightly better in contribution to Provincial formal employment (1.42%). The District is heavily reliant on the Community Services sector for both formal employment (56.68%) and GVA-R (61.26%).

¹ All figures for Alfred Nzo reflect only on the remaining local municipality, Umzimvubu. Statistics relating to the former district area are included in the table below for reference purposes.

1.1 Baseline District and Local Municipal Statistics

Categories	2004	B4 Umzimvubu	C2 Alfred Nzo DM	B4 Umzimkhulu
Area (km2) (MDB) ²		5,297.81	7,870.28	2,436.13
Population (No.)		385,835	566,781	180,947
Urbanisation Rate (%)		0.60	1.63	3.83
Density (people/km2)		85.92	81.80	74.20
Demographics (%)	Black	99.81	99.79	99.74
	White	0.04	0.03	0.01
	Coloured	0.13	0.16	0.22
	Asian	0.02	0.03	0.03
Gender (%)	Female	54.65	54.92	55.48
	Male	45.35	45.08	44.52
Age (%)	0-4	13.55	13.93	14.73
	5-19	40.11	39.79	39.12
	20-64	40.47	40.64	41.02
	65+	5.87	5.64	5.13
HDI		0.44	0.44	0.43
HIV Prevalence (% , 2003) ³		30.10		
Functional Literacy (%)		58.33	56.73	53.33
Education Levels (% age 15+)	None	7.03	6.83	6.38
	Grade 12	7.30	7.10	6.66
	Tertiary	2.70	3.23	4.37
Household Monthly Income Levels (%)	R0-200	12.03	10.82	7.88
	R201-1000	38.19	36.69	33.04
	R1001-2500	26.73	28.49	32.76
GDP per capita (R'000) ⁴		2.00	2.76	4.37
Unemployment (%) ⁵		77.58	76.02	72.66
Dependency Ratio		4.14	4.14	4.13

² Municipal Demarcation Board – Global Insight geographic areas used for all other categories for internal integrity

³ EC Department of Health

⁴ GDP by Region (GDP-R) at Current Prices

⁵ Expanded definition

Categories	2004	B4 Umzimvubu	C2 Alfred Nzo DM	B4 Umzimkhulu
Financial Grant Dependency⁶		83.00	1131.72	-
Access to basic services (% Households, 2001)	Water	21.95	23.37	26.67
	Sanitation	66.66	73.69	90.60
	Electricity	19.46	23.00	31.07
	Refuse	4.76	4.70	4.60
	Housing	96.13	96.41	97.00

¹ Municipal Demarcation Board – Global Insight geographic areas used for all other categories for internal integrity

