2. Economic Cluster

The topics included within the Economic Cluster are:

- Economic Development;
- Trade & Investment;
- Tourism;
- Small, Medium & Micro Enterprises (SMME's);
- Agriculture; and
- Markets.

In reviewing and analysing the economic environment in Buffalo City it is apparent that the Municipality lacks comprehensive and accurate economic data. BCM is in the process of formulating an **Economic Development Strategy** and through this process it is hoped that more accurate economic data will be sourced.

Through the Buffalo City Local Economic Development Strategy a five-year implementation plan will be developed with the aim of accelerating economic growth, job creation and empowerment. This Plan is not an independent plan, but rather sets out medium term goals in support of the achievement of the overarching objectives of the IDP and the City Development Strategy (CDS).

Most of the statistics quoted in the text below, are taken from a report titled "Skills Development Strategies for Inclusive and Productive Cities" prepared for the South African Cities Network (Erasmus & Tomlinson, 2005), referred to as the SACN Skills Report. Other statistics are taken from Statistics South Africa, Census 2001.

2.1 Buffalo City's Economy

Buffalo City is one of the key economic hubs of the Eastern Cape Province and is the most important economy in the eastern part of the Province. In 2004, it was estimated that Buffalo City contributed 23% to the total GDP of the Province and provided 19% of the Provinces formal employment opportunities.

Whilst the importance of Buffalo City's economy within the region and the Province is recognised, Buffalo City has not performed well over the last period relative to the other major cities in South Africa. Buffalo City was the 3rd worst performing city with a compounded annual growth in GDP of 2,5%, compared to 3.5% for the nine cities.

Table B.6: Average Annual Growth in GDP (%)

Average annual growth in GDP (%)										Compounded annual growth in GDP 2004 %
	1995-1996	**1996-1997**	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2003**	**2003-2004**	**Constant 2000 Rands**
City of Cape Town	3.78	2.59	0.07	4.35	4.83	4.51	4.05	4.00	4.14	**3,6**
Nelson Mandela	3.44	1.88	0.48	3.03	5.98	3.64	2.68	2.97	3.62	**3,1**
Ethekwini	3.93	2.37	1.50	2.74	5.44	4.89	3.10	3.13	3.36	**3,4**
Tshwane	2.87	2.30	1.14	2.28	5.16	2.57	4.59	3.00	4.37	**3,1**
Ekurhuleni	2.80	2.60	0.83	2.31	6.57	2.36	4.23	2.89	3.97	**3,2**
Johannesburg	4.19	3.63	2.10	4.03	7.25	3.80	5.65	3.88	5.02	**4,4**
Buffalo City	**3.31**	**1.58**	**-0.45**	**2.70**	**4.81**	**2.50**	**1.79**	**3.02**	**3.03**	**2,5**
Mangaung	3.95	2.27	0.55	3.63	2.21	1.42	2.93	2.29	2.65	**2,4**
Msunduzi	4.01	1.37	0.47	1.18	3.94	3.70	2.31	1.54	2.76	**2,4**
Nine cities	**3.63**	**2.65**	**1.07**	**3.24**	**5.76**	**3.65**	**4.16**	**3.36**	**4.10**	**3,5**
South Africa	3.93	2.56	0.70	2.67	4.42	2.87	3.64	2.88	3.77	**3,0**

Source: SACN Skills Report

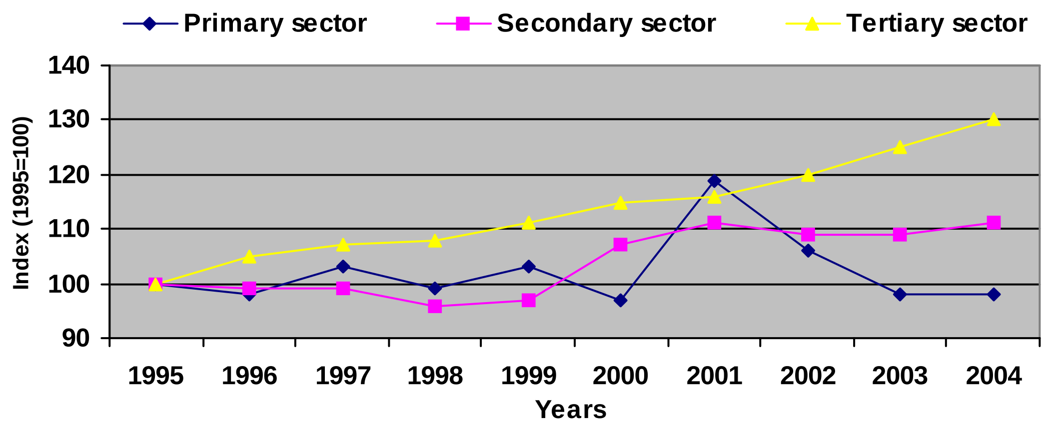
Looking specifically at Buffalo City's economy it, like the South African economy, has over time shifted from primary and secondary sectors to a growth of the tertiary sectors. Table B.7 details the percentage split between and within the sectors, with the primary sector contributing 0.9%, the secondary sector 23.5% and the tertiary contributing 75.6% to BCM's economy in 2004. The table also reflects the economy of BCM relative to the nine largest cities in South Africa and to the national economy. The top three sub sectors of BCM's economy are Finance & Business Services, Manufacturing and Government Services and are highlighted below.

