



Photos: CityThinkSpace

The informal sector accounts for much of Mthatha's economic activity, with vehicles, pedestrians and traders competing for space in the crowded streets.



## Can Mthatha turn the corner?

Creating a sustainable future for this Eastern Cape town will require energy and commitment from the government and the people, but the potential for real change is there.

BY KAREN HARRISON

Driving into the historical capital of the old Transkei homeland, the first impression is that Mthatha is 'pumping'. In many ways this is surprising, because the decade after democracy was challenging for the town as it lost its 'capital' status and ability to attract industry through old-era incentives. Before the 1994 elections this highly politicised town was tense, with a rates boycott crippling the municipality from 1990. The result was a severe economic downturn, with the withdrawal of both public and private sector investment and massive job loss.

In the past five years, however, there have been signs of an economic turnaround as developers invest in the town and in new malls and hotels. The upgrading of the N2 between East London and Mthatha and the promised reconstruction of the Kei Rail has also boosted investor confidence. A town has emerged characterised by growth, survival, entrepreneurship, people, intrigue and sadly, grime and crime.

The multi-disciplinary team developing a sustainable development plan for Mthatha has had the challenge of understanding the layers of the local economy. Very active in the process has been the Mthatha NAFCOC region and the African Hawkers' Association, which has shed light on the formal, and visible informal sector. But it is the invisible informal 'third economy', able to thrive within the current institutional and political environment, that remains elusive. The 'best provincial performance' awards of the large Mthatha-based retailers and construction companies are also less clear, with large companies being less forthcoming than their small local counterparts.

In many ways the Mthatha economy is performing within a government vacuum. There is widespread institutional failure, evident in the collapse of the bulk sanitation system, the pollution of the river through direct sewer run-off and accumulated solid waste, the pot-holed roads, the illegal bakkie taxis carting off passengers to the surrounding rural villages, and the competition on the pavements between delivery vehicles, taxis, hawkers and pedestrians.

It is also evident in billboards



Many traders say they earn as little as R500 a month.

promising hotels and malls with long past 'open-by' dates due to pending land claims, the local tourism office that advertises on a permanently locked door, and the tardiness of the police in responding even to emergencies. When there was a fatal stabbing in the backyard of our bed and breakfast, they merely said they would call back. On the streets, however, are thousands of local businesspeople cynical about government promises, but willing to pay the required bribe to win a small government contract.

The driving forces behind the local economy are complex. Mthatha is almost halfway between East London and Kokstad and the main service centre for about 1.5 million people within a 50km

radius. 150 000 people live in Mthatha itself. About two-thirds of people in the catchment area live in poverty and 52% are unemployed. Half the population, which is growing at 0.7% a year, is younger than 19. The average annual income of a black Mthatha resident is R15 762 compared to R131 583 and R41 875 for a white and coloured person respectively. 40% of the gross value-add in the local economy is from community and government services. Significant numbers of households are dependent on government grants and mine worker remittances.

Despite this grim picture there is energy within the local economy that surpasses many medium-sized towns in South Africa. There are clear

signs in recent economic data that the performance of certain sectors is improving. This includes employment growth in community, social and personal services, wholesale and retail, construction, finance and insurance, and real estate and transport. There is also expansion in the manufacturing sector, agriculture, fishing and forestry, and in employment created by private households.

The local municipality reports large numbers of development applications that require approval. Construction for both the expansion of the Mthatha airport and the 2010 stadium has begun. It is almost as if Mthatha is bursting at the seams and on the brink of a new era.

But, there are critical blockages to development that require addressing. The town is landlocked – both on the outskirts where it merges into rural trust land, and within the town where historical mismanagement has resulted in complex and dual land and property ownership titles that discourage private sector finance. The public sector, in the form of the Eastern Cape Development Corporation, owns extensive property within the central business district but acts more like a frustrated landlord than an entrepreneurial developer. The town is also subject to numerous land claims, which have led to protracted development processes – in part because provincial departments lack information and systems to address the claims. There is a dire shortage of industrial, commercial and residential property space, which has led to skyrocketing rentals and prevented many from locating themselves within the town. Development is being pushed to the town's periphery, which encourages urban sprawl and drives up the costs of service delivery.

There are severe infrastructure constraints. The bulk network was developed for 'the colonial Mthatha of a 100 years ago' and cannot meet the demands of the current population. There are also serious challenges in the operation and maintenance of the infrastructure. In the sustainability plan team's early investigations, it was found that 19 of 20 pump stations were dysfunctional with raw sewage flowing unchecked into the river. There has also been a decline in waste management, with piles of rubbish waste everywhere. This is compromising the health and safety of communities.



