

**Oudtshoorn  
Municipality**

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#### LIST OF ABBREVIATIONS USED:

BEE	- Black Economic Empowerment
CSIR	- Council for Scientific and Industrial Research
DBSA	- Development Bank of Southern Africa
DPLG	- Department of Provincial and Local Government (national)
DTI	- Department of Trade and Industry (national)
EU	- European Union
GDP	- Gross Domestic Product = final goods and services produced within an country in a year
GGP	- Gross Geographic Product = final goods and services produced within an area in a year
GI	- Gouritz Initiative
HDI	- Human Development Index
KKC	- Klein Karoo Corporation
KKNK	- Klein Karoo Nasionale Kunstefees
LED	- Local Economic Development
OM	- Oudtshoorn Municipality
OMF	- Oudtshoorn Management Forum
PDI	- Previously Disadvantaged Individual
PGWC	- Provincial Government of Western Cape
PSDF	- Provincial Spatial Development Framework
SAOBC	- South African Ostrich Business Chamber, consisting of the SA Ostrich Producers Organisation (SAOPO) and the National Ostrich Processors of SA (NOPSA)

## EXECUTIVE SUMMARY

### The LED Process:

As part of the mandate of municipalities in South Africa in general, the Municipality of Oudtshoorn currently facilitates a Local Economic Development (LED) process in Oudtshoorn. The **first phase** involves the compilation of an economic profile of the Oudtshoorn economy. The profile aims to provide background and to stimulate debate between business and municipality by putting development issues forward.

The profile will be used as input for the LED platform representing both the business sector and the municipality. The objective of the forum is to formulate a LED strategy for Oudtshoorn to address priority areas such as unemployment, inequality and poverty. The establishment of the forum forms part of the **second phase** of the process.

### Main Findings:

In line with the national boom that gained momentum in 2002/2003, **the economy of Oudtshoorn** entered a growth phase after 2001. The growth phase could partially be ascribed to the positive influence of lower interest rates on some of the main sectors such as trade and construction. Since 2003, a stronger exchange rate placed the exporting sector under pressure. The negative impact of avian flu on ostrich exports could cause the economy to lose more steam in 2005.

However, the medium forecast for the Oudtshoorn economy is more positive. National interest rates are forecasted to remain fairly low and the exchange rate forecasted to depreciate slightly with positive implications for the exporting sectors.

The main town of Oudtshoorn was furthermore identified by Western Province as one of the thirteen towns with economic potential in the Western Cape. This will have implications for provincial spending priorities in line with the **National Spatial Development Perspective** guidelines.

The economy of Oudtshoorn is characterised by an unequal **income distribution** (more unequal than the Western Province on average), an increased **unemployment rate** during the past four years and intensifying of the **poverty** problem since 1998. It is estimated that the economy will have to grow at 4% and more to decrease the number of unemployed people in Oudtshoorn. The environment and other basic infrastructure pose restrictions on sustaining such high output growth levels over the long term. A broader approach is needed to solve poverty including increased food security, greater synergy between the currently fragmented welfare groups and improved development of the second economy (unregistered "informal" businesses).

Oudtshoorn lies within the provincial Gouritz initiative. It will be a challenge to reconcile economic development with **environmental issues**. There exists a large scope for greater co-operation between the environmental lobby group and the business sector to the advantage of both.

The economic profile also contains some suggestions in terms of sensible **potential developments/investments** for the Oudtshoorn area with the hope of enriching the future debate.

## OUDTSHOORN ECONOMIC PROFILE:

### 1. THE LOCAL ECONOMIC DEVELOPMENT PLANNING PROCESS

#### 1.1. Background to Local Economic Development planning

Local Economic Development Planning involves a partnership between local government and business to promote local economic development. Economic development not only refers to economic growth but also to the creation of decent jobs and improving the quality of life for everyone whilst taking environmental sustainability into account.

