

***A study of the Drakenstein Local Municipality's
five main urban economic sectors with special
reference to the municipality's strategic
objectives.***

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requirements for the degree Master of Arts in Public and
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Stellenbosch.**



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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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ABSTRACT

"The South African Constitution (1996) promotes the improvement of living environments and livelihoods for all constituents by means of a developmental approach to local governance" (IDASA, 2005:2). The development role of local government can be understood through the consideration of four basic drivers which includes planning for development, governance and administration, regulation and service delivery. The Drakenstein Local Municipality is committed to ensure sustainable economic growth and development by increasing national and provincial competitiveness as well as the reduction of poverty. Key to this process is the retention and expansion of existing businesses as well as the attraction of new investment. The main focus of this research study is the promotion of business development as it forms part of local economic development (LED) and is also an integral part of integrated development planning (IDP) at local government level. The introduction of proposed targeted investment incentives is aimed at facilitating the implementation of the Drakenstein Local Municipality's strategic development objectives. The proposed intervention options should be a special effort to attract investment to the study area which will result in a positive spill-over effect in the Drakenstein Local Municipality's local economy. Intervention options can be developed in terms of investment incentives that can bring about job creation, economic development and poverty alleviation in the study area as set out in their strategic development objectives.

OPSOMMING

"Die Suid-Afrikaanse Grondwet (1996) bevorder die verbetering van lewensomstandighede van al sy kiesers deur middel van 'n ontwikkelings benadering ten opsigte van plaaslike regering" (IDASA, 2005:2). Die ontwikkelings rol van plaaslike regering kan verstaan word deur die oorweging van vier basiese strategieë (dryfvere) wat insluit die beplanning van ontwikkeling, goeie regering en administrasie, regulering en dienslewering. Die Drakenstein Munisipaliteit is verbind daartoe om te verseker dat volhoubare ekonomiese groei en ontwikkeling plaasvind deur nasionale en provinsiale mededinging te verhoog sowel as armoede te verlig. Die sleutel tot die sukses van hierdie proses is die behoud van en uitbreiding van bestaande besighede sowel as die aansporing tot nuwe beleggings (investering) in die area. Die hoof fokus van hierdie tesis is die bevordering van besighedsontwikkeling as deel van plaaslike ekonomiese ontwikkeling en is ook 'n integrale deel van die geïntegreerde ontwikkelings plan op plaaslike regeringsvlak. Die invoer van voorgestelde spesifieke beleggings aansporings maatreëls is gerig op die fasilitering van die implementering van die Drakenstein Munisipaliteit se strategiese doelwitte. Die voorgestelde intervensie opsies moet 'n spesiale poging wees om beleggings na die studie area te lok wat 'n positiewe oorspoel effek in die Drakenstein Munisipaliteit se plaaslike ekonomie sal verseker.

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CHAPTER ONE: INTRODUCTION

This chapter provides an introduction to the research study. It will start off by giving an introduction to the research study and will be followed by the background to the study. The research problem and hypothesis as well as the aim and objectives of the research study will be discussed. This will be followed by the research design and methodology as well as a chapter outline and it will conclude with a summary of the chapter.

1.1 INTRODUCTION

“The South African Constitution promotes the improvement of living environments and livelihoods for all constituents by means of a developmental approach to local governance” (IDASA, 2005:2). According to the Development Bank of South Africa (DBSA, 2000:18) “municipalities face enormous challenges in developing sustainable settlements, which meet the needs and improves the quality of life of local communities”. Local government is a key role-player in the development process of South Africa. Integrated development planning at local government level was mandated by the Constitution of the Republic of South Africa of 1996.

The developmental role of local government can be understood through the consideration of four basic drivers which includes planning for development, governance and administration, regulation and service delivery (IDASA, 2005:2). Development facilitation relates to the creation of conditions for development to flourish and includes planning, land administration, local economic development and environmental management (IDASA, 2005:3).

The Constitution of the Republic of South Africa (1996) states that local government should:

- Provide democratic and accountable government for local communities;
- Ensure the provision of services to communities in a sustainable manner;
- Promote social and economic development;
- Promote a safe and healthy environment;
- Encourage the involvement of communities and community organisations in the matters of local government (Constitution of RSA, 1996).

According to the Integrated Development Planning Guide Pack of 2003, as written by the Department of Provincial and Local Government “Integrated development planning (IDP) is one of the key tools for local government to cope with its developmental role”. The IDP process is meant to arrive at decisions on issues such as municipal budgets, land management, promotion

of local economic development and institutional transformation in a consultative, systematic and strategic manner" (IDP Guide Pack, 2003).

Local economic development (LED) is intended to maximise the economic potential of all municipal localities throughout the country and, to enhance the resilience of macro-economic growth through increased local economic growth, employment creation and development initiatives within the context of sustainable development (Department of Provincial and Local Government, 2003). Local economic development occurs when communities, local government and the business sector start to engage in activities to improve local social-economic conditions, usually by acting in partnership with one another (LED South Africa, 2003).

1.2 BACKGROUND

According to the Drakenstein Local Municipality "they are committed to ensure sustainable economic growth and development by increasing national and provincial competitiveness as well as the reduction of poverty. Key to this is the retention and expansion of existing businesses, as well as the attraction of new investment.

This study describes and assesses the five main urban economic sectors in the Drakenstein Local Municipality. The economic potential within these five main urban economic sectors, namely trade (retail), manufacturing (industrial), financial and business services (office) and construction (residential, retail, industrial and offices) will be discussed and analysed in **Chapter 4**.

1.3 RESEARCH PROBLEM AND HYPOTHESIS

Guided by the Drakenstein Local Municipality's IDP 2005/2006 the Council has introduced strategic objectives to change the prevailing negative socio-economic trends. "The integration of human settlements; economic growth and job creation; access and mobility; the building of strong communities; and equitable and effective service delivery form part of these strategic objectives as set out by Council" (Drakenstein Local Municipality IDP, 2005/2006:30).

Local government should be a developmental institution that supplies a diverse range of services and functions to their local jurisdiction. These include:

- electricity delivery
- water for household use
- sewerage and sanitation
- storm water systems

- refuse removal
- fire fighting services
- municipal health services
- decisions around land use
- local roads
- local public transport
- street trading
- abattoirs and fresh food markets
- parks and recreational areas
- libraries and other community facilities
- local tourism (www.capegateway.gov.za).

Local municipalities are also mandated to:

- Pass by-laws: local laws and regulations about any of the functions they are responsible for. By-laws may not go against any national laws.
- Approve budgets and development plans: every year a municipal budget must be passed that sets down how money will be raised and spent. The municipality must also approve the Integrated Development Plan (IDP).
- Impose rates and other taxes, for example property tax.
- Charge service fees for using municipal services like water, electricity, libraries, and so on.
- Impose fines for people who break municipal by-laws, for example traffic fines or littering.
- Borrow money - the council can take a loan for a development or other project and use municipal assets as surety (www.capegateway.gov.za)

Local economic development which includes business development has as its spill-over effects increased job creation and poverty alleviation for local jurisdictions. This is only true if this function of local government is pertinently addressed.

Thus, this study aims to introduce a targeted Business Investment Incentive Scheme for the Drakenstein Local Municipality and it is aimed at facilitating the implementation of its strategic objectives. These investment incentives are being proposed to unlock economic opportunities in areas to bring jobs closer to the Drakenstein's communities and as a tool for economic integration in the area.

1.4 AIM AND OBJECTIVE OF THE RESEARCH

The aim of this research project is to propose and provide a business investment incentive scheme that the Drakenstein Local Municipality can implement to increase the retaining of businesses in the area as well as the acquisition of new investments to the area that will ultimately result in the growth of the Drakenstein's local economy and thus increase local job creation and availability and also help the process of alleviating poverty in the area.

The conclusive focus of this study will be the recommendation of a Business Investment Incentive Scheme that can possibly be implemented by the Drakenstein Local Municipality to increase investment in the area and retain businesses in the area. The positive spill-over effects of business retention can result in local economic development, job creation and poverty alleviation.

The following objectives have been formulated for the purpose of this study:

- To discuss the Drakenstein Local Municipality's development and strategic objectives as set out by their Council;
- To discuss the five main urban economic sectors of the Drakenstein Local Municipality;
- To propose a Business Investment Incentive Scheme that can be implemented by the Drakenstein Local Municipality to assist in local economic development, job creation and poverty alleviation.

1.5 RESEARCH DESIGN AND METHODOLOGY

Research designs address the key questions of the type of study that will be undertaken. The design should result in acceptable answers to the research question (Mouton, 2001:49). This study will be using both empirical and non-empirical research methods. Multiple methods of data collection, which will include both structured and less structured research methods and an analysis of existing documentary sources, will be used during this study (Mouton, 2001:59).

Participatory Action Research (PAR) and Secondary data analysis (SDA) forms part of the research design for this study.

Mouton (2001:150) describes Participatory Action Research (PAR) as "a study that involves the subjects of research as an integral part of the design. It uses mainly qualitative methods in order to gain an understanding as well as insight into the life-worlds of research participants. Many types of PAR have an explicit commitment to the empowerment of participants and to change the social conditions of the participant". The main strength of PAR is that it "involves

participation and involvement on the part of the subjects, which enhances chances of high construct validity, low refusal rates and the ownership of findings".

PAR contributes to the study due to the fact that the Drakenstein Local Municipality will be involved and participating in the research, as well as the Central Business District Committee and other public and private sector entities. Mouton (2001:164) describes Secondary Data Analysis (SDA) as "reanalyzing existing data in order to test hypotheses or to validate models". Typical applications are the "analysis of Census data, secondary analysis of survey data as well as a sector analysis. The strength of SDA is the "saving of time and costs because of the use of existing data or the possibility of reanalyzing previous findings".

The analysis of Census 2001 data, secondary analysis of survey data as well as a sector analysis form part of the SDA of this study. Existing data, including the Drakenstein Local Municipality's IDP 2005/2006, will form the basis of this study which will aid in the identification of the Drakenstein Local Municipality's strategic objectives for their local jurisdiction, as highlighted by their Council.

The methodology that will be used in this study includes:

- Interviews;
- Questionnaires (Surveys);
- Subject matter experts' input;
- Quantec Research Database;
- Drakenstein Local Municipality as a case study;
- Five main urban economic sector analysis and figure projections (Quantec Research Database);
- The development and introduction of a proposed Business Investment Incentive Scheme for the Drakenstein Local Municipality.

The interviews will be Basic Individual Interviews with various role-players of the Drakenstein Local Municipality as well as with existing business owners in the Paarl Central Business District area. The interviews will be open and flexible, where the interviewees can speak for themselves. The aim of the interviews will be to identify issues, shortcomings and problems surrounding business development in the Central Business District and surrounding areas. Questionnaires (surveys) will be utilised in this process. These questionnaires will be used to collect information regarding the five main urban economic sectors in the Drakenstein Local Municipal area in terms of businesses, retail shops, offices and industrial areas.

As part of the methodology the researcher will aim to gain input from various Subject Matter Experts for example the Local Economic Development and Integrated Development officers at the Drakenstein Local Municipality and the Central Business District Committee. This will help in making the research more feasible and sustainable and will also guide the researcher when developing the Business Investment Incentive Scheme for the Drakenstein Local Municipality.

The Drakenstein Local Municipality will be used as the case study for this research. There are various business development opportunities in the area which could be addressed by the proposed Business Investment Incentive Scheme. The five main urban economic sectors of the Drakenstein Local Municipality namely the trade (retail), construction (residential, office, industrial and retail), manufacturing (industrial) and financial and business services (office) sectors, with special reference to the tourism sector, will form the basis of this study and will thus be accordingly analysed. An overview will be given of the above mentioned sectors as well as its development potential and growth forecasts will be discussed in **Chapter 4**.

The researcher will also be making use of Quantec Research (Pty) Ltd. This consultancy focuses on the marketing, distribution and support of economic and financial data, country intelligence and quantitative analytical software. They also provide consultancy in custom economic and financial database solutions, economic analysis and forecasting, and market analysis and segmentation. The Quantec RSA Standardised Industry database provides a unique, disaggregated view of South Africa's economic structure by industry at the 3 digit Standard Industrial Classification (SIC) level. The database consists of more than 25 000 annual and quarterly time-series. Comprehensive on-line meta-data includes a descriptive data overview, instructions for access and an explanation of the various mnemonic schemes utilized in the database and a complete listing of the contents. Each time-series is extensively defined with cross-referencing to source. This data can be downloaded into Excel for manipulation, calculation and projection purposes. The researcher will be using this database in **Chapters 3 and 4**.

1.6 CHAPTER OUTLINE

Chapter 2 - Theoretical Framework: This chapter provides an overview of Integrated Development Planning as well as the legal, policy and development framework surrounding it. It introduces core components of Integrated Development Planning and the importance of it in local government. Local economic development and how it fits in with integrated development planning will also be discussed in this chapter. The Drakenstein Local Municipality's strategic objectives will also be discussed in this chapter.

Chapter 3 – Drakenstein Local Municipal Area: This chapter introduces the Drakenstein Local Municipal area in terms of its local economy, its socio-economic profile, its development objectives as well as local prospects for Business Investment Incentives.

Chapter 4 – Analysis of the research findings: This chapter assesses the potential within the five main urban economic sectors in the Drakenstein Local Municipality namely trade (retail), manufacturing (industrial), financial and business services (office) and construction (residential, retail, industrial and offices) as well as the tourism sector.

Chapter 5 – Recommendations and Conclusion: The guiding principles of business investment incentives will be discussed in this chapter and it will also introduce the Business Investment Incentive Scheme as the main recommendation for this study, with a management framework as well as a proposed implementation plan for this recommendation. The conclusion will also form part of this chapter.

1.7 SUMMARY

This chapter introduced the background to this research study as well as the researcher's train of thought which also includes the purpose of this research study. It identified the main objectives of the study which are:

- To discuss the Drakenstein Local Municipality's development and strategic objectives as set out by their Council in **Chapter 2**;
- To discuss the five main urban economic sectors of the Drakenstein Local Municipality in **Chapter 4**;
- To propose a Business Investment Incentive Scheme that can be implemented by the Drakenstein Local Municipality to assist in local economic development, job creation and poverty alleviation in **Chapter 5**.

CHAPTER TWO: THEORETICAL FRAMEWORK

This chapter analyses the developmental role of local government as introduced by the White Paper on Local Government which was released in 1998 and the Constitution of the Republic of South Africa which was released in 1996.

This chapter is structured according to the following:

- Defining Developmental Local Government
- Integrated Development Planning
- The Legal, Policy and Development Framework
- Core components of the Integrated Development Plan
- Integrated Development Planning and the Local Government
- Local Economic Development and Integrated Development Planning
- The Drakenstein Local Municipality's Strategic Objectives
- Community Participation in the Integrated Development Planning process.

2.1 INTRODUCTION

The South African Constitution requires local government to be "developmental". According to the DBSA (2000:15) "a diverse group of individuals as well as groups, in support of different objectives, have used the phrase "developmental local government" in many ways.

According to the Development Bank South Africa (DBSA) developmental local government is defined as "a vision of local government in South Africa. It points to a system of democratic local government in which the needs of all, but especially those of poor and vulnerable communities, are met by efficient and effective municipalities" (DBSA 2000:17).

The White Paper on Local Government (1998:23) defined developmental local government as "local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic, and material needs and improve the quality of their lives".

The Drakenstein Local Municipality was legally constituted in December of 2000 and its jurisdiction comprises of the following areas namely:

- The towns of Paarl, including Mbekweni, and Wellington;
- The rural hamlets of Gouda, Hermon, Saron, Windmeul and Simondium; and

- The rural areas adjacent to and between these towns (Drakenstein Local Municipality IDP, 2005/2006:1).

The objectives as set out in the Constitution (2006) for local governments are as follows:

- Provide democratic and accountable government;
- Ensure the provision of sustainable services to local communities;
- Promote social and economic development;
- Provide a safe and healthy environment;
- Encourage involvement of community organisations in local governance (IDASA, 2005:3).

The characteristics of developmental local government identified in the White Paper on Local Government (1998) are:

- Maximising social development and economic growth;
- Integrating and coordinating;
- Democratizing development;
- Leading and learning (IDASA, 2005:3).

According to the Department of Provincial and Local Government (DPLG), Integrated Development Planning, also known as IDP "is one of the key tools for local government to cope with its developmental role". The "IDP process is meant to arrive at decisions on issues such as municipal budgets, land management, promotion of local economic development and institutional transformation in a consultative, systematic and strategic manner" (IDP Guide Pack, 2003). Local government is a key role-player in the development process of South Africa and as stated by the Development Bank of South Africa (DBSA, 2004) "municipalities face enormous challenges in developing sustainable settlements, which meet the needs and improve the quality of life of local communities".

Thus, municipalities should have and implement an IDP because:

- It helps to make more effective use of scarce resources;
- It helps to speed up delivery;
- It helps to attract additional funds;

- It helps to strengthen democracy and institutional transformation;
- It helps to overcome the apartheid legacy at local level and it promotes intergovernmental coordination (IDP Guide Pack, 2003).

Municipalities play an immense role in the process of alleviating poverty and the development of the economy in their jurisdictions and therefore it is of utmost importance that they strategically plan their objectives in terms of development. Integrated development plans help municipalities in developing holistic strategies for poverty alleviation and local economic development as well as the identification of implementable projects. The identification and implementation of projects targeted at promoting job creation and boosting the local economy are core principles of the IDP (Also see the Development Bank of South Africa, 2000 and the IDP Guide Pack, 2003).

This section provided an introduction to developmental local government as well as definitions of developmental local government as set out by the White Paper on Local Government (1998) and the Constitution of the Republic of South Africa (1996). The following section will define Integrated Development Planning.

2.2 DEFINING INTEGRATED DEVELOPMENT PLANNING

Integrated development planning was first introduced into municipal law when the Local Government Transition Act of 1993 was amended by Act 97 of 1996, which required metropolitan councils to have an Integrated Development Plan (IDP) and which permitted district councils to formulate and implement an IDP for a local council, a rural council or a representative council. Act 97 of 1996 defined an IDP in the following terms: "Integrated development planning means the construction of a plan that is aimed at integrated development and management of the area of jurisdiction of the municipality concerned in terms of its powers and duties, and which has been compiled having regard to the general principles contained in Chapter 1 of the Development Facilitation Act, 1995 (Act 67 of 1995)" (Craythorne, 2003:134).

In South Africa, integrated development planning is defined as a "participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalised" (Department of Provincial and Local Government, 2005:15). Integrated Development Planning is "conceived as a tool to assist municipalities in achieving their developmental mandates and as a planning and implementation instrument designed to bring together the various functions and development objectives of municipalities" (Department of Provincial and Local Government, 2005:16) (Also see Pycroft, 1998 and 2000).

According to the IDP Guide-Pack of 1993, as written by the Department of Provincial and Local Government, "Integrated development planning is a process through which municipalities prepare a strategic development plan, for a five year period." Through integrated development planning, which involves all stakeholders, "a municipality can identify its primary objectives, formulate clear goals and action steps, develop the appropriate organisational focus, structures and systems to realise those objectives and goals and align resources and efforts with Council and community priorities" (DBSA, 2000:1).

The IDP process is participatory in nature and therefore requires input from various role-players, which includes the local officials, the councillors, the municipal stakeholders as well as provincial and national sector departments (IDP Guide Pack, 2003). The powers and functions of local government should be exercised in such a way that it has maximum impact on the social development of communities, in particular meeting the basic needs of the poor and on the growth of the local economy (White Paper on Local Government, 1998).

Municipalities collect a large amount in rates and fees each year and as stated in the White Paper on Local Government (1998) they thus "have the responsibility for delivering services of a high standard to their communities". Local government is not directly responsible for the creation of jobs, but they are responsible for taking active steps to ensure that the overall economic and social conditions of their jurisdiction are conducive to the creation of employment and opportunities, thus playing a huge role in poverty alleviation and local economic development (Also see Development Bank of South Africa, 2000).

This section introduced definitions of Integrated Development Planning as set out by the White Paper on Local Government (1998). The following section introduces Integrated Development Planning in terms of its legal, policy and development framework.

2.3 INTEGRATED DEVELOPMENT PLANNING: THE LEGAL, POLICY AND DEVELOPMENT FRAMEWORK

Within the framework of the Constitution (1996), the White Paper on Local Government (1998) established the basis for a new developmental local government system, which is committed to working with citizens, groups and communities to create sustainable human settlements which provide for a decent quality of life and meet the social, economic and material needs of communities in a holistic way (Moosa and Gordhan, 1998). The White Paper defines what is meant by developmental local government in a South African context (DBSA, 2000:108). Local government is the third sphere of government. With the new developmental role of local government, municipalities are required to comply with a variety of laws and policies aimed at

facilitating development. The policy framework for local government is stated in the White Paper on Local Government which was released in 1998.

2.3.1 THE WHITE PAPER ON LOCAL GOVERNMENT OF 1998

The first section of the White Paper on Local Government titled the "Current Reality" "provides a brief history of local government under apartheid, which points to the origins of many of the problems currently faced by local government in South Africa. It highlights South Africa's history of community mobilisation, and locates the current transition process in its broader historical context. This section also provides an outline of the current local government system, and discusses the specific strengths and weaknesses of the different models of transitional municipality created under the Local Government Transition Act of 1993. It points to the need for systems of metropolitan government which ensure that Metropolitan Councils have sufficient powers to fulfill their intended role; and to the need for flexibility in local government systems outside of metropolitan areas to accommodate the vastly different settlement types (ranging from large secondary cities to sparsely populated rural areas) which fall within the District Council system" (White Paper on Local Government; 1998:4).

The second section of the White Paper on Local Government titled "Developmental Local Government" puts forward a "vision of a developmental local government, which centers on working with local communities to find sustainable ways to meet their needs and improve the quality of their lives. It discusses four characteristics of developmental local government, namely exercising municipal powers and functions in a manner which maximises their impact on social development and economic growth; playing an integrating and coordinating role to ensure alignment between public (including all spheres of government) and private investment within the municipal area; democratising development; and building social capital through providing community leadership and vision, and seeking to empower marginalised and excluded groups within the community" (White Paper on Local Government; 1998:4).

It also provides three approaches which can assist municipalities to become more developmental, namely "integrated development planning and budgeting; performance management; and working together with local citizens and partners. It emphasises the potential of integrated development planning as a mechanism to enable prioritisation and integration in municipal planning processes, and strengthen links between the development and institutional planning processes. It proposes a process for the development of a performance management system for local government; and suggests ways in which municipalities can engage citizens and community groups in the affairs of the municipality in their capacities as voters, citizens affected by municipal policy, consumers and end-users of municipal services, and partners in

resource mobilisation for the development of the municipal area” (White Paper on Local Government; 1998:5).

The third section of the White Paper on Local Government titled “Cooperative Government” situates “local government within a system of cooperative government. It notes that, under the new Constitution, local government is a sphere of government in its own right, and not a function of national or provincial government. The section provides a preliminary outline of the roles and responsibilities of national and provincial government with respect to local government. It also provides a summary of national departmental programmes which impact on local government, and notes that local government is increasingly being seen as a point of integration and coordination for the delivery of national programmes” (White Paper on Local Government; 1998:5).

The fourth section of the White Paper on Local Government titled “Municipal institutional systems” begins by highlighting the particular needs and circumstances which South African municipal institutions must cater for. It then focuses on metropolitan municipal institutions, and puts forward three key motivations for the retention of metropolitan government systems in metropolitan areas, namely that metropolitan government provides a basis for socially just and equitable metropolitan governance, enables strategic land-use planning and coordinated public investment, and the development of a city-wide framework for economic and social development within the metropolitan area (White Paper on Local Government; 1998:6).

The fifth section of the White Paper on Local Government is titled “Municipal political systems” and highlights the “importance of dynamic local political leadership. It discusses the advantages of allowing for the delegation of executive powers by a municipal Council to either an Executive Committee or an Executive Mayor, and proposes that both options are accommodated” (White Paper on Local Government; 1998:6) .

The sixth section of the White Paper on Local Government addresses the issue of “municipal administrative systems”. It notes that the “local-level transition process has largely been concerned with the amalgamation of previously separated municipalities, and that significant changes to administrative systems have not yet taken place. The bulk of this section focuses on service delivery systems, and a wide range of approaches to transforming municipal service delivery systems are put forward” (White Paper on Local Government; 1998:7) .

The White Paper on Local Government also puts forward an approach to municipal transformation. It notes that “national government is committed to developing a stable and enabling framework in which change can occur, and provides a range of support mechanisms to assist municipalities during the transition. However, transformation ultimately rests in the hands

of each municipality. Municipalities are encouraged to think critically about how they operate and relate to local communities, and to develop their own strategies for meeting local needs and promoting the social and economic development of communities in their areas of jurisdiction" (White Paper on Local Government, 1998:7) .

"Strong and capacitated developmental local government has a substantial contribution to make in the process of improving South African citizens' quality of life, and to the development of the nation" (White Paper on Local Government, 1998:8). The White Paper on Local Government outlines the systems which will make developmental local government a reality.

2.3.2 THE LEGAL AND DEVELOPMENTAL FRAMEWORK

The legal and development framework for Integrated Development Planning is captured in the following documents namely the Constitution of the Republic of South Africa of 1996; the Local Government Transitions Act; the Development Facilitation Act; Labour Legislations, agreements and structures; the Municipal Structures Act; as well as the Municipal Systems Bill.

The Constitution of 1996 lists the purpose of local government and its developmental duties. These objectives include:

- To provide democratic and accountable government for local communities;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- To promote a healthy and safe environment;
- To encourage the involvement of communities and community organisations in the affairs of local government;
- A municipality must manage its affairs in an effective, economical and efficient manner, thereby optimising the use of its resources [Section 195(1)(b)];
- Financial matters are to be managed in an accountable and transparent manner [Section 215(1)];
- A municipality must manage its financial resources to meet and sustain its objectives [Section 152];
- Social and economic development within its area of jurisdiction must be promoted [Section 152(1)(c)];
- National and provincial development programmes must be supported [Section 153(b)];
- It must regularly assess and monitor its performance against its IDP. The objectives of the IDP must be regularly reported on to the community [Section 152(1) (e)] (DBSA, 2000:110).

The Local Government Transition Act, Second Amendment Act No. 89 of 1995 (LGTA) was amended by Act 97 of 1996, which required metropolitan councils to have and Integrated Development Plan (IDP) and which permitted district councils to formulate and implement an IDP for a local council, a rural council or a representative council (Craythorne, 2003:134).

Labour Legislation, Agreements and Structures include the Labour Relations Act, the Basic Conditions of Employment Act, the Employment Equity Act and the Skills Development Act. The Labour Relations Act applies to all workers, employers and trade unions but it does not apply to members of the National Defense Force; National Intelligence Agency; or the South African Secret Service.

The Basic Conditions of Employment Act 1997 “gives effect to the right to fair labour practices referred to in section 23(1) of the Constitution by establishing and making provision for the regulation of basic conditions of employment; and thereby complies with the obligations of the Republic as a member state of the International Labour Organisation; and to provide for matters connected therewith. The purpose of this Act is to advance economic development and social justice by fulfilling the primary objects of this Act which are to give effect to and regulate the right to fair labour practices conferred by section 23(1) of the Constitution by establishing and enforcing basic conditions of employment; and by regulating the variation of basic conditions of employment; and to give effect to obligations incurred by the Republic as a member state of the International Labour Organisation” (Microsoft Acts Online).

The Employment Equity Act No. 55 of 1998 has as its main purpose “to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination; and implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workforce” (Microsoft Acts Online).

The Skills Development Act No. 97 of 1998 has as its main purpose “to develop the skills of the South African workforce; to improve the quality of life of workers, their prospects of work and labour mobility; to improve productivity in the workplace and the competitiveness of employers; to promote self-employment; and to improve the delivery of social services; to increase the levels of investment in education and training in the labour sector and to improve the return on that investment; to encourage employers to use the workplace as an active learning environment; to provide employees with the opportunities to acquire new skills; to provide opportunities for new entrants to the labour sector to gain work experience; and to employ persons who find it difficult to be employed; to encourage workers to participate in learnerships and other training programmes; to improve the employment prospects of persons previously

disadvantaged by unfair discrimination and to redress those disadvantages through training and education; to ensure the quality of education and training in and for the workplace; to assist work-seekers to find work; retrenched workers to re-enter the labour sector; employers to find qualified employees; and to provide and regulate employment services" (Microsoft Acts Online).

The Development Facilitation Act No. 67 of 1995 (DFA) "introduces extraordinary measures to facilitate and speed up the implementation of reconstruction and development programmes and projects in relation to land; and in so doing to lay down general principles governing land development throughout the Republic; to provide for the establishment of a Development and Planning Commission for the purpose of advising the government on policy and laws concerning land development at national and provincial levels; to provide for the establishment in the provinces of development tribunals which have the power to make decisions and resolve conflicts in respect of land development projects; to facilitate the formulation and implementation of land development objectives by reference to which the performance of local government bodies in achieving such objectives may be measured; to provide for nationally uniform procedures for the subdivision and development of land in urban and rural areas so as to promote the speedy provision and development of land for residential, small-scale farming or other needs and uses; to promote security of tenure while ensuring that end-user finance in the form of subsidies and loans becomes available as early as possible during the land development process; and to provide for matters connected therewith" (Microsoft Acts Online).