¹ EC Department of Health

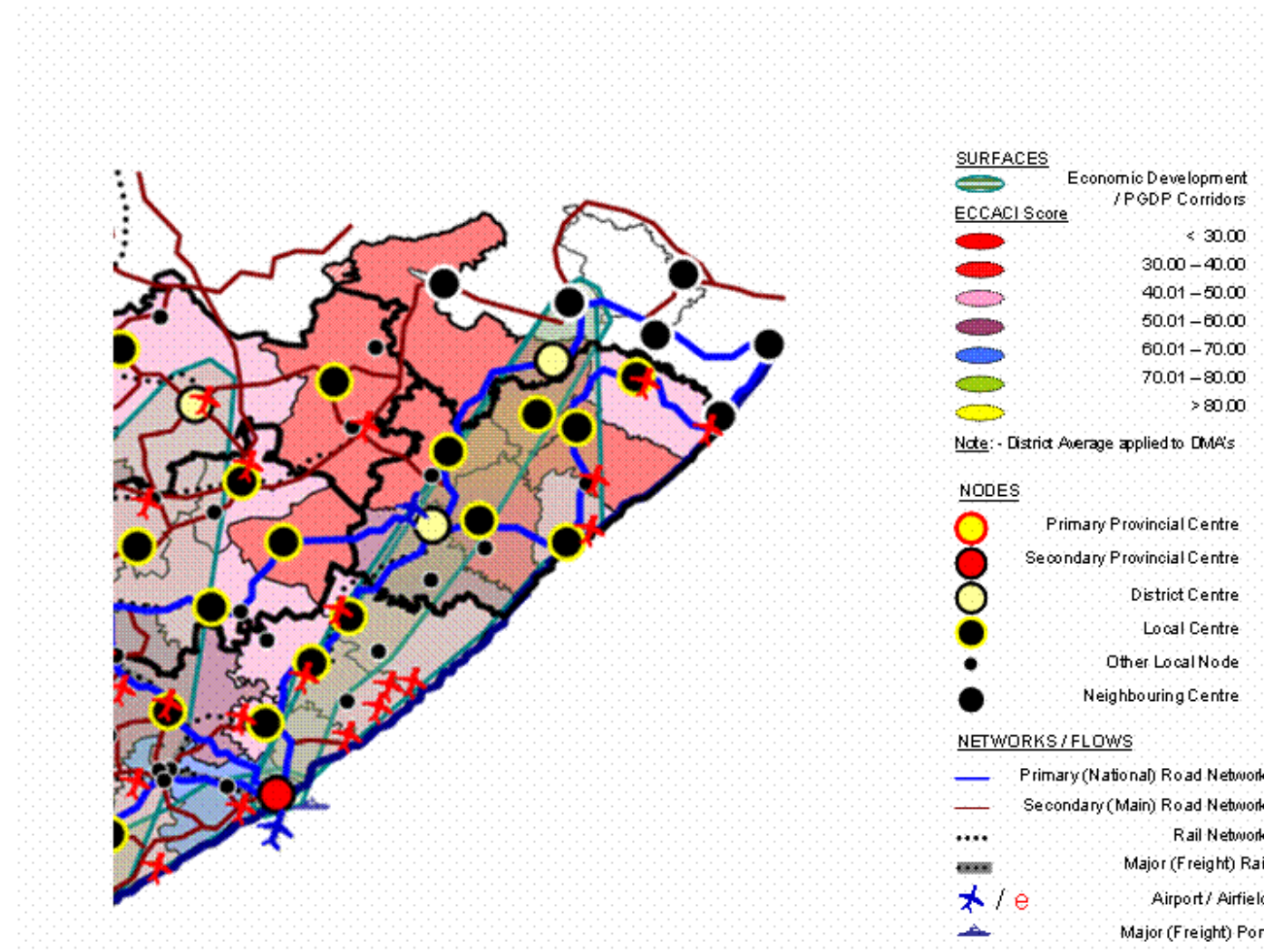
¹ GDP by Region (GDP-R) at Current Prices

¹ Expanded definition

¹ % of municipal 2002/03 budget constituted of grants/subsidies and transfers/allocations

⁶ % of municipal 2002/03 budget constituted of grants/subsidies and transfers/allocations