Table B.7: Performance of the Primary, Secondary & Tertiary Sub-sectors, constant 2000 rands

Sub-sector	GDP 1995	GDP 2004 (current)	% of sector	% sector & sub-sector of BCM economy	Annual Average Growth 1995 – 2004		
					Buffalo City	Nine Cities	Nat
PRIMARY SECTOR				**0.9**			
Agriculture	134 666 605	175 295 584	90.5		-0.29%	1.90%	2.70%
Mining	11 614 810	18 363 832	9.5		0.21%	-0.20%	-0.40%
SECONDARY SECTOR				**23.5**			
Manufacturing	2 967 189 721	4 629 664 798	87.0		1.15%	2.30%	2.20%
Electricity & water	271 697 888	289 581 582	5.4		-1.70%	0.70%	1.00%
Construction	266 288 210	404 100 804	7.6		3.50%	3.40%	2.80%
TERTIARY SECTOR				**75.6**			
Trade	2 309 249 976	3 719 453 659	21.7		3.33%	4.70%	4.20%
Transport & communication	1 061 285 939	1 741 393 325	10.2		3.27%	6.70%	6.40%
Finance & business services	2 858 972 995	5 311 790 095	31.0		3.88%	5.60%	4.90%
Community, social & other personal services	1 285 019 162	2 296 951 318	13.4		3.49%	3.50%	3.40%
General government services	2 746 204 830	4 070 443 573	23.7		0.99%	-0.10%	0.20%

Source: SACN Skills Report

The relative growth of the tertiary sector versus the primary and secondary sectors over the period 1995 to 2004 is graphically illustrated in figure B.3 below.



Source: SACN Skills Report

Figure B.3: Growth Trends in the Broad Sectors of the Economy of Buffalo City, 1995 – 2004, constant 2000 rands

The two major economic centres in BCM are East London and KWT. East London is a port city with a diverse economic base and home to companies such as Daimler Chrysler South Africa (DCSA), Johnson and Johnson and Nestle. Of concern is the many clothing and textile factories which have closed down and the vulnerability of the remaining factories.

Whilst King Williams Town is an important service centre and together with Bhisho is the home of the Provincial government.

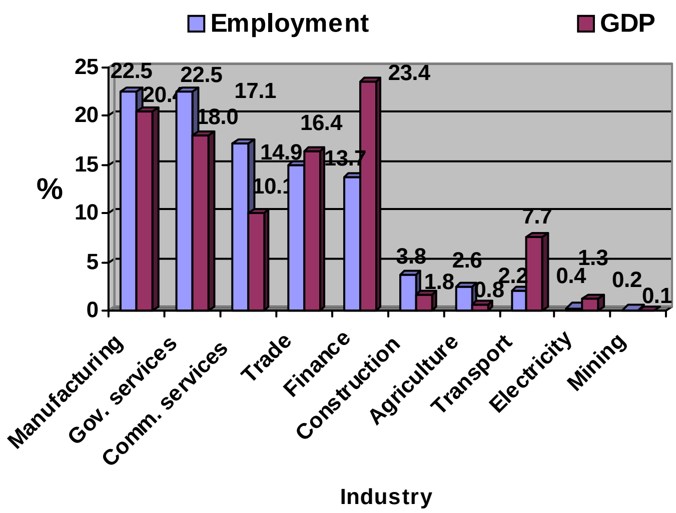
The KWT/Bhisho/Dimbaza area has experienced a decline in economic activity over the last years. A stark example of this is Dimbaza, once a thriving factory town, employing more than 30 000 people (with incentives from the former Ciskei government) now has only five functioning factories.

BCM, has since the late 1990's, commissioned a number of studies to investigate economic rejuvenation in the area and is in the process of developing a plan for the integration of Bhisho–King William's Town.

Whilst it is acknowledged that Buffalo City has seen slow economic growth as well as high and growing levels of unemployment, Buffalo City remains one of the key opportunities for the growth of the economy and the creation of jobs within the District and the Province. Unless certain high impact interventions are implemented in the next few years, the future outlook for Buffalo City does not hold great promise for accelerated growth, job creation and poverty reduction. A key goal of the City Development Strategy (CDS) is to identify these key and catalytic focus areas, interventions and actions in order to achieve these goals. The CDS (and the Local Economic Development Strategy), will provide a framework for united partnership action which will build on key strategic external partners and the critical strengths and resources of those who live, work and play in Buffalo City.