Policies and legal frameworks set out guidelines to local government on their developmental role that they have to play. These guidelines are meant to implement a course of action in local government, which will result in strategic planning and sustainable development. The following section addresses the core components of the Integrated Development Plan.

2.4 CORE COMPONENTS OF THE INTEGRATED DEVELOPMENT PLAN

The Municipal Systems Act, Act 32 of 2000, specifies what must be reflected in the IDP, but it does not impose the content. The IDP must reflect the following aspects:

- The municipal council's vision for the long-term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs;
- As assessment of the existing level of development in the municipality, which must include an identification of communities without access to basic municipal services;

- The council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;
- The council's development strategies, which must be aligned with any national or provincial sectoral plans and planning requirements binding on the municipality in terms of legislation;
- A spatial development framework, which must include the provision of basic guidelines for a land-use management system for the municipality;
- The council's operational strategies;
- Applicable disaster management plans;
- A financial plan, which must include a budget for at least the next three years; and
- The key performance indicators and performance targets (Municipal Systems Act 32, 2000:35-43) (Also see Harrison, 2001; Odendaal, 2002; Hindson, 2003).

2.5 INTEGRATED DEVELOPMENT PLANNING AND LOCAL GOVERNMENT

According to the Municipal Systems Act of 2000 "...all municipalities have to undertake the integrated development planning process to produce a concrete, implementable strategy, which addresses development at local government level". The integrated development plan is made up of the following core components namely the analysis, development strategies, projects, integration and approval".

With the introduction of the Constitution (1996) and a new legislative and policy framework for local government, the role of local government has been expanded. Municipalities are now required to be more developmental in their approach to service delivery. Integrated development planning is a very important process in local government since it is a strategic development plan for five years. In terms of the Municipal Systems Act of 2000, the "Executive Committee or Executive Mayor has the responsibility to manage the preparation of the IDP or assign this responsibility to the municipal manager. Every new council that comes into office after the local government elections has to prepare its own IDP, which will guide them for the five years that they are in office" (IDP Guide Pack, 2003). The IDP process is "participatory in nature and therefore requires input from various role-players, which includes the local officials, the councillors, the municipal stakeholders as well as provincial and national sector departments" (IDP Guide Pack, 2003).

It is stated in the White Paper on Local Government (WPLG) (1998) that "the powers and functions of local government should be exercised in such a way that it has maximum impact on the social development of communities, in particular meeting the basic needs of the poor and on

the growth of the local economy". Municipalities collect a large amount in rates and fees each year. As stated in the White Paper on Local Government (1998) "they thus have the responsibility for delivering services of a high standard to their communities". Local government is not directly responsible for the creation of jobs, but they are "responsible for taking active steps to ensure that the overall economic and social conditions of their jurisdiction are conducive to the creation of employment and opportunities" (DBSA, 2000:67).

Municipalities need to set their own key performance indicators as part of the integrated development planning process. "The IDP, budgeting and performance management are powerful tools which can assist municipalities to develop an integrated perspective on development in their area. It will enable municipalities to focus on priorities within an increasingly complex and diverse set of demands" (WPLG, 1998). Thus, the new developmental role of local government calls for them to use a more strategic approach to their planning process.

Thus, it is of utmost importance that the purpose and rationale of integrated development planning be more clarified for those local representatives who do not understand the importance of integrated development planning. It is of "significance that they understand that the purpose of integrated development planning is the faster and more appropriate delivery of services and providing a framework for economic and social development in a municipality" (IDP Guide Pack, 2003).

2.5.1 BATHO PELE PRINCIPLES AND INTEGRATED DEVELOPMENT PLANNING

The Batho Pele principles were instituted to help local government to understand their role in the service delivery process. It is a government programme to improve service delivery in the public service. The Batho Pele initiative (1997) aims to enhance the quality and accessibility of government services by improving efficiency and accountability to the recipients of public goods and services. Batho Pele requires that eight service delivery principles be implemented namely:

- Regularly consult with customers;
- Set service standards;
- Increase access to services;
- Ensure higher levels of courtesy;
- Provide more and better information about services;
- Increase openness and transparency about services;
- Remedy failures and mistakes;

- Give the best possible value for money (Batho Pele, 1997).

The Batho Pele principles correlates with integrated development planning, since this confirms the core responsibility of local government in terms of developmental service delivery. It is the ultimate strategy of the Drakenstein Local Municipality to address the challenges of poverty in order to develop a prosperous and self-sufficient society with a high living standard. There are many definitions for poverty but in simple terms, according to Stats SA, it is defined as the "inability of a community to enjoy a reasonable quality of living, and the inability of the community to take part in the local economy". Local economic development (also known as LED) is "intended to maximise the economic potential of all municipal localities throughout the country and, to enhance the resilience of macro-economic growth through increased local economic growth, employment creation and development initiatives within the context of sustainable development" (Department of Provincial and Local Government, 2003). Local economic development (LED) occurs when communities, local government and the business sector start to engage in activities to improve local social-economic conditions, usually by acting in partnership with one another (LED South Africa, 2003).

The purpose of integrated development planning is therefore to assist local government in its developmental role. It is the tool that should be used by local government to make the best use of their available resources to address poverty and to promote local economic development, social development as well as sustainable development in their respective jurisdictions. The Integrated development plan of the Drakenstein Local Municipality incorporates fifteen strategic objectives as set out by their Council. These strategic objectives will be discussed further in **Section 2.6** as well as the link between the municipality's strategic objectives and its long term developmental role.

2.5.2 LOCAL ECONOMIC DEVELOPMENT (LED) AND INTEGRATED DEVELOPMENT PLANNING (IDP)

In order for municipalities to realise their strategic objectives, they need to formulate strategies consisting of local economic development programmes and projects.

"Local Economic Development (LED) offers local government, the private sector, the not-for-profit sectors and the local community the opportunity to work together to improve the local economy. Local Economic Development aims to enhance competitiveness and thus encourage sustainable growth that is inclusive" (Bertlesmann Foundation and World Bank's Cities of Change Initiative, 2002). The "purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which the public, businesses and non-governmental sector partners work

collectively to create better conditions for economic growth and employment generation” (Bertlesmann Foundation and World Bank’s Cities of Change Initiative, 2002).

The Department of Provincial and Local Government (DPLG) published a document entitled “*Robust and Inclusive Municipal Economies*”, 2005. The purpose of this document is to understand and give guidelines for local economic development within South Africa. Local economic development requires local actors to be innovative and to find new ways of dealing with development challenges. The key challenge for local actors is to be proactive and seize development opportunities, and tap into various government programmes and business networks (Department of Provincial and Local Government, 2005).

Local Economic Development is about communities continually improving their investment climate and business enabling environment to enhance their competitiveness, retain jobs and improve incomes. Local communities respond to their local economic development needs in many ways, and a variety of approaches can be taken that include:

- Ensuring that the local investment climate is functional for local businesses;
- Supporting small and medium sized enterprises;
- Encouraging the formation of new enterprises;
- Attracting external investment (nationally and internationally);
- Investing in physical (hard) infrastructure;
- Investing in soft infrastructure (educational and workforce development, institutional support systems and regulatory issues);
- Supporting the growth of particular clusters of businesses;
- Targeting particular parts of the city for regeneration or growth (areas based initiatives);
- Supporting informal and newly emerging businesses;
- Targeting certain disadvantaged groups (Bertlesmann Foundation and World Bank’s Cities of Change Initiative, 2002).

The following section will address the Drakenstein Local Municipality’s strategic objectives as set out by their Council.

2.6 DRAKENSTEIN LOCAL MUNICIPALITY’S STRATEGIC OBJECTIVES

The Drakenstein Local Municipality has fifteen strategic objectives that they strive to accomplish. These objectives have as its goal economic development, job creation and poverty alleviation.

The fifteen strategic objectives of the Drakenstein Local Municipality are as follows:

- Provision of housing opportunities;
- Identify and obtain suitable land for housing;
- Grow and develop the economy to reduce poverty and unemployment;
- Improved quality of life;
- Improved community safety;
- Provide for democratic, accountable and effective governance;
- Ensure the creation of a sustainable and quality living environment with efficient infrastructure;
- Promote and improve the opportunities of marginalised and vulnerable groups;
- Develop an efficient and financially viable municipality;
- Secure funding and strategic partnerships to deliver on the IDP;
- Transform to be developmental and strategic in service delivery;
- Improve and maintain levels of service delivery and customer satisfaction;
- Pro-actively improve inter-governmental relations and input, aligning strategies and budgets;
- Build an effective and efficient municipality with a motivated and competent staff component; and
- Enhance information and communication (Drakenstein Municipality Annual Report, 2004-2005:35-37).

Funds that are obtained from the Western Cape Provincial Government must be utilised to its fullest extent within the given time frames of the fiscal year. Houses must be built by local contractors, local labour and as far as possible, local products. It is Drakenstein's focus to address the shortage of housing and to transform informal areas into thriving communities with proper housing and services. The integrated approach to housing development will also be a key contributor to the job creation programme, with local labour utilised on all projects, as well as a strong focus on local suppliers through the Procurement Policy (Drakenstein Municipality Annual Report, 2004-2005:38-40).

Every resident's quality of life must be improved through human development, increased and equitable access to social facilities, as well as the provision of associated infrastructure and basic services. Drakenstein wants to improve community safety in order to create an environment that is conducive to social upliftment and economic growth. Decision making must be open and transparent and all members of the community should have the opportunity to be involved as equal partners in making decisions that affect their lives. It is the aim of the municipality to provide quality and affordable municipal infrastructure, services and a quality

living environment, as well as a natural environment that is clean, safe, healthy and sustainable. Drakenstein recognises in every project that it undertakes that there are communities who are especially marginalised and vulnerable, i.e. women, the disabled, the elderly, the youth and particularly people living in rural communities(Drakenstein Municipality Annual Report, 2004-2005:40-41).

In order to deliver on its development mandate, Drakenstein Local Municipality needs to develop into, and maintain a financially sound financial institution. The municipality recognises that it's unable to deliver on all the needs of the community with the limited resources available to them, therefore it needs to proactively source additional funding and build new partnerships with the private sector. Offering business investment incentives to the private sector will help in the proactive sourcing of additional investment and funding which will inject positive growth into the Drakenstein Local Municipality's economy(Drakenstein Municipality Annual Report, 2004-2005:41).

The researcher will only be focusing on those identified objectives that relate to economic growth, employment generation and poverty alleviation for the purpose of this study. The business development strategy and business investment incentive scheme are means by which the Drakenstein Local Municipality can achieve these objectives which relate to economic growth and development.

The following section addresses community participation in the development planning process.

2.7 PARTICIPATION IN DEVELOPMENT PLANNING

People's participation in development planning implies empowerment and vice versa (Rowlands, 1995:102). Genuine community participation means that people must have the power to influence the decisions that affect their lives (De Beer and Swanepoel, 2002:135). Community participation results in human development and it emphasises the relationship between economic, social and political aspects of development.

The Municipal Systems Act of 2000 and Integrated Development Planning, as the primary planning tool within it, signify the deepening of democracy and good governance as participation of communities and various stakeholders through the ward committees is now mandatory. It also enables the bottom up approach of democracy to become a practical reality for those that participate in the IDP processes (United Nations Development Programme, 2005). Local governance authorities should play a more prominent and active role in coordinating, facilitating and stimulating linkages and partnerships with the private sector and their local communities more now than they have done in the past.

An important starting point for improving the performance of IDPs, as well as programmes, and associated (LED) projects emanating from the IDP process, is capacity building for local authorities and institutional role players, specifically councillors, so that they can effectively drive the IDP development and implementation process. Another important target group for such capacity building interventions is members of the Ward Committees in view of their interaction with the broader community. Of critical importance is that such training and capacity building interventions address the training needs of specific target audiences, adopt a more programmatic and continuous approach, seek accreditation for training and where possible integrate such training and capacity building efforts with career aspirations of recipients (Science and Society Information Resource (CSIR), 2002).

More attention needs to be given to identifying and applying appropriate methods of participation that enable all sectors of civil society to participate effectively. Building of representative and accountable structures at the community level is needed to foster better links with the IDP process. Improving communication mechanisms between elected representatives and their constituencies, while strengthening the role and capacity of the Ward Committees, needs urgent attention. At the project level, although participation by local communities in all phases of the project cycle process is important to the overall performance of projects, factors such as accountability, transparency, commitment and conflict resolution mechanisms might be more significant to project success than participation per se.

The establishment of real partnerships between local government, civil society and the private sector that extend beyond the development of the IDP phase is of utmost importance. Representative structures that were established during the IDP formulation process should be nurtured so that they can provide an ongoing "space" for interaction between government, the private sector and civil society during implementation of IDPs. Active encouragement and ongoing support from existing structures such as the PIMS - centers, the Department of Provincial and Local Government offices and SALGA provincial associations to strengthen and maintain these partnerships are required (United Nations Development Programme, 2005).

The extent, to which local institutions, including local government, civic and private sector institutions interact with the Local Economic Development project participants, plays a crucial role in the definition of the problem, allocation of resources and the formation of partnerships. This in turn impacts on the performance of the project. The IDP calls for an integrated and holistic approach to planning and development (De Beer and Swanepoel, 2002:137).

"Local economic development strategies have been regarded as important in developing neglected and stagnating local economies and it is seen as an ideal measure to tackle rural poverty. Community economic development efforts mainly arise out of anti-poverty efforts by

communities. A good local economic plan is one that is not only realistic but one which also recognises the place of the local community in the context of the broader economic and political environment” (Local Economic Development and Sustainable Livelihoods, 2002:1).

The following themes are noted as key components of developmental local economic development which benefits local communities:

- Communities need to be involved in and own the process of development from planning through to implementation;
- Good, respected local leadership is key to the local economic development process;
- Community plans must be realistic and practical, taking into account short-term achievements as well as long-term goals so that communities have a clear vision of what they want and believe that it is attainable;
- A partnership and a shared vision with other role-players (public and private sector) is important;
- Communities need to organise themselves and to achieve this they can use external skills and resources which is usually available in the form of NGOs and other development institutions (Local Economic Development and Sustainable Livelihoods, 2002:2).

Although the IDP process has resulted in improved co-ordination and communication across the sectors, and has required the development of integrated strategies and plans, mechanisms need to be put in place to enhance co-ordination across all sectors both horizontally and vertically. Local authorities also face the challenge of making institutional changes needed to give effect to implementing the IDPs, especially if the principles of sustainability are to be upheld.

2.8 SUMMARY

Integrated development planning has become an established feature of the development scene at local government level. Integrated development planning and strategic objectives are constrained by resource and skills constraints and are compounded by the lack of strategic guidance and facilitation from the other spheres of government. Thus it is important to develop a culture and an administrative and regulatory environment that facilitate economic development, job creation and poverty alleviation.

The theoretical framework encompasses that integrated development planning is the most important tool today in local government. This plan encompasses that development planning and strategic objectives should be set by local government and implemented accordingly. Most important to this process is community participation and empowerment. Sustainability principles

and participatory approaches are key to developing a plan that responds to local needs, conditions and capacities. However, while these plans represent a significant move towards achieving sustainable development there are key challenges.

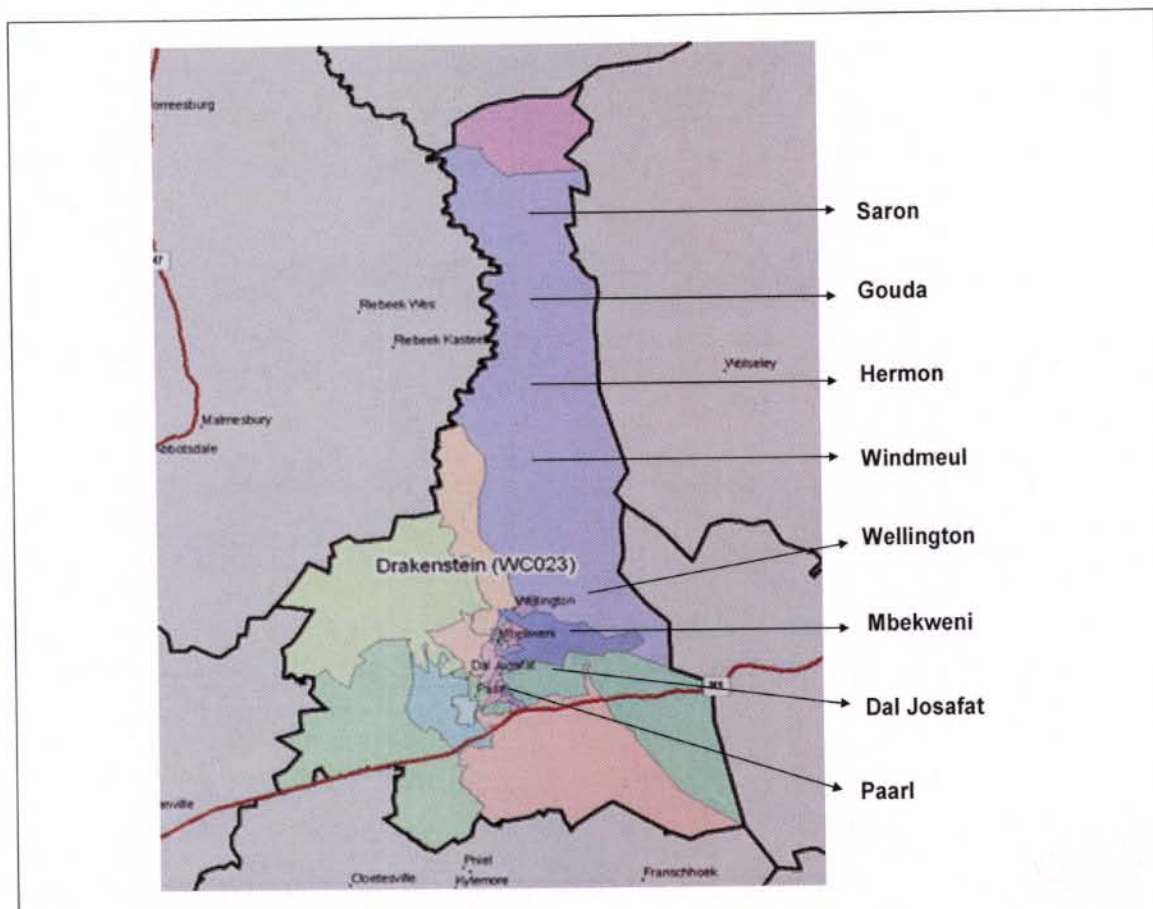
The researcher believes that an enabling business environment will be imperative in the process of sustainable economic development. The Drakenstein Local Municipality has an important facilitation role to play in the co-ordination process with investors and ensuring public participation, rapid turnaround time and focused services to businesses. The following chapters will provide background information to the Drakenstein Local Municipal area (**Chapter 3**); an analysis of the five most important urban economic sectors (**Chapter 4**); and as a recommendation a proposed business investment incentive scheme (**Chapter 5**).

CHAPTER THREE: DRAKENSTEIN LOCAL MUNICIPAL AREA

The purpose of this chapter is to introduce the background information to the Drakenstein Local Municipal area. It introduces the municipal area in terms of its economy which will form the basis for the five main urban economic sectors of the Drakenstein Local Municipality.

3.1 INTRODUCTION

The Drakenstein Local Municipality was legally constituted in December of 2000 and includes the following areas namely Paarl, Wellington, Gouda, Hermon, Saron, Windmeul, Simondium and the rural areas adjacent to and between these towns. The municipality forms part of the Cape Winelands Municipality which includes the following Category B municipalities namely Stellenbosch, Drakenstein, Breede Valley, Witzenberg and the Breede River/Winelands (Drakenstein Local Municipality IDP, 2005/2006:5).



Note: This figure is not on scale.

(Source: <http://www.demarcation.gov.za>)

According to the Drakenstein Local Municipality's Integrated Development Plan of 2005/2006 "the municipality covers an area of approximately 1 538km²". "It stretches from just south of the N1 freeway including Simondium in the south up to and including Saron in the north. The Klein Drakenstein, Limiet and Saron mountain ranges form its eastern edge and the agricultural areas immediately to the west of the R45 its western border". "Paarl and Wellington are the main urban centers in the municipality located in close proximity to the N1 in the south with smaller rural settlements at Saron and Gouda in the north and Hermon in the mid-west" (Drakenstein Local Municipality IDP, 2005/2006:5).

The Trade South Africa Newsletter of May 2006 states that "the region is one of the most fertile agricultural belts in the country, in the heart of the Winelands, one of the most visited tourist attractions in South Africa". "The Cape Town-Johannesburg railway line is also easily accessible. These towns function as the sub-regional centre for administrative, commercial and higher-order social facilities, enjoy fairly diversified economies and offer a diverse range of opportunities in industries, particularly those linked to agriculture" (Trade SA Newsletter, 2006).

3.2 DRAKENSTEIN LOCAL MUNICIPALITY'S ECONOMIC OVERVIEW

This section provides an overview of the economy of the Drakenstein Local Municipality. The economic profile therefore provides an overview of the critical parameters to be applied in demand modelling and growth forecasting.

This section is structured according to sectoral definitions; an economic profile; economic growth in the study area; employment and tourism.

3.2.1 SECTORAL DEFINITIONS

The economy is divided into a number of different sectors, to allow for the classification of economic activities. Each of these sectors contributes to the economy in terms of production (Gross Geographic Product - GGP) as well as employment. These sectors are identified under the Standard Industrial Classification (SIC)¹. Each major SIC category is described below (Standard Industrial Classifications, 1993:1-3):

¹ The Sic was designed for the classification of establishments according to different kinds of economic activities, and provides a standardised framework for the collection, tabulation, analysis and presentation of statistical data on establishments.

- Agriculture, Hunting, Forestry and Fishing. This sector incorporates establishments which are primarily engaged in farming activities. Also included are establishments engaged in commercial hunting and game propagation and forestry, logging and fishing.
- Mining and Quarrying. This sector includes the extracting and beneficiating of minerals occurring naturally, including solids, liquids and crude petroleum and gases. It also includes underground and surface mines, quarries and the operation of oil and gas wells and all supplemental activities for dressing and beneficiating of ores and other crude materials.
- Manufacturing. This sector is defined as the physical or chemical transformation of materials or compounds into new products.
- Electricity, Gas and Water Supply. This sector includes the supply of electricity, gas and hot water, the production, collection and distribution of electricity, the manufacture of gas and distribution of gaseous fuels through mains, supply of steam and hot water, and the collection, purification and distribution of water.
- Construction. This sector includes the site preparation, building of complete constructions or parts thereof, civil engineering, building installation, building completion and the renting of construction or demolition equipment with operators.
- Trade. This sector entails wholesale and commission trade; retail trade; repair of personal household goods; sale, maintenance and repair of motor vehicles and motor cycles; hotels, restaurants, canteens, bars, camping sites and other provision of short stay accommodation.
- Transport, Storage and Communication. This sector comprises land transport; railway transport; water transport; transport via pipelines; air transport; activities of travel agencies; post and telecommunications; courier activities; and storage.
- Businesses and Financial Services. This sector includes inter alia, financial intermediation; insurance and pension funding; real estate activities; renting or transport equipment; computer and related activities; research and development; legal; accounting; bookkeeping and auditing services; architectural, engineering and other technical activities; and business activities not classified.
- Community, Social and Personal Services. This sector includes public administration and defense activities, activities of government, government departments and agencies; education, public and private health; health and social work; sewage and refuse disposal, sanitation and similar activities; washing and dry cleaning of textiles and fur products, hairdressing and other beauty treatments, funeral and related activities.

Tourism is not defined as a sector on its own, but because of the growing impact it has on the economy, it is separately classified as a sub-sector within the Trade sector. "With the growth in significance of tourism as a new economic driver for the post-apartheid economy, there is

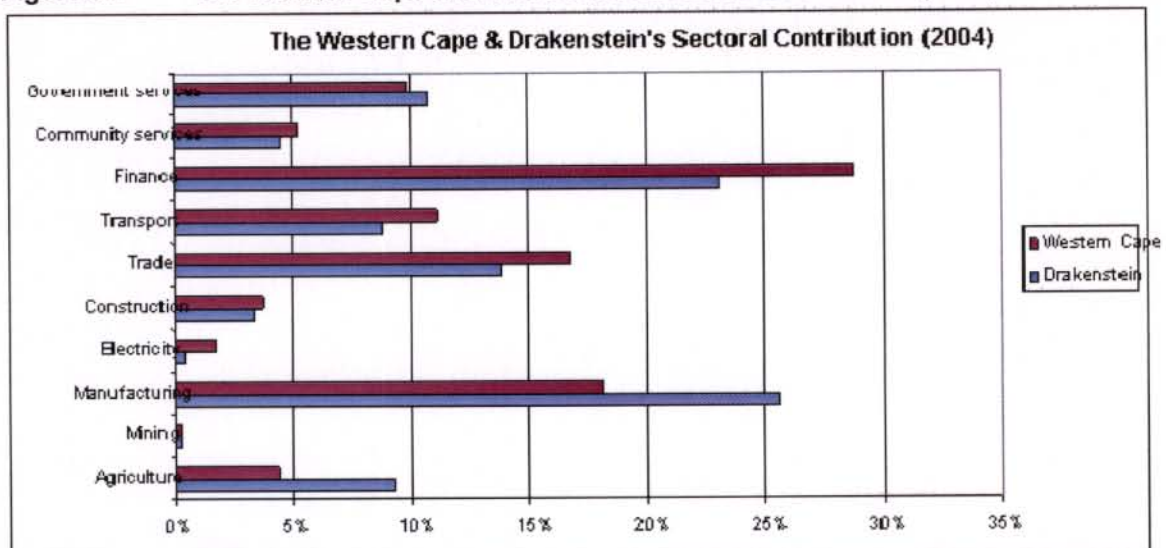
considerable local activity and emphasis upon tourism-led Local Economic Development planning across large cities, smaller localities and rural areas" (Nel & Binns 2002; Binns & Nel, 2002 and 2003; Rogerson, 2002; Visser, 2003, Ndlovu & Rogerson, 2004).

3.2.2 ECONOMIC PROFILE

This section provides an overview of the economic contribution of the Drakenstein area, compared to the Western Cape and a sectoral overview of the Drakenstein area. The main purpose of this economic profile is to identify the major urban economic sectors of the Drakenstein Local Municipality's economy. An analysis of the five main urban economic sectors will be discussed in **Chapter 4**.

Figure 3.1 illustrates Drakenstein's sectoral economic contribution compared with the Western Cape's contribution to the economy in 2004.

Figure 3.1 The Western Cape & Drakenstein's Sectoral Contribution (2004)



(Source: Quantec Research, 2006.)

The Drakenstein economy contributed 3.6% to the Western Cape's economy in 2004. This economy is largely comprised of economic performance and contributions made by the following sectors as illustrated by **Figure 3.1**:

- The contribution by the manufacturing sector was 25.6% and this percentage is relatively higher than that of the Western Cape at 18.1%. This is significant because it illustrates the importance of the manufacturing sector in the Drakenstein area in terms of its contribution to GGP.

- The contribution made by the agriculture sector was 9.3% and this was also higher than the figure for the Western Cape at 4.4%. The agriculture sector in Drakenstein consists mainly of produce such as table and wine grapes, olives, plums, guavas, citrus and grain.
- The contribution made by the government services sector was 10.8% and this was also higher than the figure for the Western Cape at 9.8%. The government services sector in Drakenstein includes the provision of the following basic services namely refuse removal, electricity, water, sewerage services, rates collection, tourism, municipal roads, street lighting, traffic and parking, drainage, building plan approval, health and cemeteries.
- The contribution made by the finance and business services sector was 23.1% and this was lower than the figure for the Western Cape at 28.8%. This illustrates that this sector, which includes financial intermediation, insurance, real estate and business services, has a relatively smaller contribution compared to this sector in the Western Cape, which provides services to a bigger client base.
- The contribution made by the trade sector was 13.8% and this was also lower than the relative contribution of the Western Cape at 16.8%. This illustrates that this sector, which includes wholesale and retail trade, personal and household goods and accommodation and restaurants and therefore tourism activities, is relatively less important than that of the Western Cape.
- The construction sector's relative contribution in the Western Cape was 3.7% and this was slightly higher than that of Drakenstein at 3.3% (Also see Quantec Research, 2006).

The contributions made to the Drakenstein economy in 2004 by these sectors illustrate higher employment opportunities and higher living standards. Nominal growth took place in the financial services, insurance and real estate sector. According to the Trade South Africa May Newsletter of 2006 "key features of the local economy include its modern urban infrastructure and developed financial and business service sector; the intensive farming of vineyards, fruit, dairy and poultry; and a growing manufacturing sector, with effective linking of agricultural and other sectors to agro-processing – especially in the wine, brandy and fruit industries – largely aimed at the higher-value sectors, including overseas".