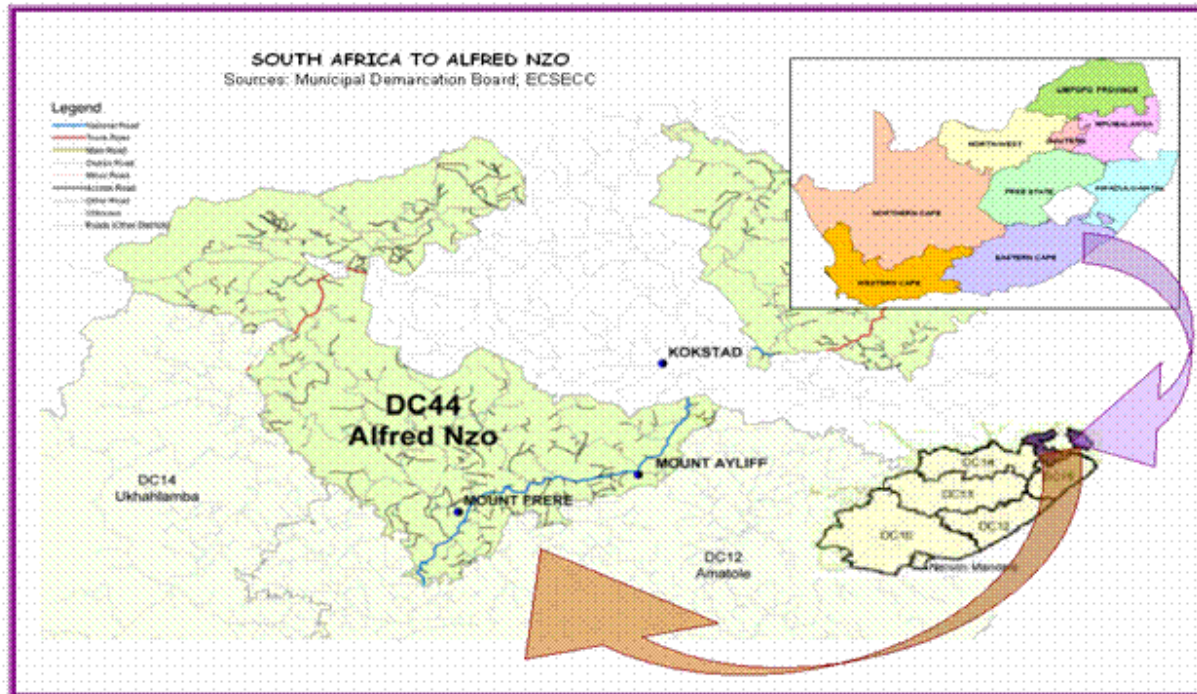
1.2 The District Space Economy



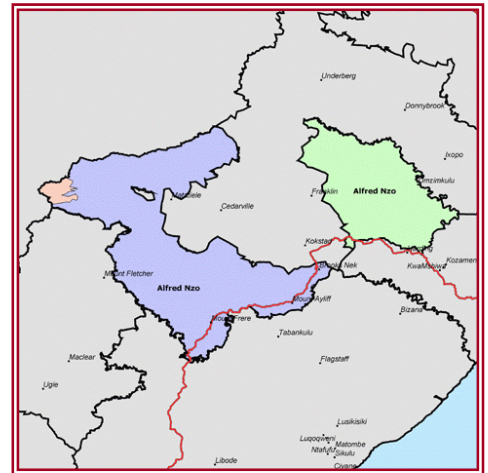
Conceptual map providing overview of socio-economic context and of spatial linkages and surfaces across the district

1.3 Competitive Advantage Profiles

The elements of municipal competitive advantage are explored below for the District and Local Municipalities. Realising that the Alfred Nzo District profile now correlates on most counts with its only remaining local municipality, repetition has been avoided by picking up on the key features of Umzimvubu's profile and reflecting on any additional unique features of the District environment.



2 The District Development Framework: Alfred Nzo District Municipality (DC44)⁷



The District Vision is of a “*self-sustainable municipality which stimulates socio-economic growth and development by 2014*”. In line with its vision, the municipality has identified six key development priorities: Infrastructure; Social Infrastructure; Institutional Development; Spatial Development and Housing Provision; Poverty Alleviation through Economic Development; and Environmental Management.

An aggressive LED strategy is needed to respond to the District’s many challenges – high unemployment and poverty; a low skills base; over dependence on public services; poor economic activity; a low revenue base; and a highly concentrated subsistence farming economy. Another challenge is the leakage of revenue and labour to better-developed and established centres like Kokstad.

The LED Vision is to “develop a vibrant and sustainable local economy for the benefit of the local population through creating sustainable business growth, infrastructure development and creation of jobs”. To effect this vision, the LED plan prioritises: Infrastructure and Services; SMMEs; Investment attraction and place marketing; Diversification of the economic base; Tourism, forestry, agriculture and manufacturing; and Human resource development. One of the key success factors of LED is exploitation of local resources and opportunities to maximise benefits and impact for the area – and Alfred Nzo has a wealth of natural resources.

2.1 Key Elements of Municipal Competitive Advantage

2.1.1 Infrastructure and Services

Umzimvubu’s Infrastructure and Services Index score reflects low levels of development in basic services, transport and economic infrastructure. Cellular coverage is not unfavourable and investment in water, sanitation and roads, through the MIG allocation may improve the area’s performance. Within the MIG framework, the fund allocation is directed primarily at water and sanitation (54.01%), then roads (17.24%). While Umzimvubu’s MIG allocation is relatively small, averaging R30.34 per capita compared to the Provincial average of R167.87, Alfred Nzo’s allocation is substantial at 9.37% of the Provincial total. The status of the District as an ISRDP node together with its inclusion in the Mzimvubu Basin Management and Development Programme, may further enhance the infrastructure and services performance, as well as the economic performance, of the area.

⁷ Sources: IDP 2004; LED Strategy 2003

2.1.2 “Rules of the Game” (Institutional Environment)

The Municipality is overwhelmingly rural and the majority of the population is resident on tribal land, although household tenure is predominantly reflected, in the 2001 Census, as “ownership” (56.14%). Unsettled land claims account for only 4.21% of the Provincial total, yet Umzimvubu has the highest number of unsettled property (land, housing) claims in the Eastern Cape, with only 24 of the 165 claims being for financial compensation.

On average, each local police station serves over 64,300 residents compared to the Provincial average of almost 36,700 people per station. Alfred Nzo reflects the lowest crime rate of all the district municipalities, which has further declined by -3.22%pa from 2001/02 to 2004/05. However, business and particularly livestock-directed crime is significant for the Local Municipality of Umzimvubu.