2.2 Employment, Income & Skills

The shifts in the economy have implications for employment, with the past three decades showing a decline in employment in the primary (agriculture, mining) and secondary (manufacturing, construction) sectors and greater employment in the tertiary sector (transport, trade, finance, and services).



Source: SACN Skills Report

Figure B.4: Employment and GDP by industry, 2004

The largest contributors to job creation in Buffalo City Municipality, after government and community services sectors are finance, manufacturing and trade.

Cognisance also needs to be taken of the informal sector and its contribution to job creation in BCM. The SACN Skills Report defines the informal sector as the "economic activity that is not recorded in the national accounts and which is mostly unregulated." Buffalo City has, in comparison to the other nine cities, a lower proportion of workers in the informal sector (23%) and a higher proportion of workers in the formal sector (77%). However, like many of the cities, the trend over the period 1995 to 2004 shows formal employment declining and informal employment growing.

The SACN Skills Report estimated that the about 70% of BCM's population in 2004 were of a working age (15 –64 years).

Table B.8 : Total population, according to age, 2004

CITY	0 –14 YEARS	15 – 64 YEARS*	65 YEARS AND OLDER	TOTAL
Buffalo City	193,562	516,731	32,803	743,096
% BCM	26.0	69.5	4.4	100.0
Average: 9 cities	27.9	67.6	4.6	100.0

***Working age population**

Source: SACN Skills Report

Of the working age population, it is estimated that approximately 52% are in the economically active bracket (employed or actively looking for employment).

Table B.9: Economically Active and Non-economically Active people, 2004*

CITY	ECONOMICALLY ACTIVE	NON-ECONOMICALLY ACTIVE	TOTAL
Buffalo City	270,113	246,618	516,731
%	52.3	47.7	100.0
Average: 9 cities	62.6	37.4	100.0

***According to place of residence.**

Of the economically active population it is estimated that unemployment rate is 39.1% (the highest of all the nine cities, with the average for the nine cities being 29.1%). According to Census 1996 and 2001, levels of unemployment are not only high, but also a growing phenomenon.

Not only does BCM have high unemployment, but according to Census 2001 70% of households indicated that they earned an income of less than R1500 (the household subsistence level).

With respect to the unemployed, in 2004 approximately 57% were women, 65% were younger than 29 (52% between the ages of 20 –29) and 60% of the unemployed had lower-skills levels and had not progressed beyond grade 9 (ABET4).

Possibly one of the greatest threats for the future development of Buffalo City's economy is the quality of Buffalo City's labour force and the ability of the labour force to adapt and support a changing economy. According to the SACN Skills Report "…the level of education of a population can be used as a means of measuring the quality of the labour force, and is an indication of that population's ability to undertake training successfully and acquire useful skills. This is cause for concern in cities such as Buffalo City…as a fifth of their potential labour force has not attended school or at least completed the primary school phase". It is further noted that, "the stage of economic development attained by a country, province or city determines the levels of skills needed by workers in that economy" and "conversely, workers skills levels also largely determine economic development." According to the State of the Cities Report 2006, only 1.2% of the BCM population possess a university degree whilst 16.2% has no schooling at all.

The development of an appropriately skilled work-force requires structured co-ordination between all role-players, supply and demand, i.e. schools, institutions of learning and the employers. In support of this co-ordination and arising out of the above-mentioned skills study by SACN, BCM is investigating the development of a support structure, possibly a "Skills Development Forum".

A further threat to the work-force and the development of the economy is the impact of HIV/AIDS.

2.3 Initiatives to support the growth of BCM's economy

Buffalo City, together with key partners, has embarked on a number of initiatives to support the growth of BCM's economy. These are described in more detail in the following paragraphs.

2.3.1 The Industrial Development Zone (IDZ)

The East London Industrial Development Zone (ELIDZ) is an important part of the economic infrastructure of East London. The IDZ is jointly owned by the Eastern Cape Development Corporation (74%) and BCM (26%). The goals of the project are to "bring economic growth to the region and beyond by offering investors a globally competitive combination of geographic position, infrastructure, services and labour. This being achieved by attracting foreign and local investment to the region in the field of industrial development" (IDZ web-site, 23/2/06). The IDZ is seen not only to offer investment opportunities, but also to play a pivotal role in the support of the Black Economic Empowerment (BEE), development of Small, Medium and Micro Enterprises (SMME's) and job creation.