Growth forces in the region include:

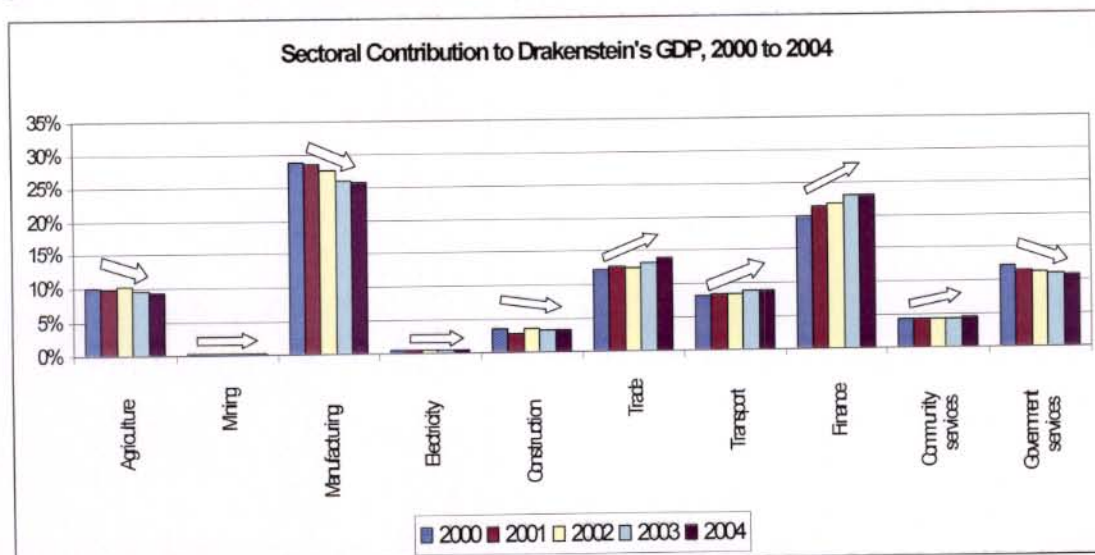
- agricultural exports – grapes and other fruit;
- agro-industries – wine, juice, brandy, juice concentrates and dried fruit;
- tourism – eco-tourism and activity-based tourism facilities;

- manufacturing – including furniture, ceramics, farm implements and equipment (Trade SA Newsletter, 2006).

Drakenstein's five main urban economic sectors, namely residential, retail, office, and industrial will be discussed and analysed further in **Chapter 4** and in addition the tourism sector will also be discussed so as to optimise economic performance and to generate new investment opportunities. The tourism sector in the Drakenstein/Winelands area is of utmost importance to their economy as eco-tourism and activity-based tourism facilities are very important in the area.

Figure 3.2 illustrates the contribution of the various economic sectors to the Drakenstein's economy between 2000 and 2004.

Figure 3.2 Sectoral contributions to Drakenstein's GDP, 2000 to 2004.

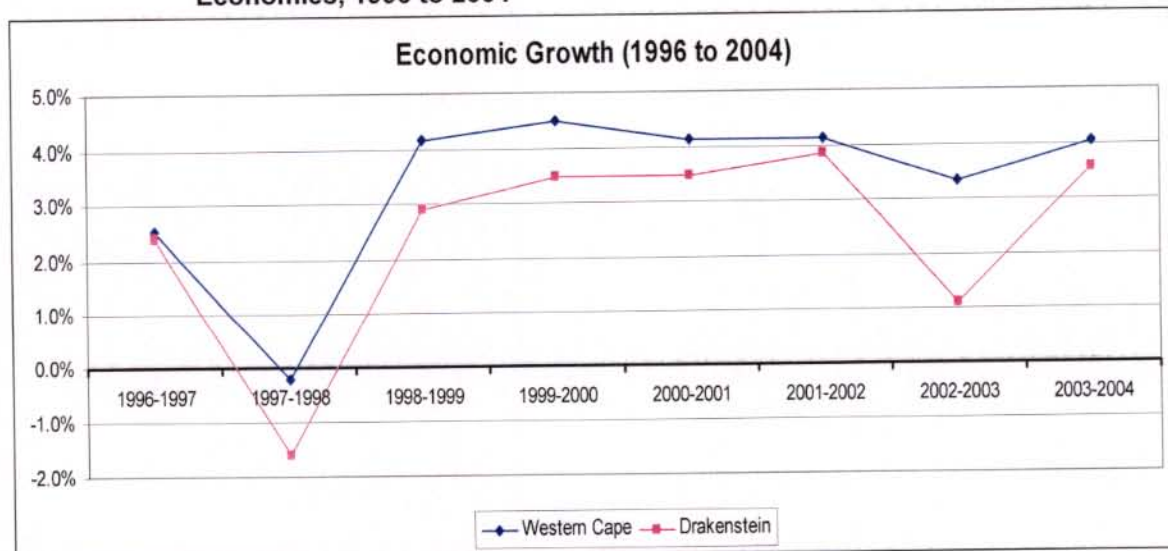


(Source: Quantec Research, 2006.)

Figure 3.2 illustrates that the dominant economic sectors within the Drakenstein economy include manufacturing, finance and business services, trade and government services. The sectors which showed growth include the finance and business services sector, the trade sector and transport sectors. The finance and business services sector grew from 19.8% in 2000 to 23.1% in 2004 and the trade sector grew from 12.3% in 2000 to 13.8% in 2004. Sectors that experienced decreases in their relative contribution to the Drakenstein economy included agriculture, manufacturing, and construction and government services (Also see Quantec Research, 2006). In determining possible incentives that the Drakenstein Local Municipality can implement in terms of business development and retention the sectoral contributions is very important. The stronger economic sectors can then be separated from the weaker economic sectors and specific incentives can be developed.

Economic growth is defined as an increase in an economy's ability to produce goods and services which brings about a rise in the standard of living to the area concerned (South African Reserve Bank, 2005:3). **Figure 3.3** illustrates economic growth within the Drakenstein and Western Cape regions from 1996 to 2004.

Figure 3.3 Economic Growth within the Drakenstein and Western Cape Economies, 1996 to 2004



(Source: Quantec Research, 2006.)

Figure 3.3 illustrates that both Drakenstein and the Western Cape had a negative growth from 1997 to 1998 at -1.6% and -0.2% respectively. There was also a decline in economic growth for Drakenstein and the Western Cape from 2002 to 2003. The Drakenstein economy declined from 3.9% to 1.1% between 2001 and 2003 and the Western Cape declined from 4.1% to 3.3% between 2001 and 2003. The Western Cape's economic growth is slightly higher than that of Drakenstein at 4.2% and 3.6%, respectively (Also see Quantec Research, 2006).

According to the South African Reserve Bank "economic growth declined between 1997 and 1998 due to global economic fluctuations, mainly in the Asian sector crisis resulting in a general slowdown in the pace of economic activity in the United States of America, which had a negative spill-over effect on world trade. This had a negative effect on the South African sector, which resulted in the negative growth in the Western Cape and thus there was a spill-over to the Drakenstein's economy. The recovery in 1999-2000 was because of the recovery of the Asian sectors and increased production in the United State's economy. This was also reflected in South Africa as well, which resulted in the recovery of the Western Cape and Drakenstein economies, respectively" (South African Reserve Bank, 2005:10).

"After 2000 there was a slight decline in economic growth and between 2002 and 2003 there was a drop in economic growth because of the depreciation of the rand". "The South African

economy has slowed progressively since 2001". "Within the context of the global economy, South Africa's slowdown has however, not been as severe as in other emerging sectors". "Similarly, the decline in economic growth has been far more modest than that of leading industrialised countries". "This is attributed to the depreciation of the Rand, which resulted in increased exports". "The currency has thus acted as a shock absorber insulating the economy from the full effects of the slowdown in global economic activity" (South African Reserve Bank, 2005:11-15). Thus, the Western Cape as well as the Drakenstein area, was also influenced by national and global trends.

The level of employment in the formal sector continues to decline. This appears to be due to the fact that the structure of the South African economy is shifting towards service industries, which are knowledge and skill intensive and away from more labour intensive industries such as mining, agriculture, manufacturing and construction. In the Drakenstein economy the above mentioned sectors are doing relatively well. This will be discussed further in **Table 3.1**, which illustrates the growth within each of the economic sectors of the Drakenstein economy from 2000 to 2004.

It is important to note that in those sectors in which growth is occurring in South Africa, such as the information technology, financial services, transport and communications, tourist and trade sectors, skilled labour continues to be in short supply. The potential for economic growth and creating job opportunities can only be fulfilled under stable financial and economic conditions. Positive economic growth could result in more employment and growth opportunities.

Table 3.1 illustrates the growth within each of the economic sectors of the Drakenstein economy from 2000 to 2004.

Table 3.1 Sectoral Growth, 2000 to 2004

Economic Sector	2000-2001	2001-2002	2002-2003	2003-2004
Agriculture	1.3%	7.7%	-6.9%	1.7%
Mining	-15.0%	-2.6%	1.1%	5.3%
Manufacturing	2.4%	0.5%	-4.9%	2.6%
Electricity	-3.0%	-5.1%	12.9%	1.6%
Construction	-18.4%	30.0%	-4.0%	2.9%
Trade	6.8%	2.4%	7.5%	7.8%
Transport	4.7%	4.2%	7.1%	3.5%
Finance	11.1%	6.0%	6.7%	4.4%
Community Services	2.7%	2.9%	5.4%	5.5%
Government Services	-1.3%	0.9%	0.4%	0.1%

(Source: Quantec Research, 2006.)

Table 3.1 illustrates that the dominant growth sectors between 2003 and 2004 include Trade, Community Services, Mining, Agriculture, Manufacturing, and Construction. There was a

decline in sectoral growth in the Finance and Business Services, Electricity/Gas/Water and Transport and Communications sectors. The trade sector had a positive growth of 6.8% in 2000 and 7.8% in 2004. The finance and business services sector had a decline in growth from 11.1% in 2000 to 4.4% in 2004 (Also see Quantec Research, 2006).

The manufacturing sector also grew from 2.4% in 2000 to 2.6% in 2004 and the construction sector showed a tremendous growth from -18.4% in 2000 to 2.9% in 2004. The growth in the construction sector can be the result of the high number of residential units and retail outlets being built in the Drakenstein area. Positive growth is influenced by prevailing positive macro-economic conditions including positive domestic growth, growth in disposable income, low and stable inflation, low and stable interest rates and higher levels of consumer and business confidence. These aspects have positive implications for the demand in various retail sub-sectors and stimulation in the demand for new shopping centres.

Growth in the finance and business sector has declined since between 2000 and 2001 and this has a direct implication on the office sector, however the finance and business sector contribution to the Drakenstein's Gross Domestic Product (GDP) has been growing since 2000 (see **Figure 3.2**). This means that the sector did not have positive growth but that its relative contribution has increased towards the GDP each year.

The sectoral contribution of trade towards the Drakenstein GDP has been rising between 2000 and 2004 and trade's relative sectoral growth has also increased. This illustrates that the formal retail sector is performing well in the study area. Trade is one of the dominant growing sectors in the Drakenstein area, which results in positive consumer attitudes toward this area.

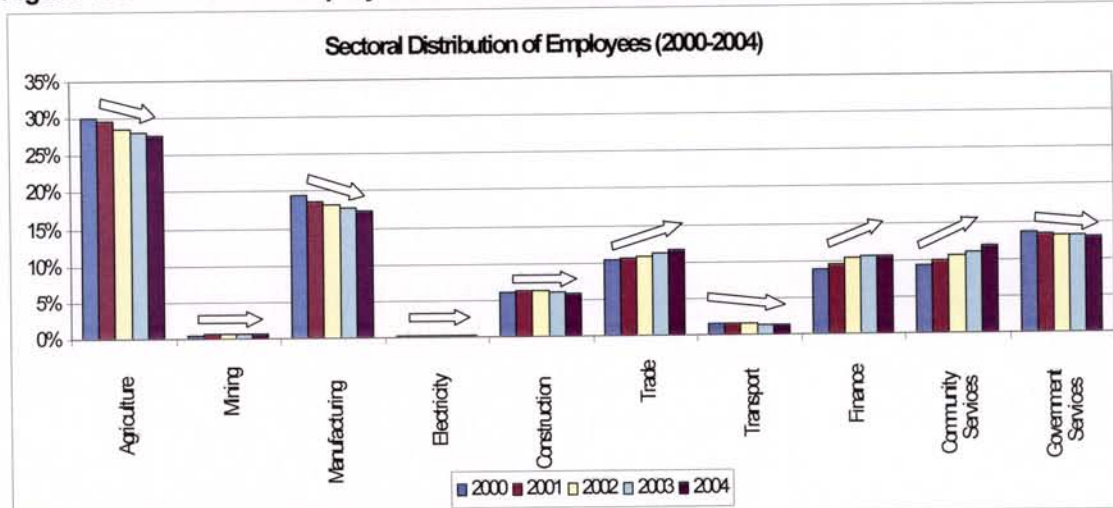
Between 2001 and 2002 there was extensive growth taking place in the construction sector. This was due to the growth between 2000 and 2001 in the economy. Building plans passed indicates growth in the construction sector. This growth is an indication that more residential, retail, office and industrial space has been developed for use by houses, factories, shops and offices and that more building plans are being approved by the Drakenstein Municipality.

The employment profile of Drakenstein, within the different economic sectors is illustrated in **Figure 3.4**. **Table 3.2** illustrates the employment growth performance.

Figure 3.4 illustrates that there was a decline in the employment figures in the agriculture sector, the manufacturing sector, the transport sector, as well as the government services sector and the construction sector. There has been a decline in the total employment figures between 1996 and 2004, from 69 364 people in 1996 to 59 058 in 2004, namely a negative growth of -2.0%. One of the reasons for the decrease in employment can be drawn back to the

fluctuations in the Drakenstein economy (Refer to **figure 3.2**) (Also see Quantec Research, 2006).

Figure 3.4: Sector Employment distributions, 2000 to 2004



(Source: Quantec Research, 2006.)

The most relevant sectors and the employment distribution within these sectors can be summarised as follows:

Economic Sector	Sector	2000	2004	Change in Contribution to Employment
Trade	Retail	10.4%	11.6%	Increase
Manufacturing	Industrial	19.4%	17.2%	Decrease
Finance & Business Services	Office	8.9%	10.1%	Increase
Construction	All	6.1%	5.1%	Decrease

The dominant employment sectors include the agriculture, manufacturing, government services and trade sectors because of the percentage contribution these sectors make to the employment pool. Although the manufacturing sector had a declining employment distribution (see **figure 3.4**), it still employed the second highest percentage of workers (17.2%). The weakest employment sectors include electricity, mining, transport and construction because of the percentage contribution these sectors made to the sectoral distribution of employees.

Table 3.2 Employment Growth, 2000 to 2004

Economic Sector	2000-2001	2001-2002	2002-2003	2003-2004
Agriculture	-3.0%	-5.0%	-2.7%	-3.5%
Mining	4.9%	7.7%	6.0%	6.9%
Manufacturing	-5.9%	-3.2%	-4.5%	-4.1%
Electricity	-1.8%	-2.3%	-2.9%	1.0%
Construction	1.2%	-0.6%	-5.4%	-6.1%
Trade	1.3%	0.7%	2.3%	0.2%
Transport	-7.9%	-1.8%	-4.0%	-2.4%

Economic Sector	2000-2001	2001-2002	2002-2003	2003-2004
Finance	4.7%	8.4%	0.5%	-2.2%
Community Service	5.0%	5.7%	2.5%	5.3%
Government Services	-3.9%	-1.8%	-2.4%	-2.3%

(Source: Quantec Research, 2006.)

Table 3.2 illustrates that the employment growth in the finance and business sector was positive between 2000 and 2001 at 4.7%, however between 2003 and 2004 there was a negative growth of -2.2%. The employment growth in the trade sector also declined from 1.3% in the period between 2000 and 2001 and to 0.2% between 2003 and 2004. The manufacturing and construction sectors had a negative growth in employment of -4.1% and -6.1%, respectively in the period between 2003 and 2004 (Also see Quantec Research, 2006).

The following section describes and addresses the tourism sector in the Western Cape as well as in the Drakenstein Local Municipality, with special reference to the South African tourism sector.

3.2.3 TOURISM: WESTERN CAPE AND DRAKENSTEIN

3.2.3.1 Introduction: Tourism in South Africa

Tourism is not an economic sector on its own, but forms part of the trade sector. However, due to its increasing importance as an income and employment generator in South Africa, this sector has been discussed separately from the other sectors (Department of Economic Development and Tourism, 2005:53).

The World Travel and Tourism Council estimates that the South African Travel and Tourism economy accounts for 7.1% of South Africa's Gross Domestic Product (GDP), contributing R72.5 billion in 2002 and growing at 3.2% during 2001. The Travel and Tourism economy is estimated to have employed 1.5 million people in 2002 or 6.9% of the country's formal workforce, which grew at 2.7% over 2001. The estimated performance of South Africa's Tourism economy in 2002 was better than the performance of the world as a whole (Department of Economic Development and Tourism, 2005:56).

Tourism is the fourth largest industry in South Africa, supporting some 6 500 accommodation establishments. Certain factors in South Africa's favour, which are expected to boost tourism growth in the country, include:

- National tourism assets of incomparable quality in certain segments;

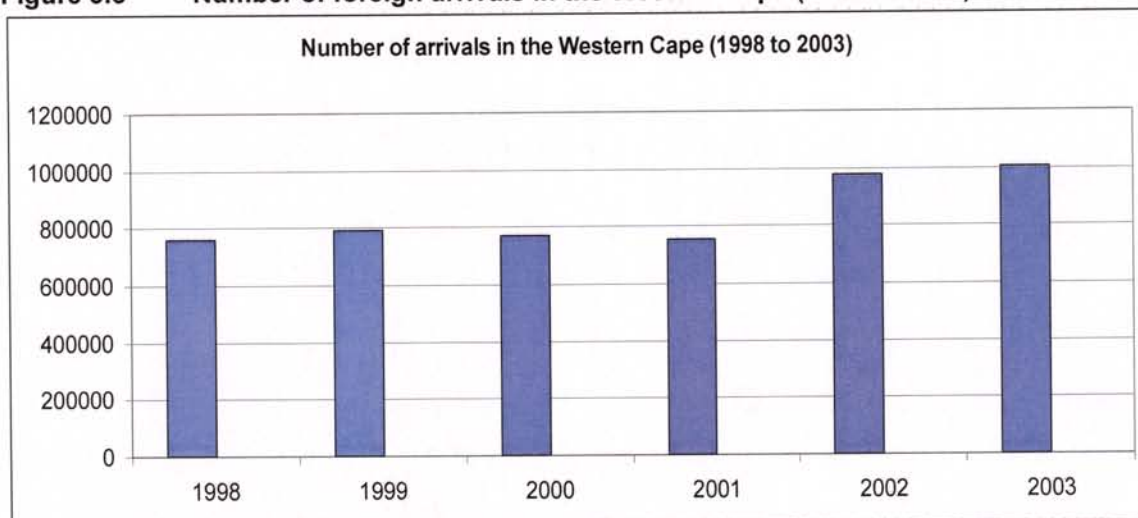
- A diversity of tourism products, especially adventure, eco-tourism and cultural attractions;
- Exceptional value for money relative to key competitors, partly owing to foreign exchange rates; and
- Positive global perceptions of a peaceful political transition in South Africa (Department of Economic Development and Tourism, 2005:58).

3.2.3.2 Foreign Tourists: Western Cape

According to Wesgro (2005) "the Western Cape has a world-class tourism sector with Cape Town as a key anchor. The latter was listed in 2004 as one of the top 5 international tourist destinations. As such, the Western Cape has the highest average expenditure per domestic tourist for all the provinces and is South Africa's leading destination for overseas visitors. Key segments of the tourism sector - such as eco- and adventure tourism, incentive tourism, health tourism, corporate tourism and conferences have been identified as growth areas within the Western Cape" (Wesgro, 2005). In 2004, the Western Cape Tourism Act was ratified. It embodies private-public partnership and cooperative governance between the different spheres of government. Most importantly it gives more autonomy to the local spheres of government in the Western Cape to develop the tourism sector (Wesgro, 2005).

The annual growth in overseas tourists arriving in the Western Cape is illustrated in **Figure 3.5** for the years 1998 to 2003.

Figure 3.5 Number of foreign arrivals in the Western Cape (1998 to 2003)

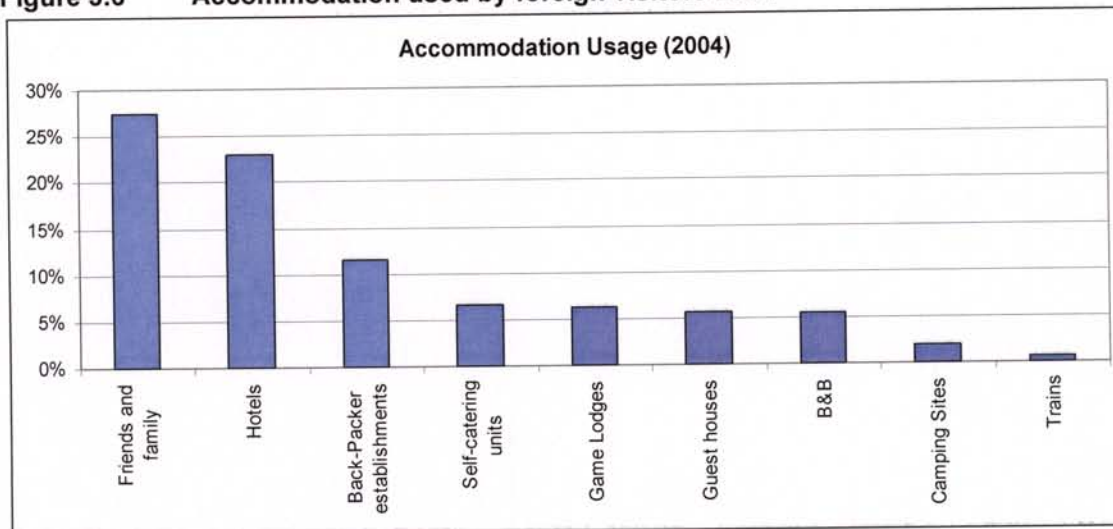


(Source: Department of Economic Development and Tourism, 2005.)

Figure 3.5 illustrates that overseas tourist visitors to the province increased from 758 400 in 1998 to 790 000 in 1999 before falling off to 752 471 in 2001. In 2003 these arrivals had increased to just over one million visitors.

The types of accommodation used by foreign visitors are indicated in **Figure 3.6**.

Figure 3.6 Accommodation used by foreign visitors 2004



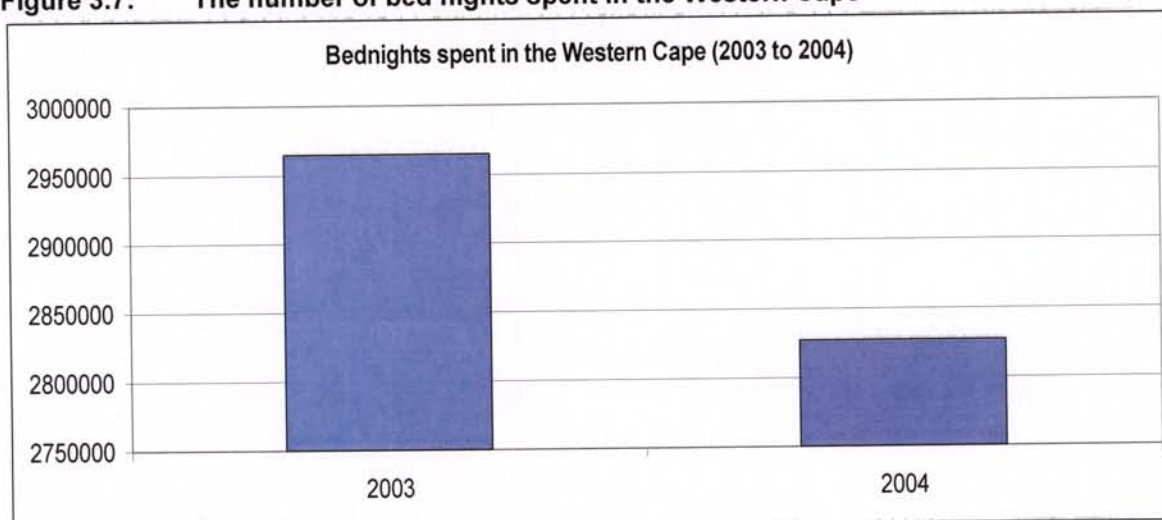
(Source: Department of Economic Development and Tourism, 2005.)

Figure 3.6 illustrates that 27.4% of the foreign visitors stayed over at friends and family; 22.9% made use of hotels; 11.6% made use of back-packer establishments; 5.6% and 5.5% made use of guest houses and B&B's respectively.

Figure 3.7 illustrates the total number of bed nights spent in the Western Cape between 2003 and 2004.

Figure 3.7 illustrates that the number of bed nights spent in the province decreased by 4.6% (137 610) from 2 964 180 in 2003 to 2 826 570 in 2004. This represents paid and non-paid bed nights.

Figure 3.7: The number of bed nights spent in the Western Cape



(Source: Department of Economic Development and Tourism, 2005.)

3.2.3.3 Domestic Tourists: Western Cape

The domestic tourist sector is also viewed as a critical factor in the overall sustainability of tourist facilities and activities in South Africa. A total of 25 149 054 domestic trips were undertaken in the Western Cape from 2003 till 2004. Of all the domestic tourists that visit the Western Cape 55% of them originate from within the province and the Western Cape is the second most popular destination for overnight holidays and business trips (Department of Economic Development and Tourism, 2005:40).

Table 3.3 indicates the domestic trips in terms of their purpose of visit for 2003.

Table 3.3 Percentage of Domestic Tourist Visits in the Western Cape Province, 2003

Type of Trips	Percentage of Tourists
Holiday	42%
Religious	5%
Visiting Friends and Relatives	47%
Business	5%
Health	1%

(Source: Department of Economic Development and Tourism, 2005.)

Table 3.3 illustrates that about 47% of all domestic trips that are taken in the Western Cape are for visiting friends and relatives.

“There is no coherent statistical picture of the industry at a national and, more importantly, at a provincial level. There is some information on the demand side (although at a provincial level this is patchy). There is also little supply side information. This is important because without

this kind of information it becomes difficult to gauge how successful any policy intervention has been or will be" (Department of Economic Development and Tourism, 2005).

From the information that is available it is clear that the tourism industry is growing in the province. This is particularly true of overseas tourists. Less is known about visitors from the rest of Africa and domestic tourists. What is however apparent is that if the trends in overseas visitor arrivals continue then, while the industry will grow, it will not grow to the extent that it can achieve the targets set in the Provincial White Paper and will therefore not achieve the vision for the industry (Department of Economic Development and Tourism, 2005:50).

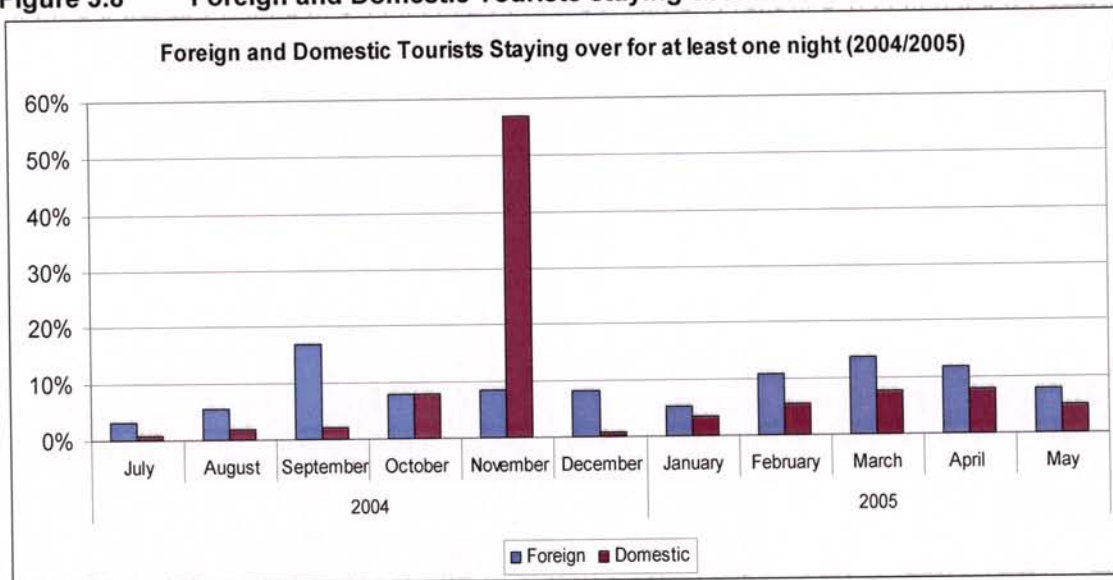
3.2.3.4 Tourism Overview for the Drakenstein Local Municipal Area

According to the Drakenstein Local Municipality (2005), which heads up and provides funding to the Paarl and Wellington Tourism Bureau's, "it is estimated that in the year 2004/2005 there were 53 631 tourists visiting the tourism bureau's till May of 2005". The number of visitors at the Paarl tourism bureau was 20 768 and the number of tourists at the Wellington tourism bureau was 32 863. It is important to note that this does not represent the total number of visitors to these areas as only a percentage of the tourists visiting an area will visit a tourism bureau. Experience indicates that this is usually 10% of visitors to a particular area.