The economy is highly concentrated, largely structured around the community services sector. Umzimvubu’s regulatory capacity along with business support and access to service providers is limited at the local level and transaction costs are significant owing to the area’s remoteness and to expenses including transport, communication and finance. By contrast, Alfred Nzo District Municipality is assessed to have an efficient administrative capacity able to bill and collect levy payments on a monthly basis, and to process levy payer applications within a week. Both the Local and District Municipalities have reviewed their IDPs, and Alfred Nzo is one of the few municipalities to have developed an LED Strategy.

2.1.3 Economic Indicators

Alfred Nzo is home to a very youthful population, with more than half (53.66%) of all residents aged below 20 years. Moreover, the rate of unemployment (77.58%) and of dependency (4.14) is significantly higher than the average provincial rates (55.41% and 2.51, respectively). Poverty is both deep and pervasive, considering the area’s share of the Eastern Cape’s poverty gap (7.59%) and proportion of residents living in poverty (84.38%). Alfred Nzo presents the lowest per capita income, at R6499.26 per annum, in the Eastern Cape, and half (50.22%) of all local households claim a monthly income of up to R1000. However, the growth rates for both the poverty gap (10.05%pa) and poverty indicator (3.60%pa) have been lower than for the Province (10.71%pa and 4.11%pa, respectively) from 1996 to 2004, and the area claims a strong informal sector economy.

Comparative advantages in terms of GDP contribution are reflected for the sectors of Community Services (dominated by Education), Agriculture (principally in the Forestry and Logging sub-sectors) and Trade (principally in Retail). Comparative advantages in employment contribution are again reflected for Community Services (Education) as well as in the Households sector.

Leading agricultural products in Umzimvubu are goats, beef and dairy, as well as maize and horticulture, with irrigation development potential. LED cluster projects include: a Wood Cluster, to add value to ANDM's timber resources, with the furniture incubator in Umzimkhulu; a co-operative based Umzimvubu Goat Project, including a husbandry centre, craft centre and restaurant; Goxe community-based Cut-flower project; and a community-based Mehlooding Hiking Trails project, including chalet accommodation.

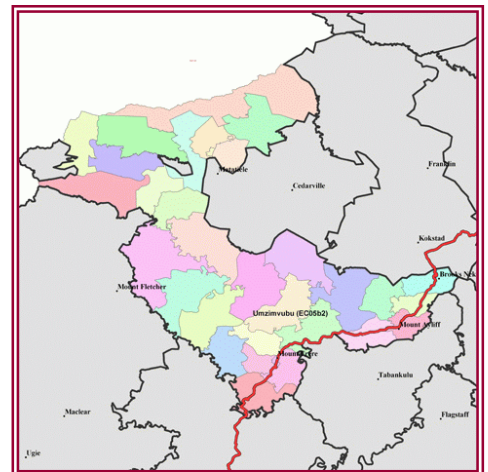
2.1.4 Capacity

Alfred Nzo is characterised by a low HDI (0.44), amongst the highest HIV prevalence and proportion of child-headed households in the Eastern Cape, and below average access to health services and professionals. Although having above average access to education based on the proportion of teaching professionals, Alfred Nzo's poor skills base is evidenced by the low functional literacy (58.33%) and qualification rates of the population.

The ratio of women to men, at 1.21, reflects the high presence of women in the area. Women make up 51.29% of the EAP, but claim higher unemployment rates (80.23%), as well as higher rates of growth in unemployment (5.64%pa), than their male counterparts.

Finally, in terms of the capacity of the District Municipality, few functions are performed, managerial experience is modest, and the number of municipal employees relative to the population size is low. Alfred Nzo does, however, have tourism staff and a staffed LED Department.

3 The Local Development Framework: Umzimvubu Local Municipality (EC05b2)⁸



The Umzimvubu Local Municipality is 5297.81km² in extent, consists of 32 wards and will have 63 councillors. The Municipal Vision is of a “democratic, unified, participatory and co-operative municipality that will, through efficiency, sustainability, transparency and accountability ensure peace, safety and security, and provide a high and constantly improving quality of life for all of its citizens in a developmental local government context”. Identified priorities include: job creation (reducing unemployment by 35%) and economic activity; provision of services and infrastructure to attract business and benefit the tourism industry; improvement of the land administration system; forestry and agriculture, and women and youth involvement; environmental education; and combating HIV/AIDS.