Technology helps bridge the divide between rural life and the modern economy.

But if these issues could be addressed, the Mthatha economy would expand significantly. During workshops with local businesspeople, both formal and informal, what emerged was a picture of a structurally unequal economy that forced large numbers of micro and small firms to compete against each other in the lowest end of the market owing to their inability to compete against large, established firms.

The structure of the economy perpetuates a racial and class divide. The small number of large firms dominating all sectors is mainly white and Indian owned and tends to monopolise the market, especially government contracts that require proof of SARS registration – usually for values over R30 000. Interestingly, a middle

layer of foreign-owned businesses is emerging between the large firms and the formal locally black-owned firms. They appear to be able to afford the high rentals within the CBD of Mthatha and take up formal business space. Part of their success is ascribed to networking and co-operation. An example is a cellphone, radio and clothing business operating from a single space under three separate owners. Foreigners have also focused successfully on providing variety in the market, with one offering a wide range of accessories required for traditional ceremonies regarding initiation, graduation, engagements and marriages.

Below the foreign business layer are thousands of semi-formal businesses mainly in activities with relatively low



If the public sector can begin to deliver services efficiently, then people can capitalise on their energy, resourcefulness and the area's natural beauty to drive economic growth.

barriers to entry, such as construction and public transport. Owing to their large numbers, profit margins are severely squeezed. In the construction sector, firms openly admitted to corruption being the only competitive factor at this end of the market. 95% of the customer base for small contractors is government, especially the provincial government.

Below the semi-formal layer of small firms is a vast informal sector with about 3 000 hawkers battling for survival. 86% are female and 98% African. More than half sell purchased fruit and vegetables (33%), make clothing (14%), or do hair dressing (12%). Very few jobs are created in this sector with a ratio of 0.5 workers per firm. 70% operate off the pavement or at taxi ranks. The informal sector appears to be a poverty trap – 53% of hawkers have been operating for more than five years and 61% earn less than R500 per month.

This structure of the local economy encourages massive leakage from the town. Large wholesalers and retailers source most of their supplies from East London, Durban and Johannesburg. Their head offices are located mainly in Gauteng. Their market is residents of Mthatha and surrounds and the different spheres of government with offices in the town. The SMMEs purchase goods from wholesalers and retailers within Mthatha or in East London and Durban and have very little bargaining power with the large firms. A comment from a hawker was that 'they entice us with credit, and then we end up as dummies'. Others complained that large firms were unwilling to provide credit saying that 'at the end of the

year all we are given for our business is a calendar or sweets'.

The dependency relationship between the large and small firms means that the number of times money circulates within the local economy before it leaves Mthatha is greatly reduced. And because there is negligible manufacturing activity, firms can't buy from local producers. One of the shifts needed is for residents to move from being primarily consumers to producers.

**Growth that does not impact on the high levels of poverty, unemployment and disease such as HIV/Aids and TB, will escalate a downward spiral of increasing crime and corruption.**

It is clear that the economic status quo is undesirable and unsustainable, although there are opportunities in retail, real estate, transport and finance if key obstacles are removed. But economic growth in itself will not make the town more sustainable. Growth that does not impact on the high levels of poverty, unemployment and disease such as HIV/Aids and TB, will escalate a downward spiral of increasing crime and corruption. The current economic trends offer no incentives for either government or

business to focus on quality of services or production. Instead it creates perverse incentives to maintain and 'cover up' the current situation.

Having said this, Mthatha is not a basket case and has a number of strong comparative advantages that could sustain long-term development in the town. These include the central location of Mthatha with a direct market of 1.5 million people, the magnificent river that could be rejuvenated, major transport linkages between the town, other urban centres and the rural hinterland. Then there are the people of Mthatha with their local knowledge, aspirations and skills, the excellent soil and climate, the linkages between the town and major tourist attractions along the coastline and the spending power of the population. Mthatha also has competitive advantages in the form of the Nelson Mandela Museum and the Walter Sisulu University, which need to be harnessed immediately to change the economic trajectory of the region.

Perhaps the strongest positive force in supporting much-needed change is that the people of Mthatha have dreams for their children and grandchildren – a quality university and schools, lots of local chickens and eggs, mielies that stand two metres high, exporting the fine Mthatha river water, tourists streaming through the town visiting the museum and eating local cuisine on their way to the Wild Coast, no 'tsotsis', and a clean and caring town.

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