"Drakenstein is a popular location for corporate and institutional headquarters; its textile industry is rapidly adapting to be globally competitive; and it has both a fast-growing tourism sector and a skilled labour force, particularly in agriculture. Key firms in the region include Rembrandt, Sasko, KVV Investments, Monis, South African Dried Fruit, Del Monte Fresh Produce and Berg River Textiles" (Trade SA Newsletter, 2006).

Figure 3.8 illustrates the percentage of foreign and domestic tourists that stayed over in Wellington and Paarl, per month, for at least one night for the year 2004/2005.

Figure 3.8 Foreign and Domestic Tourists staying over in the Drakenstein area



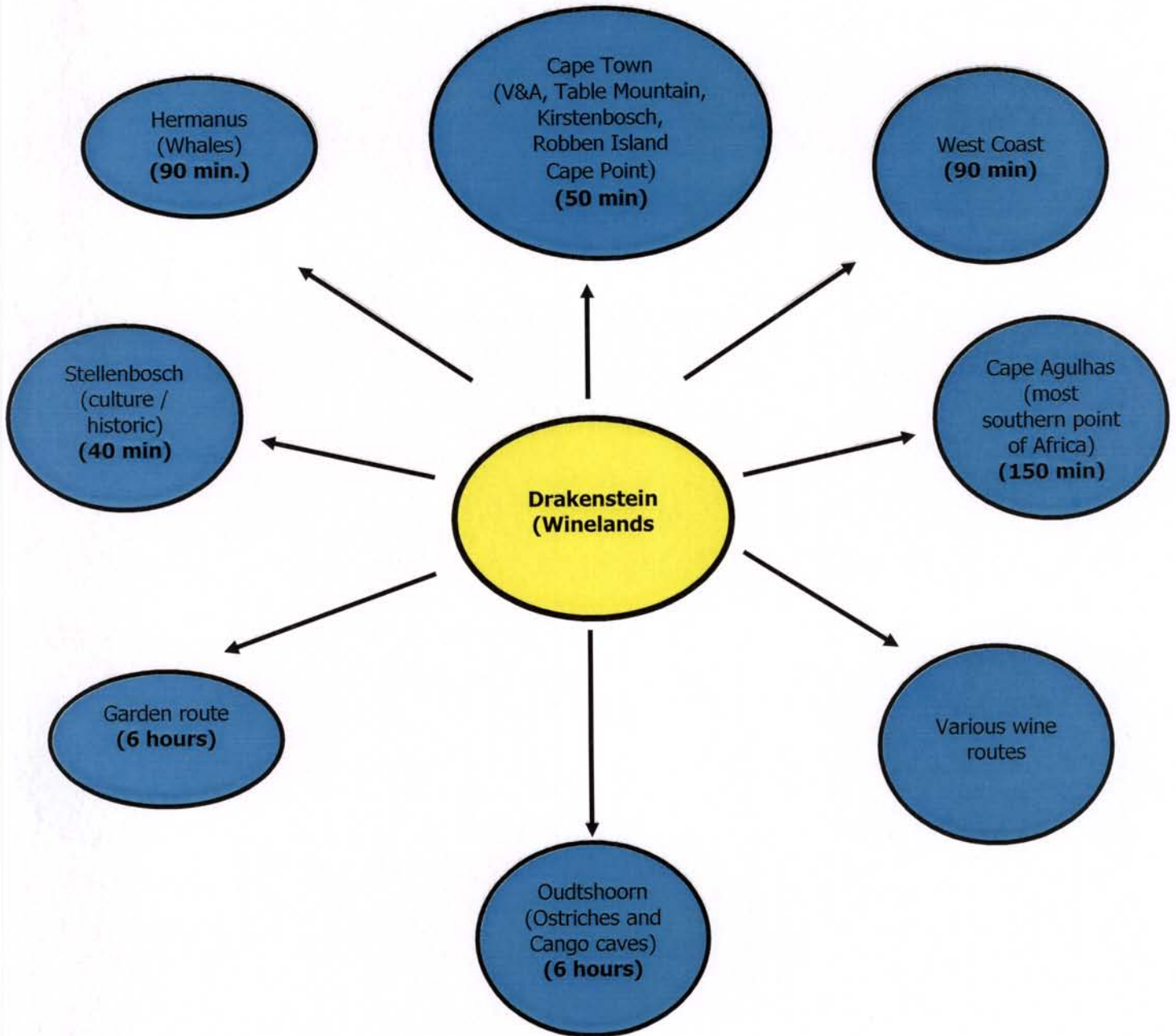
(Source: Drakenstein Tourism Bureau's, 2005.)

Figure 3.9 illustrates the accessibility of Paarl to the top tourism attractions within the Western Cape.

This illustrates that the study area is centrally situated between the different well-known attractions and activities surrounding the area. The Drakenstein - Winelands area enjoys a comparative advantage in its strategic location to top tourism destinations. This advantage can be exploited by developing and sectoring the study area as a base from which the surrounding tourism attractions can be visited.

Figure 3.9

Accessibility to top tourism attractions



(Source: Drakenstein Local Municipality, 2005.)

3.3 SOCIO-ECONOMIC PROFILE

The purpose of this section is to provide an overview of the Drakenstein's socio-economic sector in terms of selected indicators that have important demand and development implications for various products and services. In terms of business development, socio-economic indicators points out if the consumer market (community) can sustain current and future businesses in the Drakenstein Local Municipal area. The *primary catchment area* in the Drakenstein Local Municipality is Paarl with the secondary catchment area being Wellington and surrounding areas.

Drakenstein consists of different areas but only Paarl will be compared to Stellenbosch in this section. Paarl is the main and primary catchment area for the purpose of this socio-economic profile because it is the Central Business District area where the majority of the residents in the Drakenstein area conduct their business. In order to have a holistic understanding of the consumer sector, in terms of the following socio-economic indicators, Stellenbosch is used as the comparative in terms of its consumer market, seeing that the area is on the border of Paarl and the socio-economic indicators of the two areas are comparative.

- Population Growth (2001 to 2020)
- Age and Gender (2001)
- Household Size (2001)
- Highest level of education (2001)
- Level of employment (2001)
- Occupation (2001)
- Industry employed (2001)
- Household dwelling type (2001)
- Household Tenure (2001)
- Household Goods (2001)
- Annual Household income (2001)
- Living Standard Measurement (LSM)

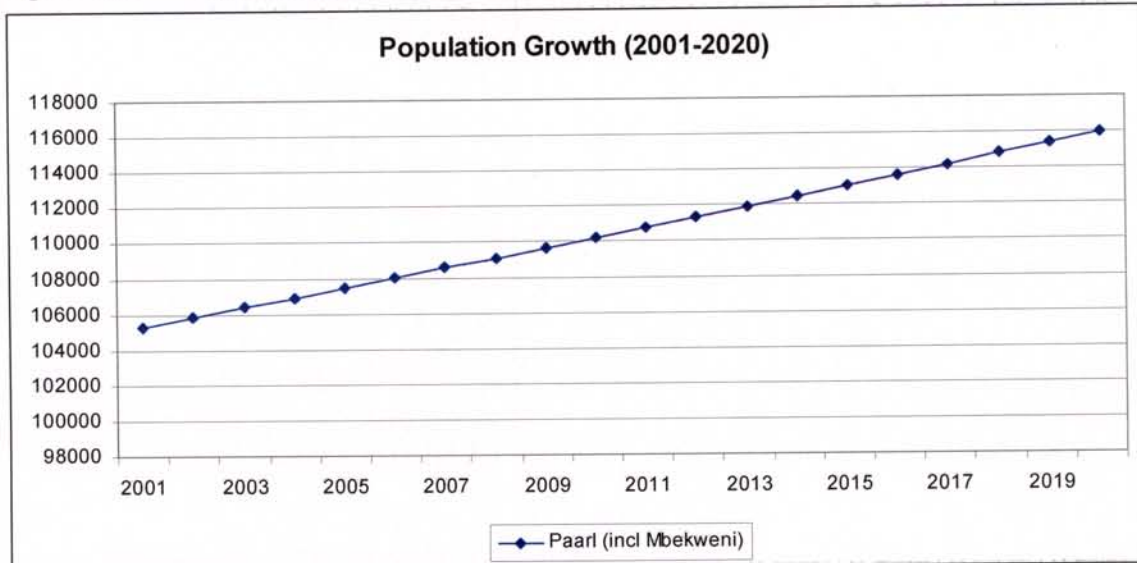
3.3.1 POPULATION GROWTH

Figure 3.10 illustrates the projected growth rate for Paarl's population (including Mbekweni) from 2001 to 2020.

Figure 3.10 illustrates the growth in population from 2001 to 2020 for Paarl. According to the 1996 Census, Paarl's population, including Mbekweni, was estimated to be 102 665; and in

2001 Paarl's population was estimated to be 105 312. This illustrates that there was a growth in the population between 1996 and 2001 of 0.5%. This figure was used to project the estimated total population until 2020.

Figure 3.10 Projected Population Growth (2001 to 2020)



(Source: Calculations based on Quantec Research, 2006.)

New developments in the study area should be aimed at the inclusion of the majority of the population to increase job creation which could result in opportunities, which could bring about an increase in the living standards of the Drakenstein community.

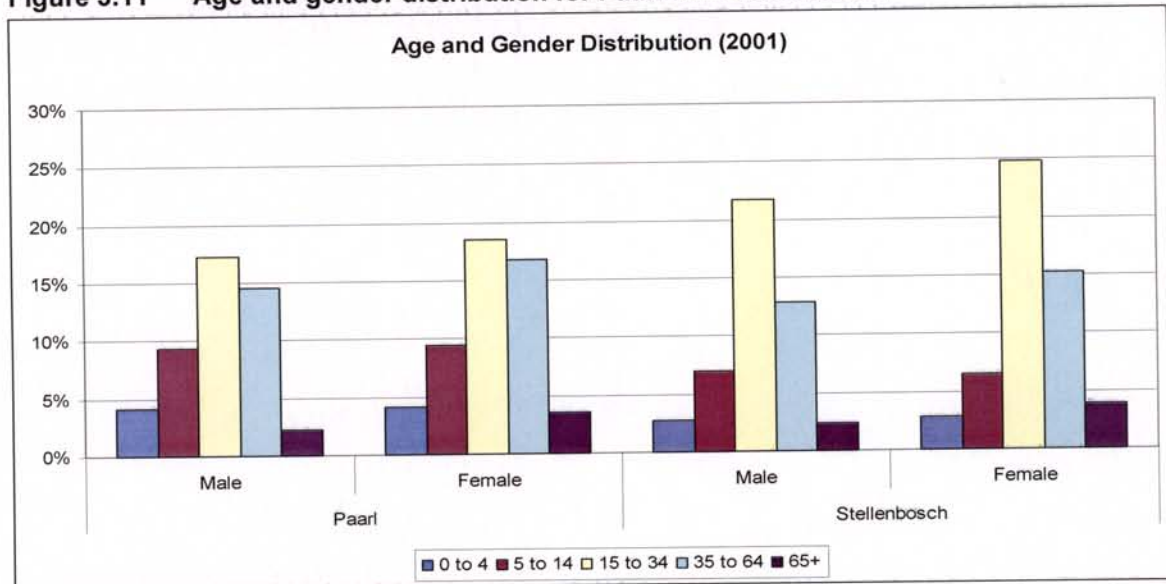
3.3.2 AGE AND GENDER

Figure 3.11 illustrates the age and gender profile for Paarl and Stellenbosch's population.

In terms of gender distribution the following can be illustrated:

- Paarl's population consists of 47.5% who are male and 52.5% who are female;
- Stellenbosch's population consists of 48.4% who are male and 51.6% who are female;
- Western Cape's population consists of 48.4% who are male and 51.6% who are female.

Figure 3.11 Age and gender distribution for Paarl and Stellenbosch



(Source: Quantec Research, 2006.)

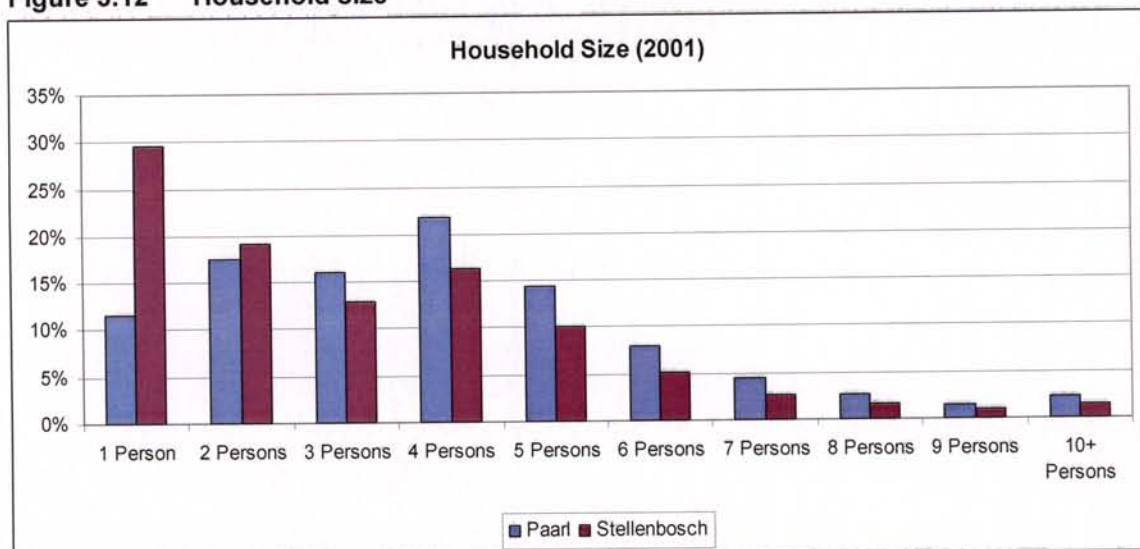
Figure 3.11 illustrates that the greatest percentage of Paarl's and Stellenbosch's population is between the years 15 and 64 thus 67.0% of Paarl's population falls within the economically active segment, which indicates that a large segment of the Drakenstein population is able to work or at least earn some type of income. Seventy-four percent of Stellenbosch's population falls within the economically active segment (between 15 and 64 years of age); and 67.4% of the Western Cape's population falls within the economically active segment (between 15 and 64 years of age) (Also see Quantec, 2006).

The consumer sector for the study area is relatively young and they are supported by an older and settled population. Each of these components has their own demand for different retail products and services. The young consumer sector indicates that a more vibrant retail sector is needed and this could have a direct impact on retail development in the Drakenstein Local Municipal area.

3.3.3 HOUSEHOLD SIZE

Figure 3.12 illustrates the average household size for Paarl and Stellenbosch.

Figure 3.12 Household size



(Source: Quantec Research, 2006.)

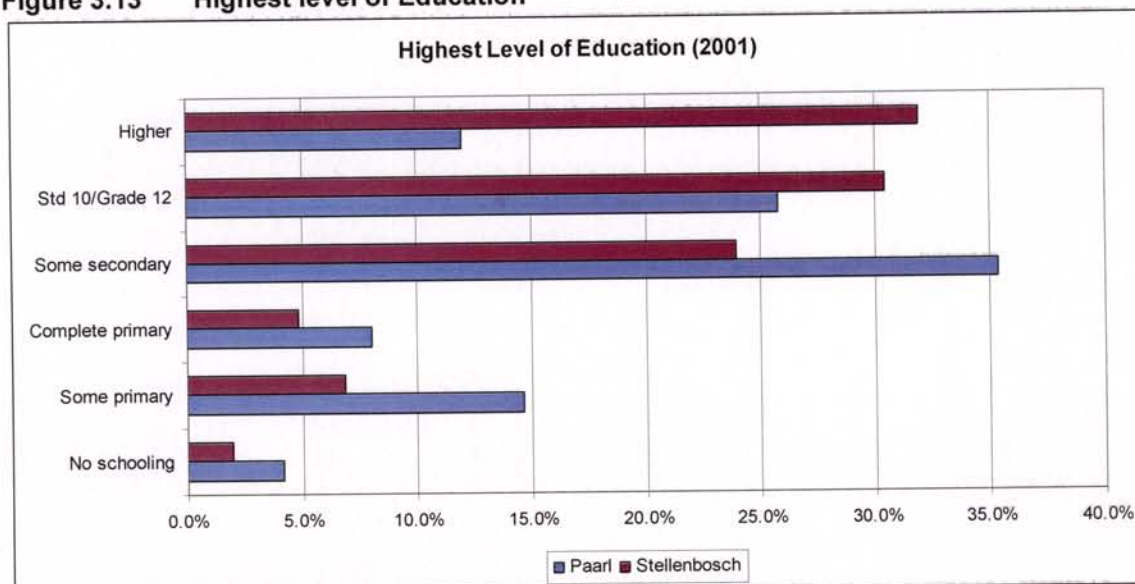
Figure 3.12 illustrates that the average household size in Paarl is 4.1 persons per household and the average household size in Stellenbosch is 3.0 persons per household. The average household size in the Western Cape is 3.8 persons per household. The dominant number of persons in a household in Paarl consists of four persons; in the Stellenbosch it consists of one person; and in the Western Cape it consists of two persons (Also see Quantec, 2006).

The study area is characterised by smaller households ranging between two and four persons per household. This suggests that there is a combination of younger and older, more advanced life stage, representation in the sector. This could have an impact on the Drakenstein's retail and residential sector.

3.3.4 HIGHEST LEVEL OF EDUCATION

Figure 3.13 illustrates the highest level of education obtained by Paarl's and Stellenbosch's population.

Figure 3.13 Highest level of Education



(Source: Quantec Research, 2006.)

Figure 3.13 illustrates that in Paarl, 4.19% of the population has no schooling compared with Stellenbosch where 1.9% has no schooling and the Western Cape where 5.7% has no schooling. Fifteen percent of Paarl's population has some primary level of education. This figure is higher than that of Stellenbosch; and the same as the Western Cape's with 15.1% (Also see Quantec, 2006).

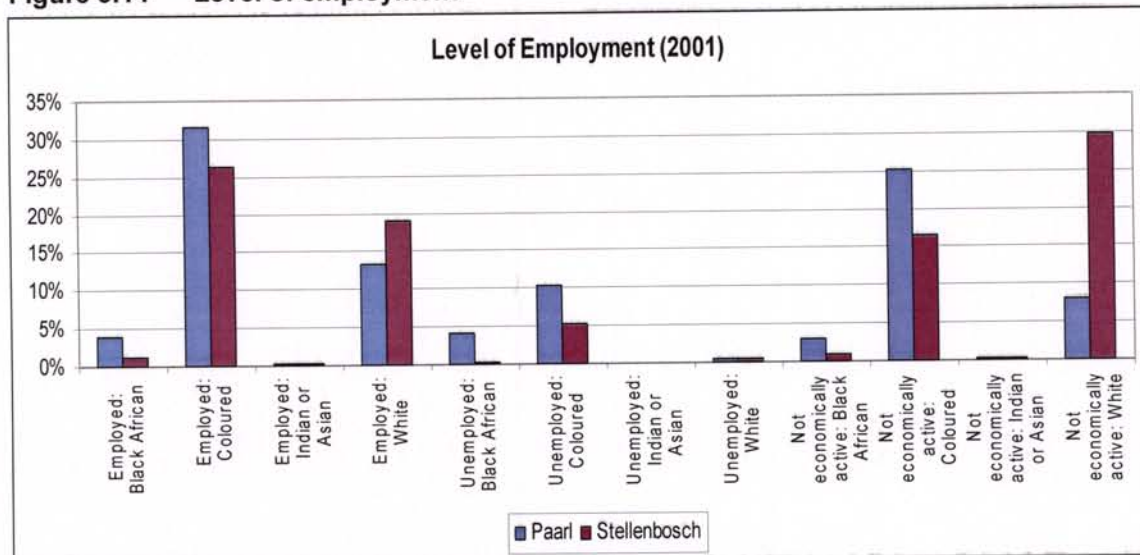
Twenty-five percent of Paarl's population has a matric qualification compared to Stellenbosch (30.4%) and the Western Cape (23.4%), which is lower than Paarl's and Stellenbosch's respectively. Twelve percent of Paarl's population has obtained a higher education level; this includes diplomas, certificates and degrees compared to Stellenbosch (31.9%). The figure for Stellenbosch is much higher than that of Paarl because of the Stellenbosch University, which is a world-class tertiary education institution (Also see Quantec, 2006).

The consumer sector is very diverse with a large segment reflecting a sophisticated and educated sector, whereas on the other hand a less sophisticated and educated segment with education levels that are lower than secondary education. This will have an impact on the retail sector, because the more sophisticated the consumer the more diverse products and services they would want.

3.3.5 LEVEL OF EMPLOYMENT

Figure 3.14 illustrates the level of employment for Paarl and Stellenbosch.

Figure 3.14 Level of employment



(Source: Quantec Research, 2006.)

Figure 3.14 illustrates that the level of employment for Paarl is 48.8%; for Stellenbosch it is 46.5%; compared to the Western Cape where it is 48.4%. The level of unemployment for Paarl is 14.8%; for Stellenbosch it is 5.8%; compared to the Western Cape (17.1%). This figure indicates that Paarl has a higher level of unemployment than that of Stellenbosch; however it is still lower than the figure for the Western Cape. According to Stats SA, included in the definition for a “not economically active person are housewives/homemakers, students, scholars, pensioners, retired people and the severely disabled”. The percentage of not economically active people in Paarl is 36.2%; for Stellenbosch it is 47.5%; and for the Western Cape it is 34.3% (Also see Quantec, 2006).

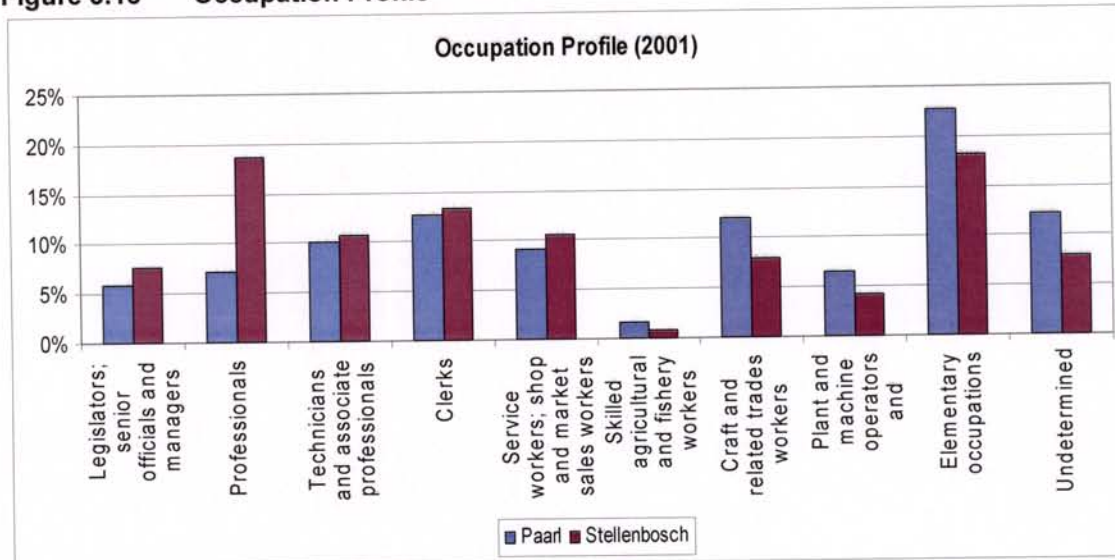
The Drakenstein area represents a relatively high segment of economically active people (63.6%) and this includes both employed (48.8%) and unemployed (14.8) persons. Development in the study area should aim at increasing job opportunities so that unemployed persons can also be included in the formal sector. This could result in an increase in the level of human development and income for the residents of the Drakenstein jurisdiction.

3.3.6 OCCUPATION

Figure 3.15 illustrates the occupation profile for Paarl and Stellenbosch.

Figure 3.15 illustrates that in Paarl, elementary occupations dominate (22.7%) followed by Clerks (12.7%); and craft and related trades workers (12.0%). In Stellenbosch, professionals dominate (18.5%) followed by elementary occupations (18.2%); and clerks (13.3%) (Also see Quantec, 2006).

Figure 3.15 Occupation Profile



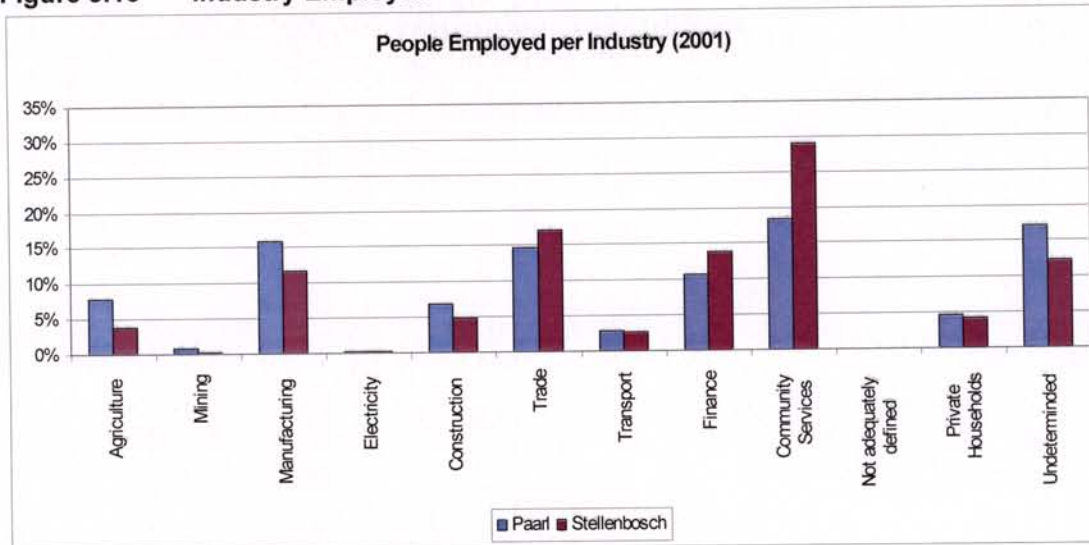
(Source: Quantec Research, 2006.)

The study area is divided in terms of white and blue collar workers. White-collar workers perform tasks which are less "laborious" yet often more highly paid than blue-collar workers, who do manual work. They are salaried professionals (such as some doctors or lawyers), as well as employees in administrative or clerical positions. In some studies, managers are considered as part of the white-collar worker grouping, in others they are not (www.wikipedia.org). This implies a variation in terms of income per annum. The difference between white and blue collar workers is the variation in tenure options, retail product demands and other preferences.

3.3.7 INDUSTRY EMPLOYED

Figure 3.16 illustrates the different industries in which the population of Paarl and Stellenbosch are employed.

Figure 3.16 Industry Employed



(Source: Quantec Research, 2006.)

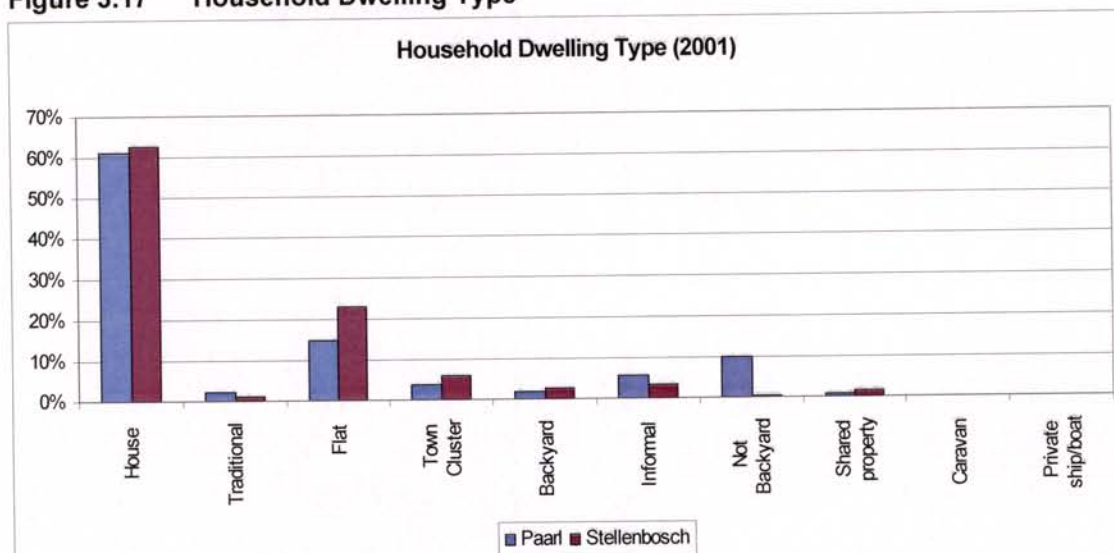
Figure 3.16 illustrates that the dominant industries in Paarl include community services (18.3%); undetermined (17.0%); manufacturing (15.9%) and trade (14%). The dominant industries in Stellenbosch include community services (29%), trade (17.1%); and finance (13.8%). The dominant industries in the Western Cape include manufacturing (32.7%), finance and business services (21.3%) and wholesale and retail trade (13.2%) (Also see Quantec, 2006).