The local economy depends on four major sectors: agriculture (crop farming, and animal husbandry); forestry; SMME's and tourism, specifically eco-tourism. Agriculture is the major resource for poverty alleviation and economic activity. Key development challenges include the lack of basic infrastructure and access to finance, high illiteracy, vulnerability to HIV/AIDS on the part of the economically active population and an unwillingness to engage in agricultural activities.

3.1 Key Elements of Municipal Competitive Advantage

3.1.1 Infrastructure and Services

Umzimvubu's Communications (transport and telecommunications) infrastructure is underdeveloped, with no rail, air or sea port facilities coupled with very limited surfacing of all roads (2.65%) and the low percentage (13.72%) direct access to telephones by the local population. A further consideration is the area's relative remoteness from any major economic hub.

On Quality of Life, Umzimvubu scores well below the Provincial average across all measures but adequate shelter and schools. The provision of basic services (water, electricity, sanitation, refuse removal) is poor, and access to health care facilities limited.

Economic infrastructure is similarly below the Provincial average, but is comparatively well off in respect of business support institutions, when considering its 11 post offices, with banking

⁸ Sources: IDP 2002; ANDM LED Strategy 2003

capability, and including three Kokstad-based ECDC commercial properties. The municipality is home to a Farmers' Support Centre and Marang Financial Services, and Eyethu Community Finance Centre as well as a First National Bank in Mount Frere.

3.1.2 “Rules of the Game” (Institutional Environment)

The overwhelming majority (94.44%) of the population is resident on tribal land, yet more than half (56.14%) of all residents own their properties, of which 92.77% are fully paid off. However, Umzimvubu has the highest number of unsettled claims for land in the Province.

The ratio of police stations to the local population is considerably below that for the Eastern Cape, although average geographical coverage is closely comparable. The crime rate is comparatively low and has declined more significantly over the past three years than has the Provincial average. Umzimvubu reflects a greater rate of stock theft than business-directed crime, which is understandable given the area's overwhelmingly rural character.

The local economy is among the most concentrated in the Province, dominated by the community services sector.

The cost of doing business in the area is relatively high, considering transaction costs arising through distance, and travel time to major economic centres, and expenditure on transport, communication and finance. Further considerations are the absence of a Telkom service branch and of business service providers in the municipal area, along with fairly limited access to development and financial support institutions and poorly developed regulatory capacity on the part of the municipality. Umzimvubu has, however, consistently reviewed its IDP and is currently developing an LED strategy.

3.1.3 Economic Indicators

Umzimvubu is home to high levels of poverty and unemployment, coupled with high dependency rates and a very youthful population. An indication of the poverty in the area is revealed by the proportion of total expenditure on food which, at 31.07%, is the highest in the Province.

The Municipality's low Productivity score points to low GDP per worker (formal and informal), a relative shortage of skills available to the economy, and low growth in value creation relative to employment and labour remuneration. Umzimvubu's low Formal Economy Performance score reflects on the highly concentrated local economy, high financial grant dependence and low growth performance of both GDP and employment generation.

Umzimvubu performs well on Economic Absorption Capacity, considering above average total disposable income and buying power, and particularly the high capacity of the informal sector to create economic opportunities relative to the performance of the formal sector. A measure acting against the area's performance on this score is the negative income-expenditure balance.

The local economy claims a comparative advantage in Community Services, for both employment (56.68%) and GDP (61.26%) contribution, primarily in Education (39.24% employment and 37.24% GDP). Other prominent sub-sectors are Health and Social Services (14.45% GDP and 7.89% employment) and Public Administration (7.85% GDP and 8.03% employment). Further comparative advantage in GDP contribution by the local economy is identified for Agriculture – principally in Forestry and Logging (4.94%), and for Trade – in Retail and Repairs of goods (9.28%) and Wholesale (7.34%). Considering employment contribution, the Households sector (23.74%) and the Agriculture and Hunting sub-sector (5.30%) are significant.

3.1.4 Capacity

Factors contributing to low Resident Participation Capacity in Umzimvubu are the low HDI (0.44), below average access to health services and professionals, and amongst the highest HIV prevalence and proportion of child-headed households in the Eastern Cape.

While the number of municipal employees relative to the population size is low, Umzimvubu performs moderately well on Municipal Capacity considering managerial experience, the number of functions performed with capacity, and the presence of LED, tourism, regulatory and planning staff.

Functional literacy (58.33%) is low in Umzimvubu, as is the proportion of residents that have gained at least a matric (10.00%). However, the Municipality has a favourable measure of access to education in terms of representation of teaching professionals. Women's Economic Participation is limited, where they constitute 51.29% of the EAP but face higher unemployment levels and rate of growth in unemployment than men