The ELIDZ is situated 2,5km south-east of the airport, 5km west of the city's port and comprises 1500 hectares of land. The ELIDZ Master Plan identifies 5 distinct development phases for implementation. Targeted sectors for investment in the ELIDZ include the:

- Motor Industry
- Textile & Clothing
- Pharmaceuticals
- Agricultural Products Beneficiation
- Forestry & Wood Products
- High Tech Manufacturing & Electronics

During 2005, the IDZ secured its first four tenants with a combined investment of more than 300 million rand and is currently negotiating with about 40 other potential investors in the automotive, textile, logistics, agri-industrial, forestry and pharmaceutical industries. The IDZ recently announced seven more investors who will jointly be investing R395 million into the ELIDZ bringing the value of investment since its inception to R755 million. These investors are expected to create 578 direct jobs, thus taking the ELIDZ job barometer to 1118.

2.3.2 Buffalo City Development Agency (BCDA)

One of the institutional vehicles created to advance and leverage the development of potential investment opportunities inherent in various area-specific parts of the city, is

the Buffalo City Development Agency (BCDA). The BCDA was established in terms of the provisions of the Municipal Systems Act of 2000 and the Municipal Finance Management Act of 2003. It is governed by a Board and administered by a Chief Executive Officer. The Board was appointed in September 2005 and is comprised of three Board members. The BCDA receives support from the Industrial Development Corporation (IDC).
The mission of the Agency is to increase the prosperity of Buffalo City and its citizens through the identification of under-realised property assets in public ownership and the facilitation of their development by partnerships involving municipal, business and community actor. Its first area of responsibility is the East London beachfront and Quigney areas where their mandate is to ensure that the economy of these areas achieves its full development potential through the promotion and support of existing strengths and new opportunities.

2.3.3 Tourism

The Tourism sector has shown a worldwide annual growth of 5% - 6%. South Africa has good potential for development of the tourism sector and it is within this context, and because of the coast and the many natural attractions, that the Eastern Cape and Buffalo City are seen to have similar potential.

Visitors to the city comprise 95% domestic and 5% international, with the international component mainly being business and backpackers. Although tourism has increased steadily, Buffalo City and its surrounding region have a limited tourism sector; therefore there is great potential for further expansion.

BCM has completed a **Tourism Master Plan** and this Plan guides BCM in its approach and actions towards supporting Tourism in Buffalo City.

Opportunities for further development within the tourism sector include:

- Sports tourism – Buffalo City has invested in its sports infrastructure and has already hosted some major sports events; it is anticipated that Buffalo City will host training and other complimentary activities during the 2010 Soccer World Cup.
- Heritage & culture – given the rich heritage and culture of the region there are a great number of tourism opportunities. An Inyathi Buffalo Route, focusing on community based tourism, was launched in September 2005. A Struggle Route is being developed, which will link to the ADM heritage sites and will include sites in Dimbaza, Steve Biko and Duncan Village Garden of Remembrance, Heroes Park and the West Bank Prison.

BCM has set up a tourism promotion agency called **Tourism Buffalo City**. The function of this agency is to market and promote the City in line with the Tourism Master Plan. It should be noted, however, that it is the responsibility of all stakeholders to develop Buffalo City as a strong brand in the highly competitive tourism industry.

2.3.4 Small, Medium and Micro Enterprises

The capacity of Small, Medium and Micro Enterprises to participate in the economic mainstream is questionable. Local Business Forums have not yet formed a strong front to ensure their members tap into upcoming opportunities. This is also coupled with inability to tap into the national Department of Trade and Industry's national support programmes. Another challenge is formalizing the informal sector to ensure it graduates from subsistence to fully commercialised, well-managed enterprises.

2.3.5 Agriculture

Agricultural development in Buffalo City is impeded by infrastructure backlogs, a weak local consumer market and high transportation costs to the major national markets.

Opportunities for agricultural development within Buffalo City include:

- Dairy
- Tunnel farming
- Essential oils
- Fat lamb production
- Strawberry production
- Timber production
- Hemp & Paprika production
- Macadamia nuts
- Agro- processing

It is proposed that the IDZ could be of assistance in promoting access to foreign markets for some such initiatives. In terms of the domestic market, there are opportunities for emerging farmers to supply the retail sector, government institutions such as hospitals, schools and prisons. Emphasis, however, needs to be put on quality assurance to ensure emerging farmers meet the required standards and improve their productive capacity.

Areas such as Mdantsane and Duncan Village are characterized by high un-employment. It is proposed that urban agriculture could assist in combating such unemployment and support food security. These and other such issues will be considered in the **Agricultural and Rural Development Strategy** currently being developed by BCM.

The E.L. Fresh Produce Market caters largely for established businesses, however, BCM is investigating means of ensuring access for emerging farmers and is considering how to restructure and improve its competitiveness.