In the study area the dominant industries are community, social and other personal services. This implies that a relatively big portion of the population is employed in jobs that are skilled related for example health professionals and government.

3.3.8 HOUSEHOLD DWELLING TYPE

Figure 3.17 illustrates the different types of dwellings in Paarl and Stellenbosch.

Figure 3.17 Household Dwelling Type



(Source: Quantec Research, 2006.)

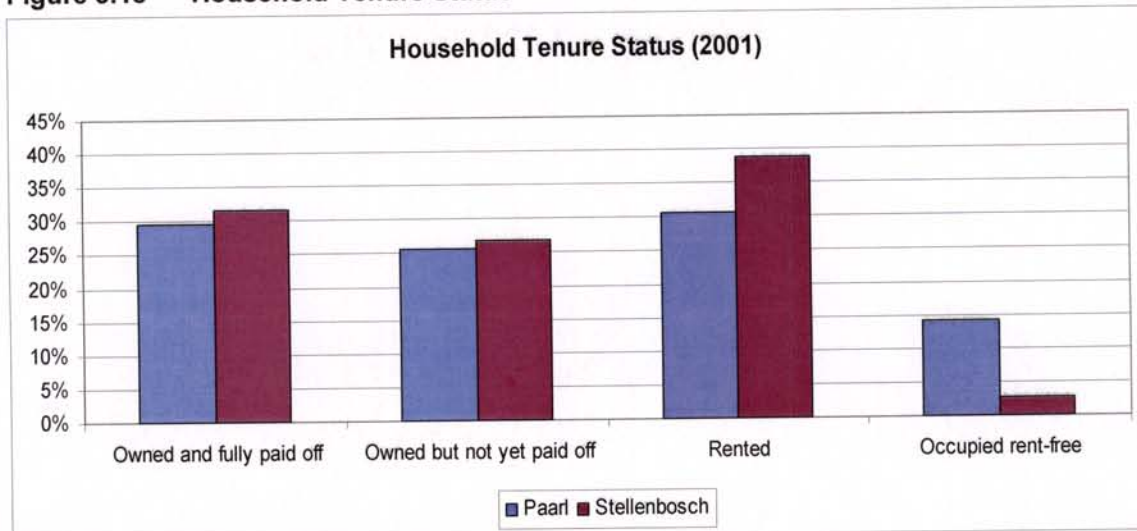
Figure 3.17 illustrates that the dominant household dwelling type in Paarl (61%) and Stellenbosch (62.5%) is the house or brick structure on a separate stand or yard. This is followed by a flat in block of flats, which is 14.8% and 22.7% in Paarl and Stellenbosch respectively (Also see Quantec, 2006). There is a backlog problem in the Drakenstein area concerning low-cost housing as 2004/2005 municipal figures illustrate that over this period there was 21 500 households on the waiting list for housing supplied from the municipality (Drakenstein Local Municipality Annual Review, 2004/2005).

According to the Drakenstein Municipality IDP 2005/2006, there is an assumed demand for 6 000 residential units which will be needed over the next 5 years resulting in 1 200 units annually. An assorted range of housing possibilities should be provided at the different levels of densities in the study area. This will result in the positive addressing of the housing demand in the Drakenstein area.

3.3.9 HOUSEHOLD TENURE

Figure 3.18 illustrates the household tenure status for Paarl and Stellenbosch.

Figure 3.18 Household Tenure Status



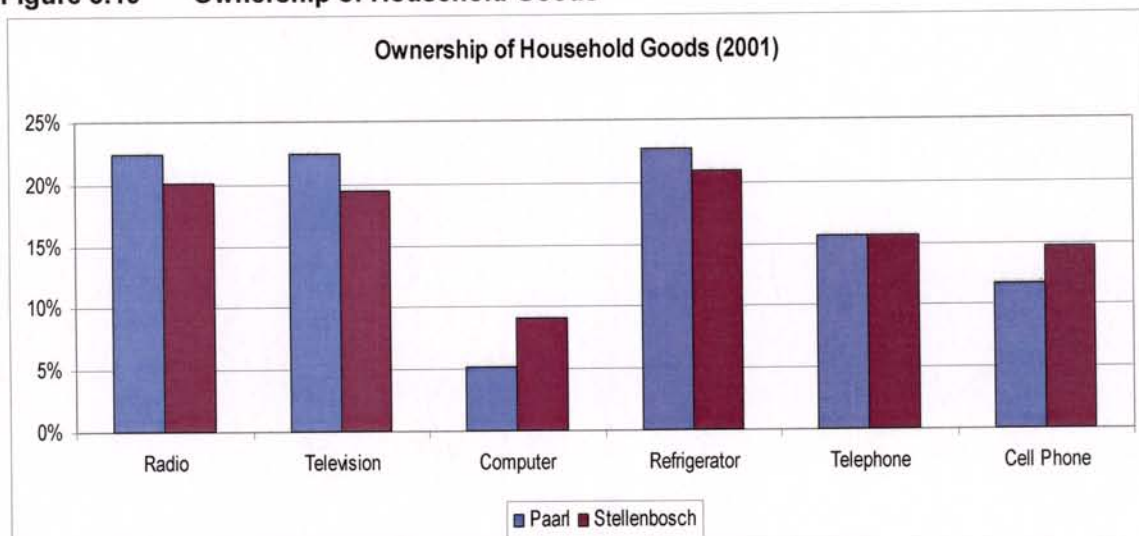
(Source: Quantec Research, 2006.)

Figure 3.18 illustrates that the dominant tenure type in Paarl is that of rented housing (30.4%); followed by owned and fully paid off (29.7%) and owned but not yet paid off (25.6%). The dominant tenure type in Stellenbosch is that of rented housing (38.8%), owned and fully paid off (31.5%) and owned but not yet paid off (26.9%). The Western Cape's dominant tenure type by comparison is that of owned and fully paid off (33.0%) (Also see Quantec, 2006).

3.3.10 HOUSEHOLD GOODS

Figure 3.19 illustrates the ownership of household goods in Paarl and Stellenbosch.

Figure 3.19 Ownership of Household Goods



(Source: Quantec Research, 2006.)

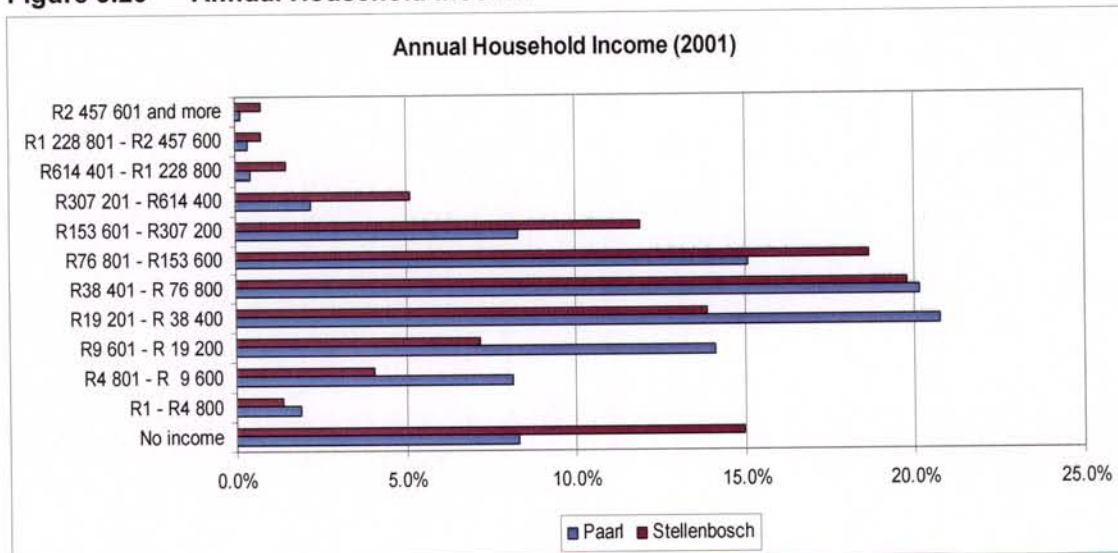
Figure 3.19 illustrates that in Paarl 22.3% of the households own a radio; 22.4% own a television; 5.1% own a computer; 22.7% own a refrigerator; 15.6% own a telephone; and 11.6% own a cell phone. In Stellenbosch by comparison, 20.0% of the households own a radio; 19.4% own a television; 9.0% own a computer; 20.9% own a refrigerator; 15.6% own a telephone and 14.7% own a cell phone. In the Western Cape, 23.4% of the households own a radio; 21.9% own a television; 5.3% own a computer; 21.8% own a refrigerator; 15% own a telephone; and 12.2% own a cell phone (Also see Quantec, 2006).

The ownership of household goods is an important indicator of lifestyle preference. The study area's demand for both necessity and luxury household items are in the region of Stellenbosch and the Western Cape.

3.3.11 ANNUAL HOUSEHOLD INCOME

Figure 3.20 illustrates the average annual household income for Paarl and Stellenbosch.

Figure 3.20 Annual Household Income



(Source: Quantec Research, 2006.)

Figure 3.20 illustrates that 14.9% of Stellenbosch's population has no income at all, while in the Western Cape there is 11.6% with no income and in Paarl 8.3%. In Paarl 53.2% of the households earn less than R38 400 per annum; 41.4% of the households in Stellenbosch earn less than R38 400 per annum and 60.1% of the households in the Western Cape earn less than R38 400 per annum. This illustrates that in Paarl households are slightly better off than in Stellenbosch or the Western Cape and more households do earn some sort of an income, however a greater percentage of households in Paarl than in Stellenbosch earn less than R38 400 per annum or R3 200 per month (Also see Quantec, 2006). This is a very low income and

thus this percentage of households fall into the second lowest Living Standard Measurement (LSM) category. This will be discussed further in **Section 3.3.12**.

In terms of the study area:

- 20.1% of the households earn an income of between R38 401 and R76 800 per annum
- 15.1% of the households earn an income of between R76 801 and R153 600 per annum
- 8.3% of the households earn an income of between R153 601 and R307 200 per annum
- 2.2% of the households earn an income of between R307 201 and R614 400 per annum
- 0.9% of the households earn an income exceeding R307 201 per annum.

3.3.12 LIVING STANDARD MEASUREMENT CLASSIFICATION (LSM)

The Living Standard Measurement Classification System (LSM) (see **Annexure A**) is an internationally recognised system used to profile a population according to a set of 28 living standard criteria, including income, access to services and ownership of assets. LSM profiling has for long been the preferred system mobilized to understand consumer sectors, as opposed to income and race. Variables including differentiated housing typologies and tenant composition can be used as mechanisms to cater to the needs of widely diverging sector segments (SAARF AMPS LSM, 2006:1).

- Super A Income: This includes an income of more than R360 000 per annum.
- A Income: This includes an income of between R192 000 to R360 000 per annum.
- B Income: This includes an income of between R132 000 to R192 000 per annum.
- C Income: This includes an income of between R54 000 to R132 000 per annum.
- D Income: This includes an income of between R30 000 to R54 000 per annum.
- D low: This includes an income of lower than R30 000 per annum.

Table 3.4 illustrates the LSM Profiling for households in the Drakenstein area.

The table is divided into the following categories:

- Income Category per annum
- LSM Status (LSM 1 to 10+)
- Percentage of Households (%)

Table 3.4 LSM Profile

Income Category (per Annum)	LSM Status	Percentage of HH (%)
Super A Income (> R360 000)	LSM 10+	3.2
A Income (R192 000 to R360 000)	LSM 10	8.3
B Income (R132 000 to R192 000)	LSM 9	15.1
C Income (R54 000 to R132 000)	LSM 7, 8	20.1
D Income (R30 000 – R54 000)	LSM 6	20.7
D low (<R30 000)	LSM 1 – 5	32.5

(Source: Calculations and estimations based on Quantec Research, 2006.)

Table 3.4 illustrates that two main sector segments exist in the study area. The first segment represents households within LSM categories 1 to 6 (53.2% of households). This sector segment allocates a substantial portion of household income to necessity retail goods. This segment has a tendency towards rental accommodation and rent-free occupation as tenure options. The second segment represents households within LSM categories 7 to 10+ (46.7% of households). This sector segment represents a sophisticated consumer market with a well defined demand for a diverse spectrum of necessity and luxury retail goods and services.

In terms of Business Development in the Drakenstein Local Municipal area, it was important that the consumer market be analysed to see if the Drakenstein community can maintain the proposed influx of businesses to the area, which will be the proposed result if the Business Investment Incentive Scheme is successfully managed and implemented. The South African Cities Network review (SACN, 2004) draws attention to three key themes. First, "a set of initiatives geared towards enhancing institutional efficiency and the efficiency of the urban form in terms of interventions designed to reduce the local cost of doing business in a particular locality or of improving local logistical pathways in order to strengthen the relationship between economic growth and infrastructure investment". Secondly, a "series of initiatives focused on improving safety and security through the installation of closed-circuit television in city centres that are responding to the findings from surveys that disclosed perceptions of crime and actual crime against businesses as major deterrents to business investment" (Chandra, Moorty, Rajaratnam & Shaefer, 2001). Thirdly, another "popular Local Economic Development initiative amongst several of South Africa's largest cities is the operationalisation of the American model of Business Improvement Districts for the physical upgrading of inner-city areas" (SACN, 2004).

Development in the Drakenstein area should focus on human development, employment creation and suitable housing should be made available to the population of the Drakenstein jurisdiction. The prosperity of the Drakenstein population lies in them having the opportunity to empower themselves as individuals, households and a community.

3.4 LOCAL PROSPECTS FOR BUSINESS INVESTMENT INCENTIVES

Investments, or capital formation, are an essential factor for economic growth as they enlarge the scale of production and increase employment opportunities. Investment incentives can potentially provide an environment conducive for capital accumulation in the Drakenstein Local Municipal region. However, research papers have been written (Also see McFarlane, 2003) on the extent of the economic benefits of the investment incentives and there is no shared agreement on their effectiveness. The discussion is mainly converged around whether investment incentives can attract new businesses to ailing areas and whether benefits acquired from the incentives exceed their costs and result in job creation, economic development and poverty alleviation (Also see Wasylenko, 1997).

When a company is planning to expand, it is considering an increase in the size of the current facility, relocation or building a satellite facility nearby. When managers decide to relocate or build a new facility in a new area, they first compare geographic regions and identify the most suitable one, and then select a locality within the identified region through the comparison of different sites based on specific criteria identified for the project. Some of the criteria that companies use to evaluate regions and districts to select a number of potential sites are as follows:

- Areas image;
- Location of suppliers and sectors;
- Cost of energy;
- Transportation costs;
- Cost, size and quality of available land;
- Cost of capital;
- Availability and cost of housing;
- Agglomeration economies (Also see McFarlane, 2003).

A company's main criterion in site identification, however, is usually the long-term profitability that the community offers. Those areas that fail to meet this criterion, which involves well developed and maintained infrastructure, business climate and fiscal stability will not be able to attract investors by merely providing additional investment incentives. At the same time, when a few sites are relatively similar with regard to the long-term profitability criterion, the provision of investment incentives can slant the decision of the managers to choose one locality over another (Also see Wasylenko, 1997 and Du Toit, 2006).

In some cases, when a company's benefit from incentives is relatively small, investment incentives have an appeal of emotional satisfaction. They are seen as a way of communication between the city/region and a business. In this case, the incentives can be not only financial but also of a non-economical form. Examples of such incentives are a provision of services to the industries and the fast tracking of business approvals. These types of incentives not only indicate that the new business is welcome in the area and the community will be responsive to its needs, but it will also improve the image of the area (Also see Du Toit, 2006 and City of Cape Town, 2006).

The discussion around the benefits of the incentives to the community is as controversial as a discussion about the ability of incentives to attract new investments. With regard to the latter, it has already been indicated that incentives do matter when selecting among locations which present trivial differences in aspects of geographical advantages and costs. However, it remains to be seen whether benefits received from incentives exceed their cost.

Provision of investment incentives can be seen as public investment. In this context, any investment could be analysed in terms of its opportunity costs. In order to identify benefits from investment incentives, it is necessary to compare them with benefits that could be acquired through public investment of funds that were 'spent' on incentives. Provision for investment incentives reduces the funds that are used for such programmes as education and infrastructure development, which are essential to attract new investments and ensure economic development in the area. Each case, however, is different and needs to be analysed in isolation, which brings on the issue of quality of investments (Also see McFarlane, 2003 and Du Toit, 2006).

In practice, concerns with regard to quality of investment precede concerns over quantity of investments. It happens mainly because quality investments are more sustainable and provide long-term benefits. In the case when the city/region attracts investors that fall under their priority sectors, it is highly likely that the benefit from investment incentives would be bigger than the gain if funds were spent on public projects. The local authorities in the Drakenstein Local Municipality need to understand their local economy and its development potential, and provide performance-based incentives to businesses that potentially have a bigger spill-over effect in the Drakenstein area.

The other issue regarding effectiveness of investment incentives is its potential negative effect on the existing businesses in the Drakenstein area which are put to a competitive disadvantage. Therefore, when a decision to introduce an investment incentive package is made, government needs to ensure that it does not discriminate against existing businesses.

It has become increasingly clear that South Africa's economic system is one guided by two economies: one which is fully integrated within the global economy is well developed and highly competitive; and one which is isolated, underdeveloped and is not growth orientated (Mbeki, 2006).

These two economies, known as the "first and second economies respectively, are both playing a role in the economic development and overall reconstruction of South Africa in a post-apartheid era. While the scale and sphere of access for each market is widely different, in many cities, towns and municipalities, the first and second economies operate within an arm's length of each other. In many situations, apartheid planning has led to two settlements, one high-income and one lower-income operating with some sort of buffer zone or physical barrier dividing the two areas. It is generally recognized that the higher-income settlements have modern first economies, while the lower-income areas do not. Instead, these lower-income areas suffer from high capital leakages and low capacities" (Oberholzer, 2005:1).

Poverty alleviation and integration of primary and secondary economies are high on the national agenda. These issues also find their way in the Micro-Economic Development Strategy (MEDS) 2005 as written by the Department of Economic Development and Tourism for the Western Cape and the Drakenstein Local Municipality's Integrated Development Plan.

3.5 SUMMARY

The key economic indicators are summarised below:

- Drakenstein contributed 3.6% to the Western Cape's economy in 2004 with the largest relative contributors being manufacturing (25.6%); finance and business services (23.1%); trade (13.8%); and government services (10.8%).
- The Drakenstein's economic growth fluctuated between 2.4% (1996 to 1997) and 3.6% (2003 to 2004) per annum with the dominant economic sectors including manufacturing, finance and business services, and trade and government services.
- There was a decrease in employment figures between 1996 and 2004, from 69 364 persons to 59 058.
- The dominant employment sectors include the agriculture, manufacturing, government services and trade sectors.
- Employment Growth performers included the mining, electricity/gas/water, trade, and community services sectors.
- An estimated 53 631 tourists visited the Paarl and Wellington tourism bureau's from 2004 till May of 2005.

The five main urban economic sectors of the Drakenstein Local Municipality's economy is the trade sector (retail sector); manufacturing sector (industrial sector); finance and business services sector (office sector), construction sector (residential, retail, office and industrial) as well as the tourism sector, which has an impact, either direct or indirect, on the other four main urban economic sectors as mentioned above. Positive economic development will have a direct impact on the economic contributions made to the Drakenstein economy by these five urban economic sectors. This will in turn strengthen the local economic base which could have a direct impact on employment creation within the various sectors.

The consumer sector can be divided into two segments, each with its own implications. The sophisticated consumer sector, which is usually characterised by high levels of employment and disposable income and who has specific demands for quality retail facilities, services and products is segment one. The less-sophisticated consumer sector, which is characterised by high levels of unemployment and lower levels of disposable income, is segment two.

These sectors differ from each other and thus the tenure options the two segments choose is also different. Usually the more sophisticated consumer sector would rather purchase their homes, whereas the less sophisticated consumer sector would rather rent their homes. The economic and consumer sector dynamics is certainly a challenge. These two sectors can provide a range of development opportunities for the property sector components relevant to the study objective.

Guided by the Integrated Development Plan 2005/2006 the Drakenstein Local Municipality has introduced strategies to bend the prevailing negative socio-economic trends. These strategies include the following:

- Integrated Human Settlement;
- Economic Growth and Job Creation;
- Access and Mobility;
- Building Strong Communities;
- Equitable and effective service delivery (Drakenstein Local Municipality IDP, 2005/2006:24)

Of the strategic objectives, as set out in **Chapter 2**, the following 4 strategic objectives will be focused on in more detail. These objectives relate to economic growth and employment generation; and the business development strategy as set out in **Chapter 5**, is one means by which the Drakenstein Local Municipality can aim to achieve the strategic objectives as set out below:

- Grow and develop the economy to reduce poverty and unemployment;

- Improved quality of life;
- Ensure the creation of a sustainable and quality living environment with efficient infrastructure;
- Promote and improve the opportunities of marginalised and vulnerable groups (Drakenstein Municipality Annual Report, 2004-2005:35-37).

These strategies work together in a mutually reinforcing manner and are highly co-ordinated and a spatially focused approach is followed to build linkages and synergies to maximise the overall impact. The following chapter assesses the development potential within the five main urban economic sectors within the Drakenstein Local Municipal Area as mentioned in **Chapter 3**. This will include development potential and growth forecasts for the five main urban economic sectors in the study area.

CHAPTER FOUR: ANALYSIS OF THE RESEARCH FINDINGS

The purpose of this chapter is to assess the development potential within the five main urban economic sectors within the Drakenstein Local Municipal Area. This chapter focuses on general trends within these sectors, current supply and the overall demand for new facilities, considering consumer behaviour and expenditure patterns of the consumer sector in the Drakenstein area. This will result in answering the research objectives in terms of business development.

4.1 INTRODUCTION

The purpose of this section is to assess the potential within the five main urban economic sectors of Drakenstein namely trade (retail), manufacturing (industrial), finance and business services (office) and construction (residential, retail, industrial and offices). This chapter will start off with an overview of these five urban sectors (supply factors) and then the development potential and growth forecasts (demand factors) will be discussed.

4.2 OVERVIEW OF THE TRADE SECTOR

4.2.1 DEFINING THE TRADE (RETAIL) SECTOR

Retail refers to the buying or selling of a variety of products and services and a wide range of retail activities exist, from butchers to jewelers to sports and baby products. Retail activities are usually concentrated in nodes or clusters being defined as shopping centres. Shopping centres serve a specific trade area, which is dependant on the population size (Also see Du Toit, 2006).

The development and overall sustainability of retail facilities and businesses rely strongly on its location. The following location requirements determine the success of trade facilities and businesses:

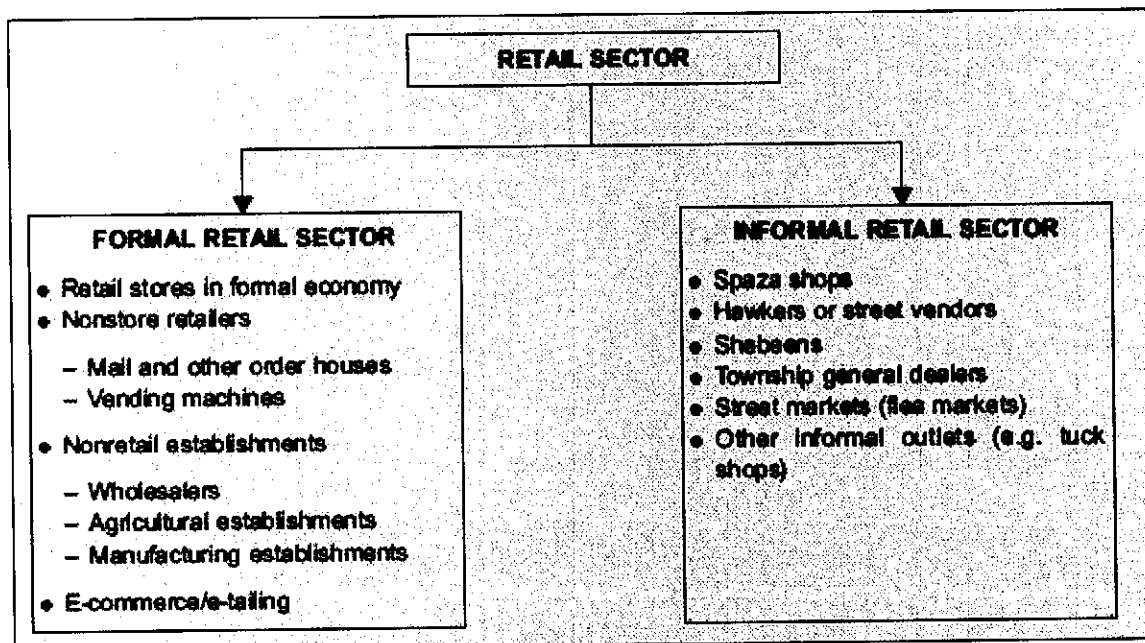
- **Visibility and exposure:** Retail facilities should be highly visible and accessible to potential consumers; it should be located in proximity to efficient road and transport networks.
- **Accessibility:** Retail facilities must be accessible to local labour force as well as consumers; it should be accessible on a local and regional level, as well as on a site specific basis referring to the ingress and egress from the development.

- **Functionality and complementary:** The centre should fit the urban context and should be functionally compatible.
- **Sufficient buying power:** Total disposable income of the market area population that is available to be spent at a specific retail facility.
- **Competition:** Existing shopping centres present competition and this has an impact on the sustainability of future developments.
- **Role and function in hierarchy:** Should fit in with existing retail hierarchy of the area.
- **Address value:** Retail locates in areas where household expenditure is high, where it is accessible and visible.
- **Growth:** Growth in market population, disposable income and retail support impact on developments.
- **Traffic volume:** Level of traffic volumes contribute to level of support and exposure (Du Toit, 2006:23).

4.2.2 CLASSIFICATION OF THE TRADE SECTOR

The retail sector can be classified into two different sectors, namely the formal retail sector and the informal retail sector. This is illustrated more fully below in **Figure 4.1**.

Figure 4.1 Formal and Informal Trade Sector



(Source: Southern African Business Review, 2004.)

The formal retail trade sector includes all business enterprises that derive more than 50% of their turnover from sales of goods to the general public for household use (Stats SA, 2003:12). On the basis of this definition, the retail trade sector includes general dealers (grocers and other

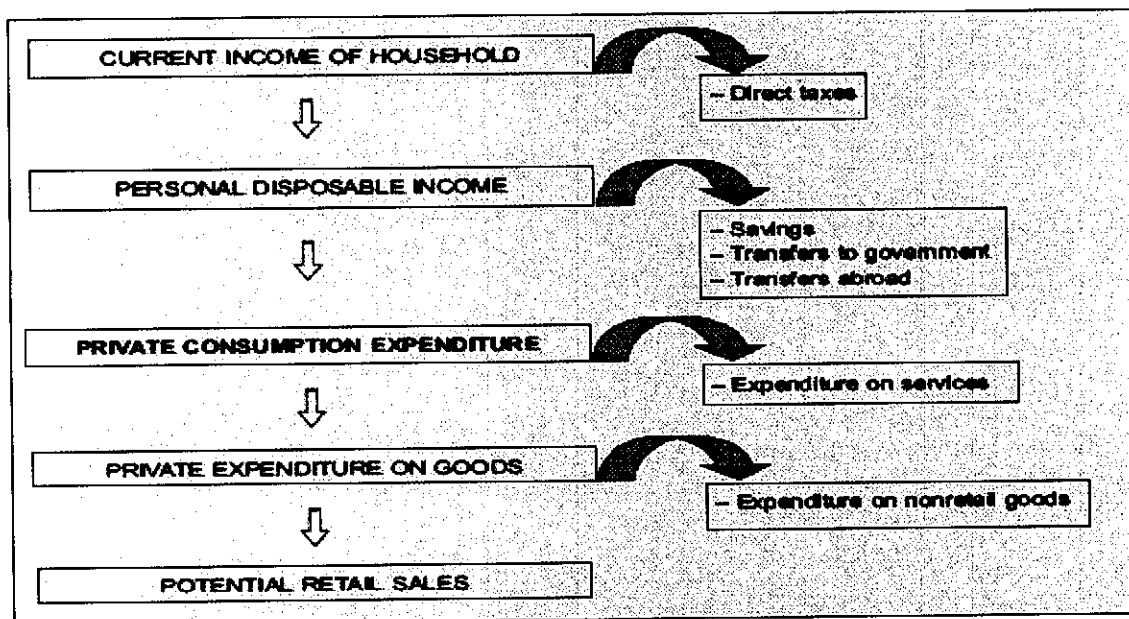
dealers in foodstuffs and general department stores), butchers, bottle stores, dealers in clothing, footwear and textiles, dealers in furniture and household requisites, bookstores and stationers, jewelers, chemists and dealers in miscellaneous goods (Du Toit, 2006:25).

The derived private consumption model (see **Figure 4.2**) features current income of households defined as net national income of households and transfers received by households from general government, incorporated enterprises and abroad. Personal disposable income is derived after deducting direct taxes from current personal income. Personal disposable income is spent on transfers to the general government and the rest of the world, personal savings and private consumption expenditure. Private consumption expenditure refers to all amounts spent on goods and services. Retail trade, however, is defined by the Standard Industrial Classification (SIC) (CSS, 1993), as only concerned with goods (durables, semi-durables and non-durables). (Also see Southern African Business Review, 2004).

Expenditure on goods includes goods not classified as retail items by Stats SA. These include personal transport equipment (such as motor cars, motor cycles, bicycles and caravans); motor tyres, parts and accessories; petroleum products; and fuel and power. When expenditure on these non-retail items is deducted from expenditure on goods, potential retail sales are derived (Du Toit, 2006:25).

This is illustrated further in **Figure 4.2**.

Figure 4.2 Private Consumption Expenditure Model



(Source: Southern African Business Review, 2004.)

4.2.3 TRADE SECTOR RESEARCH RESULTS

There is currently an estimated supply of over 211 formal retail outlets in the Drakenstein area with the majority of the businesses residing in Paarl; this does not include the motor garages like Mercedes Benz and BMW, and the garages that sell petrol and diesel. The formal retail outlets include furniture/antique/interior design shops; art galleries and curios; gift shops; food and wine shops, restaurants as well as other goods such as gifts, clothes, footwear, books and personal goods.

However the additional residential developments and extensions that are being built will create additional spending power within the area, which in turn will increase the demand for additional retail space. Additional demand for retail space will also be created by the potential additional tourists who will be attracted by the new sectoring strategy being developed for the study area. An increasing demand for “shoppertainment”, i.e. a combination of shopping and entertainment will also result in positive growth for the Drakenstein jurisdiction. The tourism buying power in the Winelands area is very seasonal, due to the fact that most tourists visit this area in the summer months.

The positive economic condition that was experienced recently by the country is expected to prevail and remain stable until at least 2010 when the Soccer World Cup will be held in South Africa. This will result in the support of new retail development and boosting consumer confidence, the more disposable income available the more consumers will shop for retail products and services. The positive economic environment and growth stimulus, strengthened by the emerging new black middle-class with strong and well defined aspirational values and subsequent demand for luxury goods and allover positive impact on retail sales and retail sector growth is an essential component for a retail sector to be prosperous. Retail demand in Drakenstein will strengthen because of a strong population growth trend; including variables like natural growth and immigration (See also Du Toit, 2006).

4.3 OVERVIEW OF THE CONSTRUCTION SECTOR

4.3.1 INTRODUCTION

There have been many residential developments taking place in the Drakenstein Local Municipal area. These developments resulted in the construction sector in the Drakenstein area being overloaded with positive growth. The positive growth resulted in jobs becoming available in the area for artisans, builders, tilers and other types of construction workers. These new residential developments also resulted in people moving from other areas to the Drakenstein Local Municipality's jurisdiction. Seeing that these developments are more for the upper-class,

they fall into the LSM categories (see **Chapter 3 – 3.3.12**) 9 to 10+, these new consumers entering the market will need an upper-class business and retail environment to sustain their preferred consumer needs in terms of retail and business services.

4.3.2 CONSTRUCTION SECTOR RESEARCH RESULTS

The residential sector is experiencing a growth period. The demand for housing in Drakenstein has increased in the past 18 months. Although the demand has increased, there has been a shortage in the supply of housing demanded. There has been a recent trend to move to the South of Paarl. This area is seen as a low density, high-income area, which is seen as more of an upper class area (General perception of Pam Golding, Seeff Properties, Remax Winelands, and Boland Landmark in Drakenstein study area).

The study area has always been an elite area with deep historical routes in the Boland and all these new residential, retail and other developments taking place in the area are attracting more and more outsiders. Housing in the Central Business District (CBD) has become a prospering forecast because there is a huge demand for housing in the CBD. People want to live in close range to the retail area and this in turn will reflect well on the retail sector because of the additional benefit that these new residential units can make.

Positive growth in the population over the next few years (see **Chapter 3 – Figure 3.10**) reflects positive growth in the demand for housing. Currently housing demand exceeds housing supply; hence the development of new residential components in the area will address this demand directly. Cape Town is characterised by a demand for middle-income housing (R450 000 to R800 000) and lower-income and gap housing of up to R450 000. A range of different housing tenure options should be researched and addressed and should be offered by both the public and private sectors to cater for the needs of a diverse target market especially in the study area.

There are many new developments occurring in the Drakenstein and its surrounding areas. These developments are mostly high-income residential developments which includes golf estates and security estates. The high demand for housing in the study area makes these types of upper-class developments a huge success and very popular amongst consumers. There are many commuters to the study area as well as from the study area because of the high prices of residential units in other areas and the low rental rates of residential units in the Drakenstein area, respectively. In the Drakenstein area provision should be made for owned and fully paid off -, owned but not yet paid off -, and rented tenure options (See **Chapter 3 – Section 3.3.9**).

4.4 OVERVIEW OF THE BUSINESS AND FINANCE SECTOR

4.4.1 DEFINING THE BUSINESS AND FINANCE (OFFICE) SECTOR

Offices are defined by the functions performed in them, the type of premises occupied and the occupational sector accommodated within them. The function of offices can be described as personal services, administration and the management of social and economic systems. The office market in general is divided into different office categories. These categories relate to the quality of the office space provided. The market generally distinguishes between:

- **A Grade:** These offices are generally new and not older than 10 years, unless renovated. These offices are located in prime location and provide high quality finishes, on-site parking and air-conditioning.
- **B Grade:** These offices are generally 10 to 20 years old, unless renovated. The accommodation is modern, situated in good locations and provides on-site parking and air-conditioning.
- **C and D Grade:** These offices are generally 20 to 30 years old. The buildings are in fairly good condition, although the finishes are not to modern standards (Du Toit, 2006:43).

It is important to acknowledge the fact that specific location requirements underline the development of offices in a specific area. These location requirements include the following:

- **Accessibility:** Accessibility of an office location to the labour force as well as the client base is an important factor. Road networks should support development;
- **Location of clients:** Offices should be located in proximity to existing and potential clients;
- **Labour:** Offices should be located in proximity to skilled and unskilled labour within an area;
- **Functionality and Complementarity:** Office development should fit existing environment, based on role and function;
- **Office clustering:** Clustering creates an environment that attracts new office development to a specific area. Clustering also encourages other economic activities due to the linkages between offices and other economic activities.
- **Address value:** Office developments tend to locate in areas which give them a specific address value and attractive environment.

- Linkages: Office developments generally have linkages with other economic activities in various commodities such as services, information and goods. Office location improves as proximity to banks, restaurants, public transport facilities increase.
- Future development trends: Future development has a major impact on a specific area, influencing its future potential (Du Toit, 2006:45).

4.4.2 BUSINESS AND FINANCE (OFFICE) SECTOR RESEARCH RESULTS

The following perceptions were identified from the interviews held by the researcher.

- The office sector in the study area has been waning and the vacancy rate is rising;
- Rentals in the office sector are low at the moment;
- There is a current decline in office space and the grades of office property increases as the price of the property increases;
- These two variables are directly dependent on each other;
- Rentals of offices in the study area are stagnant;
- Rental rates depend on the location of the property;
- The most sought after area is in the Central Business District (CBD), just off Main Road;
- For office rentals in the Central Business District, you would pay an estimated R30 per square meter (Seeff, Remax, Boland Landmark in study area);
- An office in town without parking is estimated at R25 per square meter, whereas an office in town with parking is estimated at R30 per square meter to R45 per square meter;
- Parking therefore has a big influence on the prices of offices in the Central Business District.

The waning of the office sector in the study area can be attributed to big companies like Nedbank selling their office space to make space for residential units in the CBD. The dominant office node in the Drakenstein area is situated in Central Paarl. Central Paarl accommodates some retail, some residential and some office sector activities, which implies that the majority of the study areas economic sectors and activities are in its centre.

Research indicated that office rentals in the study area are on the decline and many businesses are moving their offices to Cape Town, which is only 50 minutes away. The headquarters of various businesses in the area are located in Cape Town with a branch business situated in the study area. The relocation of businesses out of the study area contributes to the decline in the office sector and a rise in office vacancies.

4.5 OVERVIEW OF THE MANUFACTURING SECTOR

4.5.1 DEFINING THE MANUFACTURING (INDUSTRIAL) SECTOR

The industrial market includes those manufacturing businesses and industries that need a relatively big space to conduct their different businesses. The contribution by the manufacturing sector in Drakenstein was 25.6% and this figure is increasingly higher than that of the Western Cape at 18.1% (Refer to **Chapter 3 – Figure 3.1**).

There are eight conditions for industrial space to be considered prime. A property in which space is easily lettable because it satisfies each of the following prerequisites:

- Generally in good condition;
- Satisfactory macro access (i.e. access to freeway);
- Satisfactory micro access (i.e. from street to building);
- Proper loading facilities;
- Eaves >4m (excluding micro/mini units);
- Clear spans;
- On ground level;
- Adequate three-phase electrical power (Du Toit, 2006:53).

However, a building may possess additional enhancements that could improve lettable through increasing the size of the potential tenant pool. Such enhancements could include sufficient office accommodation, adequate parking, sprinkler systems, masonry up to sill height, adequate floor loadings, roof insulation, sufficient yard space and a good location.

4.5.2 THE MANUFACTURING (INDUSTRIAL) SECTOR RESEARCH RESULTS

Major industrial activities in the Drakenstein area are confined to the area between the Berg River and Jan van Riebeeck Drive. The main industrial area is named Daljosaphat. According to the Drakenstein Municipality IDP, 2005/2006, there are large tracts of undeveloped land available in the study area which indicates that an oversupply of land for industrial purposes is available. According to interviews held, it is evident that A-grade industrial space in the industrial area goes for an estimated R16 per square meter. Land Values per square meter are estimated at between R180 per square meter to R250 per square meter.

Industrial development in Wellington is located along the R44 linking Wellington with the northern areas of the municipality and Ceres in the north and the N1 in the south. Phase 1 of

the Wellington Local Industrial Park has recently been developed on a 46 hectare industrial site, this is about 460 000 m². Twenty two erven averaging 1 500 – 5 000 m² have been fully serviced and industries are already established or committed. Discussions with the Drakenstein Municipality indicated that there are different manufacturing concerns in the study area which are directly related to the industrial sector. These are mostly located in Daljosaphat as well as Huguenot and most of these are related to the transport sector, the manufacturing sector as well as the agricultural sector. There are a few vacant sites in the study area, which can accommodate manufacturing activities. Of the vacant sites that are available, most have not been developed as yet. The industrial sector reflects overall positive trends and growth prospects for new development of well located industrial space. **The**

There has been a shift within the manufacturing sector towards high tech production assembly and distribution. There has been an increased emphasis on small, medium and micro enterprises (SMME) promotion through government support and initiatives. There has been a demand for modern premises with good accessibility and strategic locations in terms of transport networks; labour and sector access. The demand for smaller units, which cater for SMMEs, implies that there is a potential for industries with high security and good accessibility requirements. It is evident that the industrial sector for the whole Drakenstein area has more investment opportunities than the industrial sector only for Paarl. For instance Wellington, which is also a smaller town than Paarl and also falls under the Drakenstein Municipal jurisdiction, has a bigger industrial land space available than Paarl, which is seen as the primary catchment area of the Drakenstein area (Also see Du Toit, 2006).

4.6 OVERVIEW OF THE TOURISM SECTOR

4.6.1 DEFINING TOURISM

The world's largest and fastest growing industry has been defined in various ways over the past decades. Tourism has been defined as "all travel for whatever purpose that result in one or more nights being spent away from home" (Department of Economic Development and Tourism, 2005:43).

Tourism is a labour intensive; people based industry, which does not produce a singular product. It involves a tremendous diversity of products and services that are woven into the economy and thus the significance often goes unnoticed. The tourism industry has many challenges, not the least of which is the fact that potential clients are generally remote from the product that they plan to purchase. This means that the dissemination of high quality and accurate information to potential buyers is essential if a sale is to be expected (Department of Economic Development and Tourism, 2005:44).

The broader Drakenstein community has to get actively involved in tourism and reap the benefits that tourism has to offer, either economically or otherwise. Tourism officials and tourist facilities should improve in terms of service delivery. There is a lack of co-ordination between the two major tourism bureaus, namely that of Paarl and Wellington, and the Drakenstein Local Municipality. The municipality is their main source of funding, since tourism has become a local government function. For the tourism sector to be sufficient and for economic growth to take place in the study area, it is important that Public-Private Partnerships be developed and adhered to.

Tourism as an industry is regarded as an important economic activity especially in terms of its employment creation potential. A suitable marketing and advertising strategy for the study area could attract thousands of tourists to this area per year. The close proximity of the study area to other attractions surrounding it for example Stellenbosch and Cape Town makes the Drakenstein-Winelands a pleasant tourist destination. Entrepreneurs should be linked with the different opportunities available in the tourism industry of the study area. The inclusion of local entrepreneurs brings about the inclusion and involvement of the local community of the study area. The more positive steps being taken by the different stakeholders of the tourism industry, the more tourists will be attracted to the study area. It is important that not only day visits be embraced but steps should be taken in order for tourists to stay over in the different accommodations available in the Winelands region. It is difficult to get tourists to stay over but with proper sectoring and catching events being held, it is possible to get them to stay a night or an additional night in the study area.

The Drakenstein-Winelands area is well known for its wine tourism and this should be taken advantage of. Tourism has a job creation ability that can spill-over into other sectors including retail. The more events, high class restaurants, cabaret shows, theatre productions and other entertainment possibilities, the more tourists could be attracted to the study area. It is important that the study area be safe, clean, attractive, and accessible with proper parking space available for consumers and tourists visiting or shopping.

4.6.2 TOURISM SECTOR RESEARCH RESULTS

Discussions with Paarl and Wellington's Tourism Bureaus indicated that the Winelands area has about 700 beds available. With a 100% occupancy rate this calculates to 255 500 bed-nights available per annum, however due to the lack of a defined marketing strategy for this sector and the proximity of other better sectored locations such as Franschhoek, Stellenbosch and Cape Town it is estimated that the study area is currently only achieving a 30% occupancy rate (Drakenstein Local Municipality Tourism, 2005), which calculates to a supply of 75 560 bed nights per annum. Most of these beds are at B&B's and there are no large hotels that can

accommodate tour groups. About 25 000 tourists visit the Paarl Tourism Bureau per annum. It is estimated that about 216 000 international and 250 000 domestic tourists visit the Winelands per annum. If it is assumed that 35% (average tourism sector percentage for assumption calculations² in terms of visitors to smaller areas) of these visitors come to the study area, it would calculate to roughly 163 100 people per annum. Of this total, about 30% overnight in the area, calculating to a total demand of 48 930 bed nights per annum. This indicates that there is currently an oversupply of bed nights in the study area.

Studies undertaken for Franschhoek and the tourism sector as a whole indicate that visitors to the tourism bureau represent about 10% of the total visitors to the area. In addition due to a robust marketing strategy, it is estimated that 50% of visitors to the Winelands visit Franschhoek, and 30% of these visitors also overnight in Franschhoek. With an improved marketing strategy for Drakenstein and additional tourism attractions within the area, it is estimated that similar tourism nights could be captured. This calculates to a potential 250 000 visitors per annum. Assuming that 35% of these visitors would now overnight in the study area, it would calculate to a demand for 87 500 bed nights per annum.

4.7 DEVELOPMENT POTENTIAL AND GROWTH FORECASTS FOR THE FIVE MAIN URBAN ECONOMIC SECTORS

This section addresses the development potential estimations for the five main urban economic sectors, as mentioned previously, in the Drakenstein Local Municipal area. The residential (construction) sector differs from the other sectors because it is calculated according to the Drakenstein's population, whereas the retail (trade), office (business and finance sector) and industrial (manufacturing) sectors are calculated according to Paarl's population. The development potential of the tourism sector will also be discussed in this chapter. It is important that the development potential for these five main urban economic sectors is discussed. These forecasts are indicative of the growth potential within these five main urban economic sectors in the study area.

4.7.1 RESIDENTIAL SECTOR (CONSTRUCTION)

This section provides an assessment of the development potential within the study area's residential sector over the next 15 years. These estimations are primarily based on population growth. **Table 4.1** illustrates growth in Drakenstein's population.

² An assumption calculation is a projection made by using an assumed percentage. This assumed percentage is 35% as stated by the Paarl and Wellington Tourism Bureau.

Table 4.1 Population Growth in Drakenstein's population (2005-2020)

Year	Population Figure	Additional Annual (2005-2020)	Additional Annual Number of Households (2005-2020)
2005	200 784	1 613	457
2006	202 410	1 626	462
2007	204 050	1 640	467
2008	205 702	1 653	471
2009	207 369	1 666	476
2010	209 048	1 680	481
2011	210 742	1 693	486
2012	212 449	1 707	490
2013	214 169	1 721	495
2014	215 904	1 735	500
2015	217 653	1 749	505
2016	219 416	1 763	510
2017	221 193	1 777	515
2018	222 985	1 792	521
2019	224 791	1 806	526
2020	226 612	1 821	531
Total		27 441	7 894

Note: Population Growth 0.8% (1996-2001).

Calculations do not account for existing housing backlog.

(Source: Calculations and estimates based on Quantec Data, 2005.)

Table 4.1 illustrates that approximately 7 894 households would acquire housing over the next 15 years. Based on the income profile of households and the housing affordability levels of households within the study area, the distribution of these housing units according to price categories should be as follows:

Houses under R450 000	88.40%
Between R450 000 and R800 000	8.30%
Above R800 000	3.20%

Based on the income profile of households and the housing affordability levels of households, residential units under R450 000 are the most dominant. The demand for housing in the study area is an indication of why there are so many residential developments occurring in the Drakenstein Local Municipality's area of jurisdiction.

4.7.2 OFFICE SECTOR (FINANCE AND BUSINESS SERVICES)

The demand for office space is essentially determined by the study area's population size. Injection or leakage factors can also influence the demand for offices in a particular area. The study area's population grew at 0.5% per annum and is shown in **Table 4.2**.

Table 4.2 Existing population numbers and growth projections

Year	Population Size
2001	105 312
2005	107 478
2010	110 249
2015	113 092
2020	116 008

(Source: Calculations based on Quantec Data, 2006.)

The demand for office space is determined by demand parameters; these are applied to the population figures in **Table 4.1** and illustrated in **Table 4.3**.

Table 4.3 Demand for office space

Year	Demand (m ²)
2005	42 991
2010	44 099
2015	45 237
2020	46 403

(Source: Calculations based on Quantec Data, 2006.)

The effective sector net demand is determined by calculating the difference between the supply and the demand for office space. The results of this calculation are shown in **Table 4.4**. The net demand is relative to the fixed current supply of office accommodation.

Table 4.4 Office sector Gap

Year	Supply (m ²)	Demand (m ²)	Net Demand (m ²)
2005	17 833	42 991	-25 158
2010	17 833	44 099	-26 266
2015	17 833	45 237	-27 404
2020	17 833	46 403	-28 570

Source: Calculations based on Quantec Data, 2006.

Table 4.4 illustrates that there is currently a shortage of office space within the study area. This could be due to the fact that a number of office spaces in the study area are being converted for residential and other uses. According to calculations a shortage of 25 158m² is currently realised in the study area and by the year 2020 this shortage would have grown to 28 570m² relative to the current supply.

4.7.3 INDUSTRIAL SECTOR (MANUFACTURING)

The demand for industrial space relies on a number of factors and these include the following:

- The GGP and number of manufacturing concerns per industrial sub-sector;
- The output of each industrial sub-sector;
- The number of employees per industrial sub-sector;

- The growth percentage of each industrial sub-sector.

This sector consists of various activities and these activities are classified according to the Standard Industrial Classification of all economic activities (SIC). The break down of these activities is as follows:

- Food and beverages (SIC 30)
- Textiles and Clothing (SIC 31)
- Leather and Footwear (SIC 316 & 317)
- Wood and Paper, including printing and publishing (SIC 32)
- Chemical, Petroleum and Pharmaceutical Products (SIC 33)
- Non-metallic Mineral products (SIC 34)
- Basic Metals (SIC 35)
- Machinery (non-electrical) (SIC 35)
- Electrical Machinery and Products (SIC 36)
- Transport Equipment (SIC 38)
- Furniture (SIC 39)

Table 4.5 illustrates the output per industrial sub-sector for the study area as well as the number of employees per sub-sector. The realised growth was calculated to determine the average growth percentage for each sub-sector in the industrial sector.

Table 4.5 Output & Employment per industrial sub-sector, 2004 and Growth Indicators

DENOMINATORS	Period n=2004		Growth Indicator		
	Number of employees	Output	Year 1 to 5	Year 5 to 10	Year 10+
Year	2004	2004			
Manufacturing	10 181	5 731 164 272	2.83	2.74	2.74
Food, beverages and tobacco	3 583	2 965 273 878	2.20	1.91	1.91
Textiles, clothing and leather goods	1 652	338 637 517	4.85	0.57	0.57
Wood and paper, publishing and printing	1 299	430 469 766	1.97	2.59	2.59
Petroleum products, chemicals, rubber and plastic	1 062	766 562 570	1.22	5.42	5.42
Other non-metal mineral products	492	114 303 745	7.34	2.73	2.73
Metals, metal products, machinery and equipment	1 288	758 017 694	8.14	5.39	5.39
Electrical machinery and apparatus	134	53 719 718	-3.58	1.76	1.76
Radio, TV, instruments, watches and clocks	56	31 242 511	13.91	5.48	5.48

DENOMINATORS	Period n=2004		Growth Indicator		
	Number of employees	Output	Year 1 to 5	Year 5 to 10	Year 10+
	Year	2004			
Transport equipment	192	121 791 403	2.48	10.09	10.09
Furniture and other manufacturing	418	151 145 466	-2.25	-0.11	-0.11

(Source: Calculations based on Quantec Data, 2006.)

Table 4.5 illustrates that there has been a decrease in growth in the Electrical machinery and apparatus sub-sector and in the furniture and other manufacturing sub-sector.

Employment and Output growth forecasts served as a basis for the calculation of net space demand within the industrial sector (both for industrial and warehousing space). Floor space/employee parameters were applied in order to determine the additional floor space required to cater for the estimated growth in the industrial sector. **Table 4.5** indicates the findings of the net space demand modelling exercise.

Table 4.6 Net Space Demand (ha) within the Drakenstein Area

Year	2005	2010	2015	2020
Industrial and Warehousing Land Demand	4.043	4.494	5.418	6.513
Manufacturing	1.640	1.823	2.087	2.388
Warehousing & Distribution	2.403	2.670	3.331	4.124

(Source: Calculations based on supply and demand and Quantec data, 2006.)

Table 4.6 illustrates the estimated additional demand for manufacturing space as well as warehousing from 2005 to 2020. It is important to note that this demand is generated for the whole of the Drakenstein Local Municipal area. Due to the nature of this sector, namely the high concentration of agri-processing activities, a number of this space demanded will be taken up on the farms or in close proximity to the primary activity. Demand within the study area will be concentrated on the warehousing sector. Discussions with the Drakenstein Municipality indicate that there is sufficient industrial land allocated within the zoning scheme to accommodate future demand.

4.7.4 RETAIL SECTOR (TRADE)

The demand for retail space involved existing population calculations, the number of households in the area, projected population growth, average income per household as well as expenditure patterns and disposable income of the existing population.

Table 4.7 illustrates the income spent on different retail goods.

Table 4.7 Income spent on different retail goods (2005)

2005	% of Expenditure	Retail Expenditure
Bulk Groceries	13.1%	677 385 762
Top-up Groceries	13.1%	677 385 762
Clothing and Shoes	0.8%	41 367 069
Furniture and appliances	1.6%	82 734 139
Household Goods	0.6%	31 025 302
Takeaways/restaurants	0.8%	41 367 069
Entertainment	0.9%	46 537 954
Other	0.4%	20 683 535
	31.3%	1 618 486 593

(Source: Calculations based on Bureau of Market Research, 2001.)

A trading density was calculated, and this was applied to each type of retail activity in terms of Rands spent per m²/annum. The demand for retail space in 2005, 2010, 2015 and 2020 is illustrated in **Table 4.8**.

Table 4.8 Demand for retail space in 2005, 2010, 2015 and 2020

Year	Demand (m ²)
2005	77 862
2010	122 302
2015	168 643
2020	253 249

(Source: Calculations based on Quantec Data, 2006.)

Table 4.9 illustrates the demand for retail space between the different LSM categories. This has implications for the type of retail space that could be demanded by the sector.

Table 4.9 LSM status classification for retail space

LSM Categories	2005 (m ²)	2010 (m ²)	2015 (m ²)	2020 (m ²)
Low	25 305	36 498	54 809	82 306
Middle	43 525	62 777	94 271	141 566
High	8 954	12 915	19 394	29 124

(Source: Calculations based on Quantec Data, 2006.)

The effective demand for retail space is calculated by integrating the demand with the supply of retail space. **Table 4.10** illustrates the sector gap for retail.

Table 4.10 Retail Sector Gap

Retail Sector Gap	Supply (m ²)	Demand (m ²)	Net Effective Demand (m ²)
2005	102 461	77 862	24 599
2010	102 461	112 302	-9 841
2015	102 461	168 643	-66 182
2020	102 461	253 249	-150 788

(Source: Calculations based on Quantec Data, 2006.)

Table 4.10 illustrates that currently there is an oversupply of retail space in the study area of 24 599m². This is mainly due to the large increase in supply of retail space due to the construction of the Paarl Mall; however this could change due to the projected growth in the population of the study area. According to the estimations there will be a demand in 2010 and 2020 of 9 841m² and 150 788m² respectively. It is evident that with a bigger population and bigger households, the demand in retail space will also increase.

4.7.5 TOURISM SECTOR

The development potential of existing and potential tourism products are determined by means of practical and workable development criteria e.g. accessibility of products. These development criteria for the tourism industry include the following (Du Toit, 2006:55):

- **Environmental Sustainability**
Sustainability of the environment and all tourism-related resources, also called conservation or the wise use of resources, is one of the most important development criteria in economic development. It is important to involve the best options and practices for conserving the environment, since the environment is important for the survival of the tourism industry.
- **Infrastructure**
Adequate infrastructure plays an important role in the sustainable development of any economic sector and this therefore is an important aspect to be considered in the development of the tourism industry in the study area. Where there exists a need for different uses of tourism, infrastructure should be provided and where appropriate, a user cost should be produced for this infrastructure.
- **Quality Products and Services**
In order for tourism development opportunities to be sustainable and viable, international competitive practices, quality services and value for money should be provided to potential customers. Growth in facilities, other than accommodation, should be encouraged and stimulated, by means of entrepreneurial support programmes.

- **Marketing**
In order to stimulate growth in the tourism industry, effective and sufficient marketing is essential. By marketing the area, the key magnets should be accentuated as the main elements of a future strategy for the Drakenstein area.
- **Value for money**
Since tourism is an expensive expenditure for many people, affordability or value for money is an important aspect that should be considered in tourism development. If tourists do not receive value for money, they would prefer another destination in future.
- **Finance and Investment**
In order to avoid financial disasters and unnecessary delays in the tourism development process, the availability of capital, is important. It is often difficult to obtain financing from financial institutions, as they are very sceptical of the potential success of tourism venues and ventures. It is therefore vital that tourism development projects should demonstrate sound feasibility and become established as a successful tourist destination, since financial institutions and investors would more likely be interested in such projects.
- **Accessibility**
Access to tourism sites in terms of location and time, especially over weekends and public holidays is important to ease the potential tourism flow to the area. As soon as it becomes an effort to visit a site, due to poor road conditions, congestion, lack of parking facilities, etc, the number of potential visitors to a tourism attraction will decline.
- **Social Impact**
The impact of development in the tourism industry on society must be monitored and addressed, to ensure that those negative impacts such as moral decline, do not impact negatively on the tourism industry in the study area.
- **Income/Revenue generation**
The main purpose of tourism development is to generate income or revenue and if tourism development opportunities do not generate income it will not be sustainable or viable. The main income generating categories that should be targeted are shopping and gifts, accommodation, entertainment, transport, food and airfare to the destination.

- **Employment**
Tourism is very labour intensive and can be an important employment provider. The objective of tourism development should be to generate permanent employment opportunities occupied by local people in the study area.

- **Community Involvement**
Tourism development should involve local communities, especially people from the previously disadvantaged areas. The involvement of the local communities will make the development of these opportunities more viable since it will ensure buy-in from the community and it will contribute to the upliftment of the local people of the study area by supplying them with jobs and consequently a regular income.

- **Safety and Security**
Active measures should be taken in order to make sure that the study area is known as a safe tourism destination, because of the high incidences of violence and crime that has been identified in South Africa as a whole.

- **Stimulation of business opportunities**
Tourism ventures should exhibit business potential as assessed by detailed sector research and conducted by a reputable firm and should entail the stimulation of business opportunities. The promotion of local enterprise and stimulation of business opportunities in the tourism industry should include support to both small and large businesses. The inclusion of emerging entrepreneurs in the tourism industry to attain involvement in and participation by local communities in the Drakenstein-Winelands area is important.

- **Economic Linkages**
The tourism industry cannot survive without economic linkages with other economic sectors, since certain inputs are necessarily required from other industries. This will maximise the benefits to the local economy of the Drakenstein area.

The Drakenstein-Winelands area is a tourism treasure. "The attraction of business tourism through the building of new convention centres, of leisure tourists through new waterfront redevelopment programmes, the hosting of festivals or the establishment and branding of themed routes, and of maximizing the benefits of shopping tourism flows from sub-Saharan Africa are central elements of an array of local economic development activities anchored upon local tourism promotion" (Rogerson, 2002; Visser, 2002; Nel, Hill & Maharaj, 2003; Rogerson & Visser, 2004).

4.8 SYNTHESIS AND SUMMARY

The Drakenstein Municipality has an important role to play in their five main urban economic sectors currently in their area of jurisdiction. It is important that they work together with the Drakenstein community to ensure that their economic development and integrated development planning processes are inclusive of all role-players including the community, SMMEs and the private sector.

4.8.1 TRADE (RETAIL) SECTOR

"Informal trading is defined as the economic activity undertaken by entrepreneurs who sell legal goods and services within a space deemed to be public property, within the informal sector" (City of Cape Town, 2004:4). "The informal trading sector includes employees, employers, self-employed people or family business workers who work for private sector enterprises with 20 or less employees and in enterprises that are not registered or incorporated and do not keep a set of accounts separate from the household budget" (City of Cape Town, 2004:4).

In order to actualise transformation in the trade sector in terms of the first (formal) and second (informal) economy, a dynamic, responsive and multi-layered economic development strategy will need to be implemented. This strategy will need to take into account the economic foundation of local economic development; the social development principles of community development and the community engagement and ownership of community economic development if it is to be successful (Also see Oberholzer, 2005). The steps needed to be taken in the trade sector should include the integration of the formal trade sector with the informal trade sector. For example the Drakenstein Local Municipality should introduce an Informal Trade policy which outlines the importance of informal trading in the area and also acknowledges the entrepreneurial contribution made by the informal traders to the local municipality (Also see City of Cape Town, 2004).

As stated previously in **Chapter 3**, the contribution of the trade sector to the Drakenstein Local Municipality's economy in 2004 was 13.8% (see **Figure 3.1**) up from 12.3% in 2000. This illustrates that wholesale and retail trade, personal and household goods and accommodation, restaurants and therefore tourism activities showed improved growth in the study area.

4.8.2 CONSTRUCTION SECTOR

There are many new developments occurring in the study area. These developments are mostly high-income residential developments including golf estates and security estates. The soaring demand for housing in the study area make these types of developments a huge success and

the developments are being lapped up by local, provincial, national and international consumers. Lifestyle living and residential units in the study area is becoming very popular and many consumers want to form part of these lavish lifestyles that are being marketed by these developments. The majority of the construction sector's business is in terms of residential developments in the Drakenstein Local Municipality. The construction sector was one of the dominant growth sectors between 2003 and 2004 (see **Chapter 3 – Table 3.2**).

Between 2001 and 2002 there was extensive growth taking place in the construction sector. This was due to growth between 2000 and 2001 in the Drakenstein Local Municipality's economy (see **Chapter 3 – Figure 3.3**). This growth in the construction sector is an indication that more residential, retail, office and industrial space is being developed for use by houses, factories, shops and offices and that more building plans are being approved by the Drakenstein Local Municipality.

4.8.3 BUSINESS AND FINANCE SECTOR

The office sector is very dispersed in the study area and there is a current decline in office rentals. Many big businesses are moving out of the study area back to Cape Town or other cities including Johannesburg. The branches of companies and businesses in the Drakenstein area are not that big and the majority of the offices in the area are mostly that of doctors, dentists, lawyers, accountants and other smaller office occupants. Steps should be undertaken in order to keep the businesses in the study area as well as attracting more new businesses to the area. The proposed Business Investment Incentive Scheme is designed to give the business and finance sector a positive economic injection.

The contribution made by the business and finance sector to the Drakenstein Local Municipality was 23.1% in 2004 (see **Chapter 3 – Figure 3.1**). This sector grew from 19.8% in 2000. Growth in the Business and Finance sector has declined since between 2000 and 2001, however this sector's contribution to the Drakenstein Local Municipality's GDP has been growing since 2000. This means that the sector itself has not been growing, but that its relative contribution has increased towards the Drakenstein Local Municipality's GDP each year till 2004 (see **Chapter 3 – Table 3.2**).

4.8.4 MANUFACTURING SECTOR

The contribution made by the manufacturing sector to the Drakenstein Local Municipality's economy was 25.6% in 2004. The manufacturing sector decreased in its relative contribution to the study area's economy from 2002 till 2004, but it still remains one of the most important urban economic sectors in the area (see **Chapter 3 – Figure 3.1 and 3.2**). There has been

increased emphasis on small, medium and micro enterprises (SMME) promotion through government support and initiatives. The demand for smaller units, which cater for SMMEs, implies that there is a potential for industries with high security and good accessibility. The industrial sector in the study area has smaller business opportunities than other bigger towns but there are opportunities for small and medium businesses in the area and the proposed Business Investment Incentive Scheme is designed to give the manufacturing sector some positive economic growth.

4.8.5 TOURISM SECTOR

The Drakenstein-Winelands area has enormous tourism potential. It has beautiful vineyards and breathtaking scenery. The study area is especially known for its wine farming and wine tourism. This sector needs to be properly managed and supported by the different stakeholders that have the power to positively influence this sector. The Drakenstein Local Municipality should take a bigger responsibility for their tourism portfolio. Tourism has become the responsibility of the municipality and they should implement a development strategy for this sector to ensure that the community and other stakeholders benefit from positive economic growth. Tourism has many economic benefits for the local community and this should be tapped into and should be taken advantage of. It is important that these benefits be properly investigated and that all the stakeholders, especially the local community are included in the process of turning the tourism sector and the Winelands area into the most talked about and visited area in the Western Cape.

4.9 SUMMARY

Most of the important actions that need to be undertaken are the responsibility of the Drakenstein Local Municipality. The departments of the Drakenstein Local Municipality that should be actively involved in leading the process of economic development in the Drakenstein area includes the planning department, economic development department, treasury department and engineering services department. One means, by which the Drakenstein Local Municipality can realise its development objectives as set out in **Chapter 2**, is by implementing a Business Investment Incentive scheme as set out in **Chapter 5**.

Net space demand calculations reflect positive growth within the various economic sectors and related property sectors. The property sectors illustrates that the study area is doing well and that there can be progressive growth and demand for more retail, office and industrial space for future businesses coming to the study area. The residential sector is currently flooded with new developments and these developments are mostly aimed at the more sophisticated sector of the Drakenstein area and this has a positive effect on the construction sector.

The introduction of proposed targeted investment incentives is aimed at facilitating the implementation of the Drakenstein Local Municipality's development objectives. The proposed intervention options should be a special effort to attract investment to the study area which will result in a positive spill-over effect for the above mentioned urban economic sectors in the Drakenstein Municipal area. Intervention options can be developed in terms of investment incentives that can bring about job creation, economic development and poverty alleviation in the Drakenstein Local Municipal area which are set out in their strategic development objectives as mentioned in **Chapter 2 – Section 2.6**. These intervention options will be discussed further in **Chapter 5**.

CHAPTER FIVE: RECOMMENDATIONS AND CONCLUSION

This chapter provides recommendations in terms of business development in the Drakenstein Local Municipality. The main recommendation for this area will be a Business Investment Incentive strategy as a development tool in the process of economic development in the five main urban economic sectors.

5.1 INTRODUCTION

The offering of investment incentives and business retention measures is a world wide practice in both developed and developing countries, provinces and cities. Investment incentives are used by governments to attract investment, to steer investment into favoured industries and/or regions, or to influence the character of an investment (Economic and Human Development Branch of the City of Cape Town, 2006). On the other hand governments often introduce business retention measures to either keep a business from leaving the area or try to keep businesses from shutting down, thus assisting businesses in distress. An investment incentive is a medium to long term (three to ten years) intervention, while a business retention measure has a short term (up to twelve months) focus.

The purpose of this chapter is to recommend a business investment incentive strategy as a development tool for the stimulation and growth of the five main urban economic sectors namely trade - (retail), construction - (residential, retail, office, industrial), business and finance - (office), manufacturing - (industrial) and tourism sectors in the Drakenstein Local Municipality's economy. The focus of this business investment incentive will be to attract and retain investment in priority disadvantaged areas, with the aim to accelerate job and business opportunities. A management framework as well as proposed implementation guidelines for application of the business investment incentives strategy in the Drakenstein Local Municipality will also be discussed in this chapter.

The underlying principles of intervention options for the Drakenstein Local Municipality can be summarised as follows:

- Change the investment image of the area;
- Target quality investments;
- Do not threaten local businesses;
- Address the development potential and needs of the area;

- Tilt the decision of managers towards the region that provides incentives when a few relatively identical sites are considered, but not being a primary factor to companies planning to establish a new business or to relocate (Du Toit, 2006).

5.2 GUIDING PRINCIPLES FOR BUSINESS INVESTMENT INCENTIVES

The Drakenstein Local Municipality's Integrated Development Plan (IDP) is a key document in the developmental local government. It seeks to guide both the community as well as municipal staff. It clearly sets out the strategic direction of the Council and how it will be allocating its resources. Fundamental issues that are being addressed by the IDP are to redress poverty and inequality. There are a number of principles that guide the design and introduction of business investment incentives and these principles include the following (Economic and Human Development Branch of the City of Cape Town, 2006):

- **Principle 1: Affordability**
The reduction of tariffs and rates should not create a net cost for the Drakenstein Local Municipality which means that the municipality should not sell services below cost price to businesses.
- **Principle 2: Transparency and uniformity**
The granting of investment incentives and business retention measures should be done according to a set of predetermined criteria and information. The actual granted incentive or measure will be open for public knowledge.
- **Principle 3: Targeted**
The investment incentive measures should only be applicable in specific areas which need the injection the most. This will assist the municipality in uplifting those areas which are not successfully being utilised in terms of business retention.
- **Principle 4: Simplicity**
The structure and administration of the investment incentives have to be easily understandable and should not require a complex administration so as to minimize staff and financial impacts. This will ensure quick turnaround times for applications. Urgency and speed is essential to attract and retain investment.

- Principle 5: Cooperative governance
The incentive measures should be aligned with Provincial and National incentive measures to avoid an incentive and relocation war with other investment locations in the Western Cape and South Africa.
- Principle 6: Continuous review
The investment incentive measures should be regularly reviewed to ensure relevance and effectiveness.

The National Department of Trade and Industry (DTI), in co-operation with the Industrial Development Corporation, offers over 90 incentives, loans and rebates to attract investment and to support business development (Economic and Human Development Branch of the City of Cape Town, 2006).

These incentives include the following categories namely:

- Investment support;
- Small business development;
- Empowerment finance;
- Increasing competitiveness;
- Innovation and technology;
- Export assistance;
- Industrial development zones;
- Urban development zones;
- Film sector incentives (dti, 2006).

The above mentioned national investment categories will be discussed further in the remainder of this chapter.

5.3 NATIONAL INVESTMENT INCENTIVES AND BUSINESS SUPPORT PROGRAMMES (SOUTH AFRICA)

South Africa has a business incentive programme that covers a diverse array of focus areas including Black Economic Empowerment (BEE); strategic investment in projects; innovation and technology; efforts to increase competitiveness and export capabilities; and industrial development zones. These measures of support offer a mix of more than 90 incentives, rebates and loans (Wesgro, 2006).

Even though the Department of Trade and Industry (dti) is the principal leader on incentive-related issues, other key domestic and international organisations are sometimes involved. For example, the Multilateral Investment Guarantee Agreement (MIGA) of the World Bank provides assistance with guarantees for political risks and concentrates on development-related investments (Wesgro, 2006).

Eligible businesses can apply for the national incentives presented in **Table 5.1**.

Table 5.1 National investment incentives and business support programmes

Investment support	
Black Business Supplier Programme	The Black Business Supplier Development Programme (BBSDP) is an 80:20 cost-sharing, cash grant incentive scheme, which offers support to black-owned enterprises in South Africa.
Critical Infrastructure Fund	The Critical Infrastructure Fund (CIF) is a cash grant incentive for projects that are designed to improve critical infrastructure in South Africa. The incentive covers up to 30% of development costs in qualifying infrastructure.
Foreign Investment Grant	The Foreign Investment Grant (FIG) is a cash incentive scheme for foreign investors who invest in new manufacturing businesses in South Africa. The foreign entrepreneur is compensated for the qualifying costs of moving new machinery and equipment (excluding vehicles) from abroad. The FIG will cover up to 15% of the costs of moving new machinery and equipment, to a maximum amount of R3 000 000 (three million rand) per entity.
Skills Support Programme	The Skills Support Program (SSP) is a cash grant for skills development with the objective of encouraging greater investment in training and creating opportunities for the introduction of new advanced skills.
Small Business Development	
Danida Business to Business Programme, Credit Guarantee Scheme	The objective of the Business-to-Business programme is to develop and strengthen business opportunities and create jobs for eligible entrepreneurs from the previously disadvantaged communities. This is achieved through support to the development of commercially viable businesses, based on formation of business partnerships

	between South African and Danish companies.
Emerging Entrepreneur Scheme, Credit Guarantee Scheme	The Emerging Entrepreneur Scheme provides up to R100 000 with the fee payable at 4% p.a. in advance. The duration is 24 months initially but can be extended three times for periods of 12 months each time. The conditions are mentorship of the loan.
Empowerment Scheme, Credit Guarantee Scheme	The Empowerment Scheme provides cover up to R5m of bank facility at 60%, with the fee payable at 2.5% p.a. in advance. Duration is 36 months initially but can be extended twice for a period of 12 months each time.
Individual Guarantee, Credit Guarantee Scheme	The purpose of the individual guarantee scheme is to enable an entrepreneur to access funding from a participating bank or other financial institution. The scheme enables the entrepreneur to access funding for purposes of establishing, expanding or purchasing a business. Facilities secured under the Khula guarantee scheme often include term loans, bank overdraft, revolving credit, installment sale, bank guarantees as well as construction performance guarantees.
Micro Credit Outlets (KhulaStart)	KhulaStart uses the group solidarity methodology (gives loans to groups - not individuals). Individuals select themselves into groups of 3 -10 members and need to meet the criteria established for group participation. Most importantly the group has to be a cohesive one. The loans are disbursed on an incremental basis from R300 - R3 500 per member within a group. The group decides, based on the activity of the individual businesses, how much each member has to receive, and will subsequently stand surety for the full amount owed by the group as a whole.
Regional equity funds	The need for risk capital (venture capital/private equity) to support Small and Medium Enterprises (SMMEs), especially those sponsored by historically disadvantaged entrepreneurs, is not in doubt. Many banks and financial institutions have introduced equity funding into their product mix.
Retail Financial Intermediaries	Business and Capitalisation Loans are provided by

(RFI)	Khula, which are loans given to RFI's to enable RFI's to lend to entrepreneurs for business purposes. Entrepreneurs must approach RFI's directly and not Khula. Only companies that want to access these products and become RFI can apply to Khula.
Skills Support Programme	The Skills Support Program (SSP) is a cash grant for skills development with the objective of encouraging greater investment in training and creating opportunities for the introduction of new advanced skills.
Small Medium Enterprise Development Programme	The Small and Medium Enterprise Development Programme (SMEDP) is a grant paid to local and foreign investors, starting new or expanding their current operations, based on approved qualifying assets and activities / projects.
Standard Scheme, Credit Guarantee Scheme	The Standard Scheme provides cover up to R1m of the bank facility at 80%, with the fee payable at 3% p.a. in advance. The duration of the scheme is 36 months initially, but can be extended twice for periods of 12 months each time. Normal criteria apply.
The Land Reform Credit Facility	The Land Reform Credit Facility is a wholesale finance facility at Khula Enterprise Finance Ltd, whose aim is to stimulate and encourage private sector participation and involvement in the Land Reform process. The LRCF is funded by the Department of Land Affairs and the European Union. The facility achieves its objective by incentivising commercial banks and other high credit rated institutions to invest in high value agricultural and ecotourism joint ventures, thereby unlocking private sector investment into the agricultural, agribusiness and ecotourism sector.
Dutch funds available for investments in South Africa	South Africa is a new sector that is expanding rapidly. This provides opportunities for businesses to expand investments and trade relations. The Dutch Ministry of Foreign Affairs finances companies who wish to invest in South Africa, together with a local South-African company. These companies can receive a contribution of 50 percent of the total project costs.

Technology and innovation support	
Technology and Human Resources for Industry Programme (THRIP)	The Technology and Human Resources for Industry Programme (THRIP) is a partnership programme which challenges companies to match government funding for innovative research and development in South Africa.
Support Programme for Industrial Innovation (SPII)	Support Programme for Industrial Innovation (SPII). This is a dti innovation support programme that is administered by the Industrial Development Corporation (IDC). Regarding policy implications for the administration of SPII the following changes have been introduced since January 2005:
National Technology Transfer Centre (NTTC)	The National Technology Transfer Centre (NTTC) is an initiative by the dti to facilitate technology transfer and diffusion to SMMEs with a specific focus on the Second Economy.
GODISA	The GODISA Trusts is helping South Africans to cultivate their innovations and business ideas, and in the process uplifting and empowering individuals and their communities.
Mpumalanga Stainless Initiative (MSI)	Mpumalanga Stainless Initiative (MSI) is an incubator funded by the dti. As an attempt to address the problem of unemployment in the province, a need was identified to expose a large number of interested SMMEs to the possibilities of the manufacturing sector. Potential candidates are screened and selected for technical and business training. The programme equips them to take up stainless steel product manufacturing opportunities.
The Down Stream Aluminium Centre for Technology (DACT)	The Down Stream Aluminium Centre for Technology (DACT) is a dti-funded project. DACT is set to gain stature in the casting industry for sound financial, social and environmental management. Providing a sound training and incubating facility and establishing successful small businesses to benefit the community in which it operates.
FURNTECH	The Government, through its National Skills Development Strategy (NSDS), identified training and skills development as significant drivers of international

	<p>competitiveness and organisational development. In response to these requirements, the Department of Trade and Industry (the dti) funded the establishment and operationalisation of FURNTECH as a world-class service provider to South Africa's wood products and furniture industries in the fields of incubation, training, technology transfer and technology demonstration.</p>
National Fibre, Textile and Clothing Centre (NFTCC)	<p>As a technology partner to industry, the National Fibre, Textile and Clothing Centre (NFTCC) of CSIR Manufacturing and Materials Technology, promotes the growth and global competitiveness of the South African textile pipeline. Through awareness of relevant technological developments globally and the acquisition or development of technologies, the centre aims to be the best provider of knowledge and innovative solutions to the textile pipeline in Southern Africa.</p>
Venture Capital	<p>The Venture Capital fund is an initiative that would primarily focus at financing the first two stages of development of new technology-based firms: that is the seed stage (which involves concept development, prototyping, and product development) and early stage (sectoring, production of goods and/or services), with some investment in later stages. Venture Capital is considered to be funds invested in a venture at high risk to the investor, usually in situations where the venture is unable to secure the required funds from traditional lending sources, such as commercial loans from a bank, or the public equity sector.</p>
Technology Linkages	<p>The objective of the programme is to facilitate the establishment of industrial sector needs and offer support as required by the dti sectors. The Unit (Innovation & Technology), together with Trade and Investment South Africa (TISA), interacts with industry on integrated manufacturing strategies and technology issues such as:</p>
Export Assistance	
Export Sectoring and Investment Assistance Scheme	<p>The purpose of assistance under the EMIA scheme is to partially compensate exporters for costs incurred in</p>

	respect of activities aimed at developing export sectors for South African products and services and to recruit new foreign direct investment into South Africa.
Productive Asset Allowance	The purpose of this offering is to reduce the amount of vehicle platforms and models locally assembled coupled with increased investment and exports with increased local content. The offering will save the customer money by using the rebate certificate to off-set import duties on built up vehicle imports.

(Source: dti, 2006.)

5.4 DRAKENSTEIN LOCAL MUNICIPALITY'S PROPOSED GENERAL BUSINESS INVESTMENT INCENTIVE SCHEME

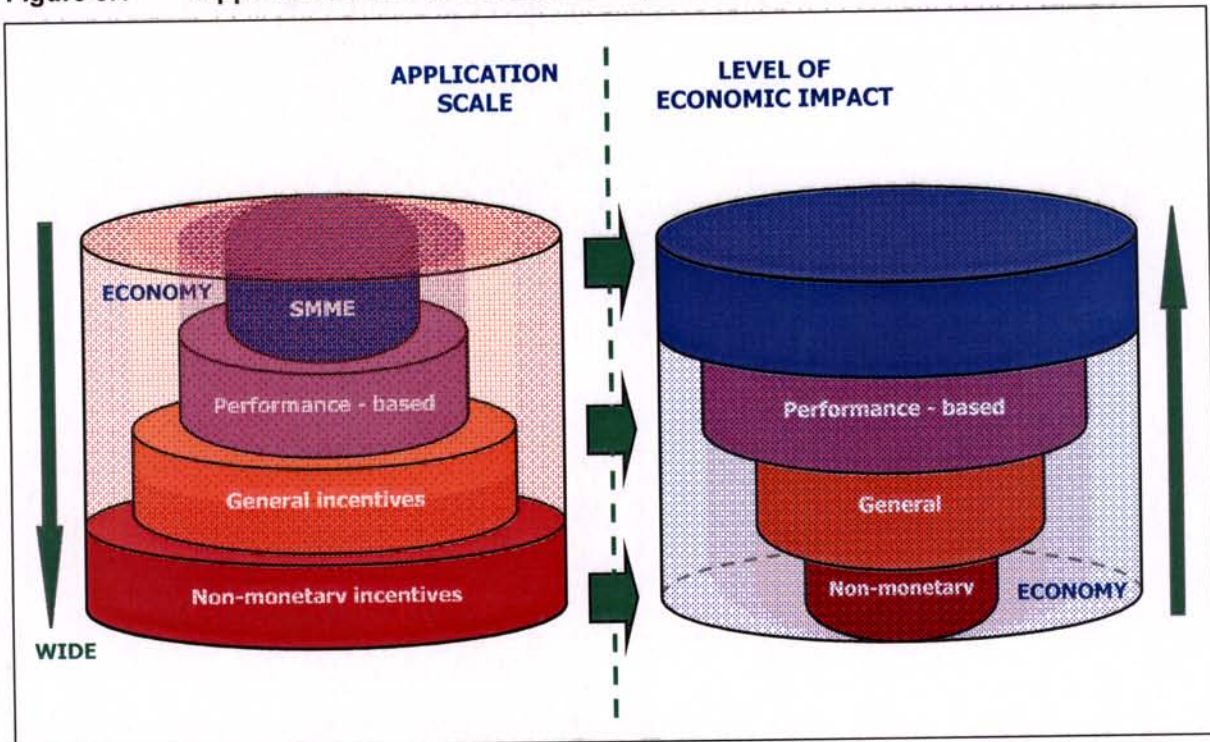
The Drakenstein Local Municipality should consider providing local business investment incentives that could be grouped in the following categories:

- General financial investment incentives that would make the Drakenstein Local Municipality competitive with regard to service rates in the region;
- Performance-based investment incentives that would attract businesses and industries which have the highest potential to create new revenue streams and generate new employment opportunities;
- Non-financial investment incentives that would improve the image of Drakenstein Local Municipality and make it more competitive in the Province;
- SMME and secondary economy investment incentives.

Investments are an essential factor for economic growth as they enlarge the scale of production and increase employment opportunities. The provision of adequate property space for the development of the various sectors, as discussed in **Chapter 4**, should be addressed by the Drakenstein Local Municipality. If the municipality wants to be successful with the implementation of the Business Investment Incentive Scheme they will have to address adequate property space in the study area.

Figure 5.1 shows the application scale and economic impact of the incentives:

Figure 5.1 Application scale and economic impact of the proposed incentives



(Source: Du Toit, 2006.)

From the diagram it can be concluded that more common incentives, such as the non-monetary and general investment incentives, have a wide-ranging application scale. It means that these incentives are available to the majority of eligible businesses and industries in the area. At the same time, the incentives such as performance-based and SMME incentives are niche incentives, thus their application is narrower (Du Toit, 2006).

The impact of investment incentives on the economy, however, is inversely proportional to their application in the economy (**Figure 5.1**). This means that the limited performance-based and SMME incentives will have a bigger impact on the economy than the more general incentives. This is explained by the fact that the SMME and performance-based incentives target a sector with substantial spillover effects (Du Toit, 2006).

The following sections describe the proposed investment incentives in more detail.

5.4.1 GENERAL FINANCIAL INVESTMENT INCENTIVES

General financial incentives should be provided to increase competitiveness of the Drakenstein Local Municipality in the Western Cape. These incentives should offer competitive service rates to businesses or industries that have made a decision to relocate to the Drakenstein Local Municipality.

5.4.2 PERFORMANCE-BASED INVESTMENT INCENTIVES

The performance-based incentives are financial investment incentives provided to the investors who satisfy the criteria of the most advantageous project to the community. This ensures that the project undertaken within the Drakenstein Local Municipality have long-term spillover effects through the improvement of the area's image, economic growth, job creation, and poverty alleviation.

The performance-based incentives have the following underlying principles (Du Toit, 2006:15):

- Address investors' requirements and not wishes of the Drakenstein Local Municipality;
- They are about trust, confidence and delivery;
- Make the place/site attractive for the investor with respect to service provision, rebates, land prices, etc.;
- Indicate that the Drakenstein Local Municipality understands its economic environment, thus, exerting confidence and trust towards the investor;
- Erase infrastructural and other developmental constraints;
- Provide a conducive environment for augmentation of economic linkages and agglomeration potential;
- Do not threaten current businesses;
- Present an on-going support to the business, i.e. aftercare.

The performance-based investment incentives generally entail high cost to the community, but bigger return in the long run. This indicates that they are highly sought after among investors as they signify strong partnership between the Drakenstein Local Municipality and an investor himself.

The following table indicates the particular performance-based incentives that the local council could offer to the manufacturing, construction, trade, business and financial services and tourism sectors.

Table 5.2 Potential Drakenstein Local Municipality Investment Incentives

Prospect	Incentive
<p style="text-align: center;">Manufacturing sector</p>	<ul style="list-style-type: none"> • Attractive discount on charges for electricity supply point for low voltage bulk consumers • Attractive discount on charges for electricity supply point for medium voltage bulk consumers • Attractive discount on low and medium voltage bulk consumers energy charge during winter periods

Prospect	Incentive
	<ul style="list-style-type: none"> • Municipal land rental on a sliding discount: 50% off for the 1st year reducing by 10% each year to 10% • Property tax exemption for manufacturing industries for 5 years or property tax discount for 5 years on a sliding scale • 50% discount on cash sales of land
Construction	<ul style="list-style-type: none"> • Discount on developing infrastructure • Contribution to the bulk services
Trade	<ul style="list-style-type: none"> • 40% discount on bulk consumer energy charges for businesses • Refund of building plans fee on issuing of occupational certificate
Business and Financial Services	<ul style="list-style-type: none"> • 35% discount on bulk consumer energy charges for businesses • Refund of building plans fee on issuing of occupation certificate

(Note: The discounts in Table 5.2 are only a guideline and can be adjusted as the Drakenstein Local Municipality see fit.)

The performance-based investment incentives are relatively expensive. However, as was mentioned earlier they bring bigger benefits to the community in the long run. In order to ensure that these incentives are offered only to those projects that will signify the highest revenue stream and major impact on the community, the local council needs to subject each business to a screening process.

The screening process is the method of identifying a project most beneficial to the local economy. It forms an essential part of the overall investment incentives management programme that can be used by the Drakenstein Local Municipality. The screening process involves the following steps (Du Toit, 2006:21):

- Preliminary filtration. This step involves development of general criteria according to which proposed projects are filtered. This step assists in the elimination of projects that clearly do not have potential to bring the major benefit to the community. Such decisive factors could be used as number of jobs created, turnover, type of business, etc.
- Project prioritisation. After the preliminary filtration is done, projects have to be prioritized in terms of high, medium and low priority. This is achieved by applying an

evaluation model. Typically, the project evaluation model prioritises the projects and assists in identifying business with the highest spill-over effects.

- An example of a typical general prioritisation model that could be used by the Drakenstein Local Municipality is presented in **Table 5.3**. Each business that went through the preliminary screening fills in the application form and submits it to the council. Afterwards, a chosen representative team consisting of council members calculates the total project value and evaluates it. As the result of the prioritisation model, each project is assigned a priority level.
- Interviews. Projects that receive the highest priority rating according to the prioritisation model will receive the investment incentives. However, projects that were identified as 'medium' priority need to be assessed further. Therefore, in order to ensure that no big-benefit projects are missed, the council needs to interview the applicants. During the interview, more information is sourced from the applicant that assists in making the right decision.

Table 5.3 An example of a typical General Prioritisation Model³

Please indicate the type of business	Manufacturing <input type="checkbox"/>	Construction <input type="checkbox"/>	Trade <input type="checkbox"/>	Business and Finance <input type="checkbox"/>	Tourism <input type="checkbox"/>
Name of the company					
E-mail					
Postal address					
Contact person					
Contact phone					
Contact Fax					

³ There are general questions that could be asked when compiling a prioritisation model for investment incentive schemes. Questions concerning the five main urban economic sectors and business investment incentives have been used in this Prioritisation Model.

Please provide the following with regard to your enterprise. Choose your answer and write the appropriate letter in the right column.			Answer
1	Where do the majority of your suppliers come from?		
	A. Drakenstein Local Municipality	B. Western Cape	C. Other
2	Where do the majority of your buyers come from?		
	A. International	B. Drakenstein Local Municipality	C. Other
3	How many people from the Drakenstein Local Municipality will your company employ? Please provide an estimated number of jobs created under the relevant section.		
	A. 100 and more	B. Between 20 and 100	C. Less than 20
	A.	B.	C.
4	What kind of employment opportunities will be offered?		
	A. Permanent mainly	B. Permanent and Temporary	C. Temporary mainly
5	What is the time between establishment and production/becoming operational?		
	A. Less than 3 years	B. Between 3 and 5 years	C. More than 5 years
6	What will be an average turnover of the company? Please provide an estimated annual turnover under the relevant section.		
	A. More than R50ml.	B. Between R20 and R50 ml.	C. Less than R20 ml.
	A.	B.	C.
7	What is the percentage of the Previous Disadvantaged Individual ownership of the company? Please specify the Human Development Index percentage under the relevant section.		
	A. More than 40%	B. Between 20% and 40%	C. Less than 20%
	A.	B.	C.
8	Do you have competitors in the Drakenstein Local Municipality? Please name your competitors under the relevant section.		
	A. No	B. Yes, SMMES	C. Yes, corporations
	A.	B.	C.
9	If you have a competitor, estimate how many people they employ in total.		

	A. No competitors	B. Less than 100 in total	C. More than 100 in total	
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After the application is filled out, the evaluator has to calculate number of A's, B's and C's that were selected in the questionnaires. Then, the total value of the package is calculated according to the following scale⁴:

- A – 100%
- B – 60%
- C – 10%

Afterwards, the total value is divided by 8 (number of questions) and evaluated according to the following scale.

0%-59%	60%-79%	80%-100%
Low priority – the business should not be given the performance-based investment incentives	Medium priority – the business falls under the medium priority and a more detailed analysis of its benefits should be undertaken to evaluate its impact on the economy	High Priority - the business should be given performance-based investment incentives and be assisted in all possible ways

The proposed prioritisation model will indicate how important the business will be to the Drakenstein Local Municipality's economy in terms of its advantages for the local community. These advantages include the improvement of the area's image, economic growth, job creation and poverty alleviation.

5.4.3 NON-FINANCIAL INVESTMENT INCENTIVES

The non-financial investment incentives are non-monetary support that the Drakenstein Local Municipality should offer to businesses and industries. These incentives aim at the improvement of the area's image and quality of services.

The non-financial investment incentives, proposed for the Drakenstein Local Municipality, are divided between those that offer administrative support and those that provide information. The purpose of these incentives is to indicate the local council's commitment to a development of the local economy and its openness to new businesses.

⁴ This scale was determined by using an average of investment incentive scales used by other local municipalities in the country.

5.4.3.1 Administrative non-financial incentives

The recommended administrative non-financial incentives are as follows:

- Expedited permit processing (fast tracking): the building plan, consent uses, rezoning and or township establishment application process duration of 7, 14 and 21 days depending in the priority of the project if application correlates with zoning approval; otherwise approval within 90 days;
- Assistance in preparation of Environmental Impact Assessments (EIA) (provision of necessary information, allocation of funds, etc);
- Prompt assistance with regard to provision of information for business development in the area. A Matrix or a database created in Access should be developed that summarises information pertaining to the development requirements. It should indicate spatial development and types of studies that need to be conducted for a particular type of business planned to be developed on a specific site.

5.4.3.2 Non-financial incentives that provide information

The proposed non-financial investment incentives that provide information are as follows:

- a) **Business Directory Brochure.** The purpose of this brochure is to provide a detailed directory of local businesses, imposing business networking of existing companies in the area. The target sector of the brochure should mainly be businesses that plan to expand or establish a new company in the area, and therefore, need to identify suppliers and buyers, as well as to know their competitors. The brochure should contain the following information:
 - Brief introduction to the Drakenstein Local Municipality;
 - Local street map;
 - Sector and resources allocation map that would show spatial distribution of economic sectors in the area and location of mineral resources and other natural resources;
 - Details of the local businesses grouped according to the sectors. The details should contain information such as postal and physical address, e-mail, website, contact numbers, operating hours, main, secondary and intermediate products or services offered.

It is suggested that advertising space is sold to cover the costs incurred. The brochure should be updated on a yearly basis.

b) **“Drakenstein Local Municipality in brief”** brochure. The purpose of this brochure is to provide social and economic information about the Drakenstein Local Municipality in brief. It should assist potential investors in comprehending the area, its economic drivers, social structure, infrastructural development, etc. This brochure should contain such information as:

- Map of the area;
- Background to the area;
- Geopolitical information (Size of the Drakenstein Local Municipality, average temperature);
- Population statistics (Total population, Urban and rural division, Working age population, Economically Active Population, employed and unemployed population, division between unskilled, skilled and highly skilled workers);
- Economic background (GDP, major economic sectors, Income per capita, average household income);
- Industrial sectors details (Manufacturing GDP, major manufacturing industries and produced products);
- Infrastructure information (Road and railroad routes, road distance to Cape Town, airports, energy and water supply capacity);
- Tourism information;
- Institutions located in the area (Education, business support, etc.);
- Outline of provided performance-based incentives.

5.4.4 SMME AND SECONDARY ECONOMY INVESTMENT INCENTIVES

In addition to the above-mentioned investment incentives, it is important that the Drakenstein Local Municipality provides additional support to Small, Micro, Medium Enterprises (SMMEs) and the secondary economy. Programmes and projects to “bridge” the gaps and isolation between the first and second economies, have to come to fruition and thus the following tailored investment incentives are recommended to be provided for Black Economic Empowerment (BEE) companies and SMMEs:

- Exemption from property tax for start up companies during the first year and a discount on a sliding scale over the 2nd and 3rd operational years;
- Property tax rebates to the existing companies on a sliding scale, for example, 40% rebate for the 1st year and subsequent reduction by 5%;

- Assistance in developing a business plan for start-up companies or companies that want to expand;
- Promotion of mechanisms for cooperation between SMMEs, through further use of the SMME association system and by studying optimum mechanisms for cooperation among SMMEs to meet contemporary needs;
- Assistance in establishing SMME networks that lead to competitive advantage, cost savings, sector access and knowledge exchange. The emphasis should be on establishing supply chain linkages with the large companies outsourcing costly, inefficient services to small companies that could better perform those services;
- Easing the licensing burden through simplification of business registration procedures for SMMEs.

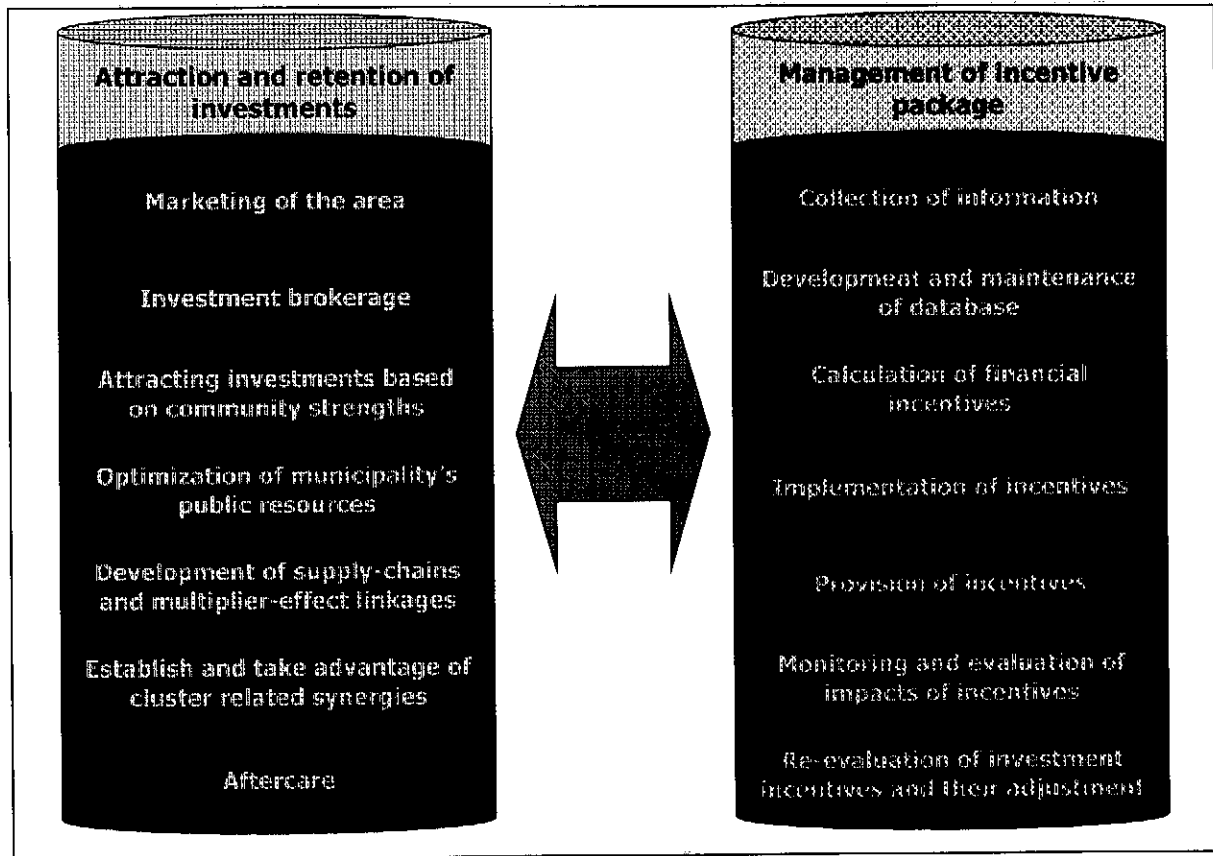
5.5 MANAGEMENT FRAMEWORK

The main function of the management framework is to act as a facilitator in attracting investments. It should contain dedicated incentive management personnel that will have internal and external focused activities involving regulatory form, approval process, and marketing of the area. The primary objective of the incentive management team is to create an environment that is conducive for investments in the Drakenstein Local Municipality. The team should consist of representatives from various departments, for example the:

- Planning department;
- Economic development department;
- Treasury department;
- Engineering services department; and/or
- An external development agency in the area.

The functions of the management teams are twofold. They are conceptually illustrated in **Figure 5.2**.

Figure 5.2 The incentives management team functions



(Source: Du Toit, 2006.)

Figure 5.2 illustrates that there should be a relationship between the attraction and retention of investments and the management of the incentive packages. These two steps need to be consistent in order for the Drakenstein Local Municipality to be proficient and consistent in the administration and management of the investment incentive scheme programme.

5.6 IMPLEMENTATION GUIDELINES

The proposed investment incentive package should be viewed as a system. It is imperative that the Drakenstein Local Municipality first addresses such issues as image of the area and regional competitiveness, which are dealt with by general and non-monetary incentives, and then embark on a provision of target-specific incentives. These issues are addressed by the implementation plan, which is presented in **Figure 5.3** below and subsequently discussed in more detail in **Table 5.4**.

Figure 5.3 Investment Incentives Package Implementation Plan

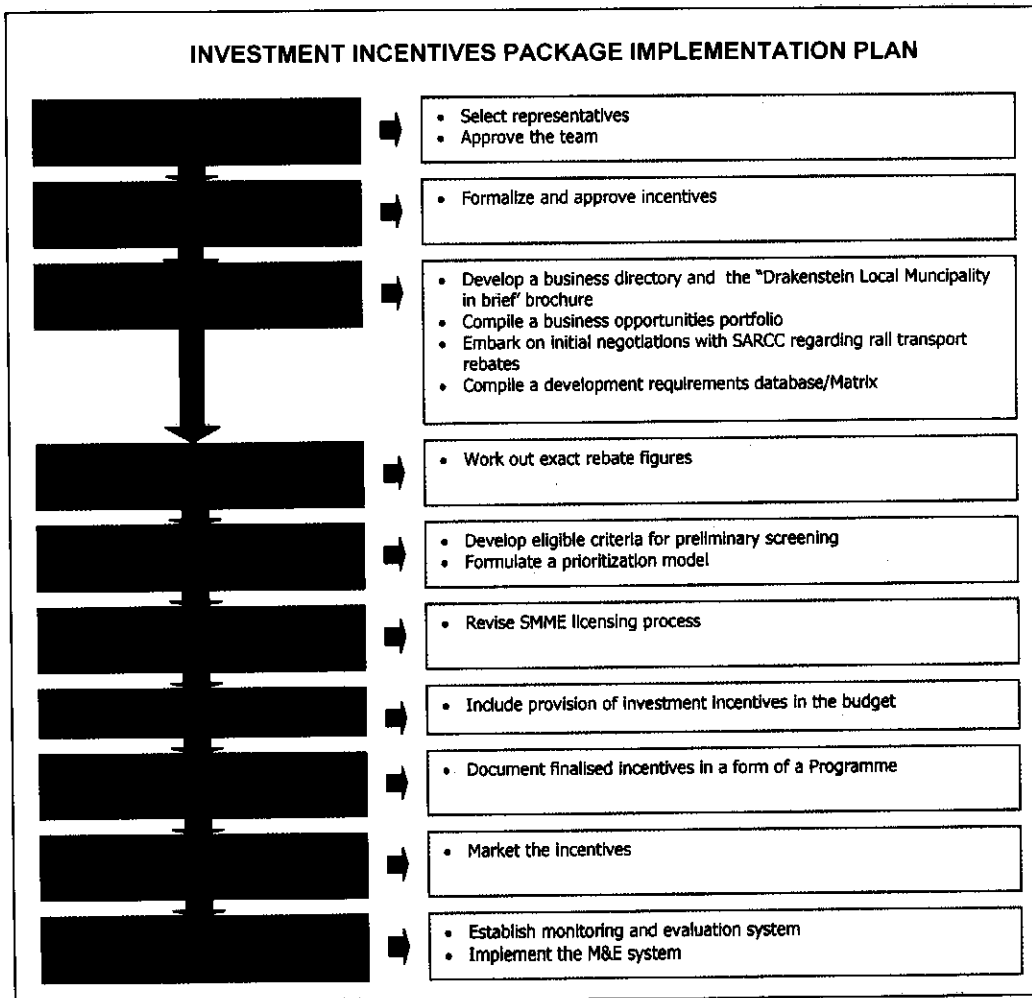


Table 5.4 Proposed in depth incentive package implementation plan

Step 1: Form the investment management team	
Select representatives	<p>This task relates to identification of the affected departments in the Drakenstein Local Municipality that should form part of the committee that would oversee implementation of the incentive package. During this task representatives from the identified departments should be selected.</p> <p>It is suggested that the committee comprises of representatives from at least the following units in the local government:</p> <ul style="list-style-type: none"> • Planning • Economic • Treasury • Engineering services <p>During this task, the Council should approve the committee and formalise their objectives and mandate.</p> <p>The objectives of the committee should be as follows:</p> <ul style="list-style-type: none"> • Attraction and retention of investments • Management of the incentive package <p>The detailed description of the functions of the management team/committee is described in section 5.5.</p>
Approve the committee	The Council
Step 2: Approve the bouquet of the proposed incentives	
Formalise and approve incentives	<p>This task entails formalisation of the proposed four groups of incentives.</p> <p>The committee should review the Drakenstein Local Municipality Investment Incentive Package, in particular types of incentives proposed to be established in the area, and formally approve the establishment of such incentives in the area.</p>
	The committee
Step 3: Finalise and introduce non-monetary incentives	

	Develop business directory and the "Drakenstein Local Municipality in brief" brochure	This task entails appointment of consultants in the field of development economics in alliance with the design company to produce the 'Drakenstein Local Municipality in brief brochure' and the business directory.	The committee
	Compile a business opportunities portfolio	This task entails appointment of a consulting firm that would develop business opportunities portfolio for the Drakenstein Local Municipality.	The committee
	Embark on initial negotiations with SARCC regarding rail transport rebates	This task involves scheduling a meeting with SARCC and negotiating with them with regard to potential rail transport rebates for the area.	The committee
	Compile a development requirements database/Matrix	This task entails development of the matrix, as above. It is suggested that the Local Municipality appoints a consultant that assist it in developing such database.	The committee
Step 4: Finalise and introduce general incentives			
	Work out exact rebate figures	This task entails running work session with the members of the committee to identify exact rebates and values of other financial incentives that would be: 1. Affordable to the Local Municipality 2. Competitive in the region 3. Attractive to the investors	The committee
Step 5: Finalise and introduce performance-based incentives			
	Develop eligible criteria for preliminary screening	This task involves selection of a set attributes that would be used in evaluation of projects during their preliminary screening process.	The committee
	Formulate a prioritization model	The objective of this task is to develop a transparent and uniform prioritization model, example of which is provided.	The committee
Step 6: Finalise and introduce SMME incentives			
	Revise SMME licensing process	This task entails revision of the SMME licensing process with an emphasis on elements that could fast-track the procedure.	The committee
Step 7: Budget for Incentives			
	Include provision of incentives in the budget	This task involves specification of the required funds to support the incentive package and allocation of such funds in the budget for the	The committee and council

	future financial year.	
Step 8: Develop incentive and supportive programme	<p>This task entails documentation of the proposed incentive package and adoption of it as a whole by the Council. The final incentive package should consist of incentives guided by the following principles:</p> <ul style="list-style-type: none"> • Affordability The proposed incentives should be affordable and income forgone should not have an adverse effect on the municipal revenue stream. • Transparency and Uniformity The procedure of granting of incentives should be open to public scrutiny. The process of granting of incentives should follow a consistent approach and specific criteria. • Targeted sectors Incentives, in particular performance-based incentives should only target the focus sectors. • Simplicity and continuity The management framework, including committee, and follow up administrative work should be as simple as possible and easily comprehensible so as to minimise financial and administrative implications. • Co-operative governance The incentive is intentionally modest to avoid an incentive and relocation war with other investment locations in South Africa. 	<p>Document finalised incentives in a form of a Programme</p> <p>The committee</p>

		<ul style="list-style-type: none"> • Continuous Review The investment incentive should be reviewed on consistent bases. 	
Step 9: Engage in a marketing campaign			
	Market the incentives	This step involves formulation of a marketing strategy for the Drakenstein Local Municipality, with an emphasis of provided incentives in the area.	The committee
Step 10: Monitoring and Evaluation system			
	Establish monitoring and evaluation system	<p>The objective of the monitoring and evaluation system will be to review, replace, abolish and/or update existing incentive package based on their effectiveness and economic trends in the area.</p> <p>This task entails development of the monitoring and evaluations system that involves collection and analysis of relevant information, including:</p> <ul style="list-style-type: none"> • Number and value of investments • Number of new jobs created as a result of new investments • Number of jobs saved • Total value of incentives provided • Capital productivity of incentives (Total value of incentives/total investments), etc. 	The committee
	Implement Monitoring and Evaluation system (M&E)	The implementation of the M&E system entails collection of information on on-going basis and reviewing the incentive package on a yearly basis. As part of the monitoring and evaluation system, the companies that have received incentives in the area should be continuously monitored and their annual performance assessed.	The committee

5.7 CONCLUSION

5.7.1 KEY CHALLENGES FOR DRAKENSTEIN AS RURAL DESTINATION

The effect of new government policies and programmes do not often penetrate local levels, particularly within rural communities. The Wine industry is a major tourism beneficiary and one of South Africa's oldest industries, but transformation in the ownership and benefits of this area need to be explored. Socio-economic conditions: high poverty and unemployment rates; lack of basic infrastructure in informal settlements as well as some of the surrounding areas; and prevalence where there is a net flow of wealth to larger urban centres.

Populations are spatially dispersed and this often increases the cost and difficulty of providing rural goods and services effectively. The limited tax base results in insufficient resources to finance the development programmes. In terms of the perception of tourism, Drakenstein is not perceived to be "tourist-friendly"; tourism is regarded as elitist and exclusive; tourism is not regarded as a priority amongst the unemployed and disadvantaged communities. The Drakenstein/Winlands area is closer to the tourism gateway of Cape Town and in many ways occupies a peri-urban status.

5.7.2 MAIN DEVELOPMENT AND INVESTMENT OPPORTUNITIES IN THE DRAKENSTEIN MUNICIPAL AREA

Investment incentives are incentives that attract investment to a particular locality. Local authorities derive these incentives to increase the competitive advantage of the Drakenstein area. The main development and investment opportunities in the Drakenstein region are:

- retail and trade – inner city Paarl and Wellington; upper-income suburban; lower-income areas, townships and Hermon, Gouda and Saron; and the wholesale and export trade;
- agriculture and agro industries – table and oil olives; oil from grape seeds; organic fertilisers; dairy products; oils from herbs; wine farms; grapes; and fruit bottling, packaging and storing; cooling and refrigeration; transport, especially road haulage; pesticides and other chemicals; processing plants and manufacturing of higher valued products; development of new sectors, e.g. lighter and more upper sector red wines and high-quality whites; and development of home décor items such as dried flowers;
- manufacturing – wineries and brandy distilling; fruit juices and dried fruit; agricultural inputs; niche clothing and textiles; and other niche products, including metal, IT and furniture components;

- tourism and recreation – standard group tours; golf tourism and recreation; themed resort developments; upper sector tourism and retirement; activity-based tourist facilities; wine, township and other theme tours; and farm tourism and rural trails;
- services and other – education, training and research centres; professional, city-linked services; corporate headquarters; public sector offices; health facilities; and construction;
- With an abundance of industrial land, world-class infrastructure and a skilled labour force, Drakenstein is well poised to meet the growing demands of an expanding business sector. And with a plethora of wine farms, restaurants and historic sites to visit, it offers opportunities for both local and international tourists to enjoy the natural beauty of the region (Trade SA Newsletter, 2006).

The Drakenstein Local Municipality is committed to ensure sustainable economic development and growth through increasing national and international competitiveness and reducing the levels of poverty in the area. Key to this will be the retention and expansion of existing businesses in the area as well as the attraction of new investment to the Drakenstein Local Municipal area.

5.7.3 CONCLUDING REMARKS

This thesis aimed to address the following objectives as formulated in **Chapter 1 – 1.4**:

- To discuss the Drakenstein Local Municipality's development and strategic objectives as set out by their Council (**Chapter 2**);
- To discuss the five main urban economic sectors of the Drakenstein Local Municipality (**Chapter 4**);
- To propose a Business Investment Incentive Scheme that can be implemented by the Drakenstein Local Municipality to assist in local economic development, job creation and poverty alleviation (**Chapter 5**).

The conclusion in terms of research objective one is as follows:

Integrated development planning has become an established feature of the development scene at local government level. Integrated development planning and strategic development objects are constrained by resource and skills constraints and are compounded by the lack of strategic guidance and facilitation from provincial and national government. It is thus of utmost importance that a culture and administrative and regulatory environment is developed that will facilitate economic development, job creation and poverty alleviation.

The theoretical framework highlighted that integrated development planning is the most important tool today in local government. The Integrated Development Plan (IDP) incorporates that development planning and strategic objectives should be set by local government and implemented accordingly. Most important to this process is community participation and empowerment. Key to developing a plan that responds to local needs, conditions and capacities are sustainability principles and participatory approaches. However, while these plans represent a significant move towards achieving sustainable development there are key challenges.

An enabling business environment is imperative in the process of sustainable economic development. The Drakenstein Local Municipality has an important facilitation role to play in the co-ordination process with investors and ensuring public participation, rapid turnaround time and focused services to businesses and the realization of those strategic development objectives which are aimed at economic development, job creation and poverty alleviation.

The conclusion in terms of research objective two are as follows:

The Drakenstein economy is vested in the economic sectors directly linked to the study objective, namely the trade sector (retail sector); manufacturing sector (industrial sector); and finance and business services sector (office sector). Development taking place in these different economic sectors will have a direct impact on the sectoral economic contributions made to the Drakenstein Local Municipality's economy which in turn will strengthen the municipality's local economic base and this will have a direct impact on employment creation within the various sectors.

As stated previously in **Chapter 3**, the contribution of the trade sector to the Drakenstein Local Municipality's economy in 2004 was 13.8% (see **Figure 3.1**) up from 12.3% in 2000. This illustrates that wholesale and retail trade, personal and household goods and accommodation, restaurants and therefore tourism activities showed improved growth in the study area.

The majority of the construction sector's business was in terms of residential developments in the Drakenstein Local Municipality. The construction sector was one of the dominant growth sectors between 2003 and 2004. This sector also showed tremendous growth from -18.4% in 2000 to 2.9% in 2004 (see **Chapter 3 – Table 3.2**).

The contribution made by the business and finance sector to the Drakenstein Local Municipality was 23.1% in 2004 (see **Chapter 3 – Figure 3.1**). This sector grew from 19.8% in 2000. Growth in the Business and Finance sector has declined since between 2000 and 2001, however this sector's contribution to the Drakenstein Local Municipality's GDP has

been growing since 2000. This means that the sector itself has not been growing, but that its relative contribution has increased towards the Drakenstein Local Municipality's GDP each year till 2004 (see **Chapter 3 – Table 3.2**).

The contribution made by the manufacturing sector to the Drakenstein Local Municipality's economy was 25.6% in 2004. The manufacturing sector decreased in its relative contribution to the study area's economy from 2002 till 2004, but it still remains one of the most important urban economic sectors in the area (see **Chapter 3 – Figure 3.1 and 3.2**). There has been increased emphasis on small, medium and micro enterprises (SMME) promotion through government support and initiatives. The demand for smaller units, which cater for SMMEs, implies that there is a potential for industries with high security and good accessibility.

The Drakenstein Local Municipality should take a bigger responsibility for their tourism portfolio. Tourism has become the responsibility of the municipality and they should implement a development strategy for this sector to ensure that the community and other stakeholder benefit from positive economic growth. Tourism has many economic benefits for the local community and this should be tapped into. It is important that these benefits be properly investigated and that all the stakeholders, especially the local community are included in the process of turning the tourism sector and the Winelands area into the most talked about and visited area in the Western Cape.

The introduction of proposed targeted investment incentives was aimed at facilitating the implementation of the Drakenstein Local Municipality's development objectives. The proposed intervention options have to be a special effort by the Drakenstein Local Municipality to attract new investment to the study area and retain other current investment in the area. This will result in a positive spill-over effect in terms of economic growth in the above mentioned urban economic sectors in the Drakenstein Municipal area, job creation and poverty alleviation. Intervention options should be developed in terms of investment incentives that can bring about job creation, economic development and poverty alleviation in the Drakenstein Municipal area which are set out in their strategic development objectives.

The conclusion in terms of research objective three are as follows:

The Drakenstein Local Municipality's IDP seeks to guide both the community as well as municipal staff. It clearly sets out the strategic direction of the Council and how it will be allocating its resources. Fundamental issues that are being addressed by the IDP are to redress poverty and inequality.

Incentives and centres that will attract people and businesses to the area and also keep them in the area by offering a multiplicity of experiences in the study area are needed. Three

components form the foundation for successful achievement of the set objectives namely job creation, poverty alleviation and economic growth. It is imperative that the investment incentives are aligned with other government policies and strategies. It is of critical importance that there is integration between efforts by Council, the municipality, the community as well as the private sector. The development of the Drakenstein Local Municipality's investment incentive scheme should be viewed as a continuous process and not as a once off implementation plan or strategy.

Investment incentives are a highly controversial issue. Their underlying principles can be summarised as follows:

- Less important to companies that decided to establish a new business or to relocate;
- Can tilt the decision of managers towards the region that provides incentives when a few relatively identical sites are considered;
- Serve as an appeal of an emotional satisfaction;
- Change the investment image of the area;
- Should target quality investments;
- Should not threaten local businesses;
- Should address the development potential and needs of the area (Du Toit, 2006:54).

The proposed investment incentives package should be viewed as a system. The performance-based and SMME incentives have a limited application, however, they have a bigger positive impact on the local economy. Although, the wide-ranging incentives such as non-monetary and general incentives have a lower impact on the economy, they form the basis for the performance-based and SMME incentives. Thus, it is imperative that the Drakenstein Local Municipality first addresses issues such as image of the area and regional competitiveness, which are dealt with through the introduction of general and non-monetary incentives, and then embark on a provision of target-specific incentives.

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