The LED strategy is ultimately a process-orientated and a non-prescriptive activity that incorporates local values and priorities. Yet, some general guidelines apply (*UN-HABITAT and Ecoplan International, Local Economic Development through Strategic Planning, 2004*):

- Good practice in local economic development suggests that use of public resources and government intervention should focus on *improving the basic business environment* and reach all levels of society rather than supporting individual companies. This include a need for clear decision rules and procedures in government, such as effective business codes and land use zones that promote long-term plans and a clear and stable economic environment;
- There is also an emerging consensus that LED cannot bring about effective poverty reduction without incorporating *explicit poverty reduction actions*. A key challenge is to ensure the pursuit of economic development that provides for both the promotion of local wealth creation and poverty reduction. The inclusiveness of the process also acknowledges the first as well as the second economy.

In South Africa, the 1998 White Paper states that local government is not directly responsible for creating jobs, but emphasises its role in *facilitating* local economic development and ensuring a *conducive environment* for the creation of employment opportunities.

The draft DPLG's draft national policy on LED (2004) also suggests a larger support role (vis-à-vis a directly participating role) for municipalities. The draft policy lists the following core municipal responsibilities in relation to LED:

- Facilitate investment promotion through improvements in the physical infrastructure, the creation of competitive advantages and the expansion of social capital and partnerships with business;
- Support small enterprises by steps complementing efforts of national and provincial bodies as well as the establishment of local support offices for SMMEs;
- Assist target growth sectors or business clusters with particular growth potential;

- Strengthen efforts to make the local labour market more effective and to increase the effectiveness of training and special job-creation initiatives;
- Encourage the creation of local LED champions and practitioners, and assisting with the staffing of local LED offices;
- Ensure better co-ordination of national, provincial and local efforts at LED support. District municipalities are required to take the lead in supporting development of the local economy.

## **1.2. The role of local government**

Local governments have a number of ways to influence the local economy in the normal course of fulfilling their traditional mandate as community service provider:

The level and costs of *municipal services* (water, sewage, electricity etc) have an impact on the competitiveness of local business. Municipal decisions to subsidise, cross-subsidise or follow user-pay principles directly impact on the costs of doing business. The whole spectrum of social and physical infrastructure is necessary to attract local as well as outside investment. The service delivery strategy could also be used in a more direct way to create work for smaller enterprises. It could give the municipality leverage to external funds through the forming of service delivery partnerships with other public or private organisations.

The *spatial/physical planning function* of a municipality plays an important role in economic planning through its influence on town outlay while providing security to entrepreneurs in terms of land use and other zoning implications. The spatial planning functions are associated with direct controls available to municipalities. Private developers live close to municipal decisions with regard to the availability of new land as well as the re-zoning of areas. It is important that investors and entrepreneurs regard the rules of the game as fair, transparent and consistent.

In many towns, the municipality is the largest consumer of goods and services. In the course of their business, municipalities consume the spectrum of goods and services, e.g. furniture, transport, cleaning products, stationary, professional services such as lawyers, engineers etc. The *procurement policy* of a municipality could have a large impact on the local economy.

Apart from these general instruments mentioned above, local governments also have tools specifically designed to influence Local Economic Development that follows from the staffing of local LED offices:

- Monitoring and gearing the municipality towards achieving development objectives deriving from its *primary mandate* as listed above;
- *Ensure coordination* between provincial and national role players in LED;
- The municipality could influence the *marketing of an area* to retain existing business as well as attract new investors. An important component of the marketing strategy is the efficient communication of a positive image of the area to the outside. Sound financial management and transparent processes also play an important role to portray a positive image of the area to the outside world and to attract the right type of investments.

- The development of *business incentives* (e.g. rebates on municipal costs) to attract the right kind of investments into town are closely related to the marketing mandate of the municipality;
- *Facilitating the LED strategic planning process*. The local government is responsible for preparing the table around which respective role players can gather to discuss development issues. The first phase of the facilitating function is therefore the compilation of an economic profile. The document plays an important role to get role players "on the same wave-length" with regard to their local economy. The second phase involves the establishment of community networks and structures to reach consensus with regard to development objectives and strategies;
- *Local economic development funds* are specifically dedicated to economic development. The economic principle should play an important role in allocating these funds, namely to achieve the maximum results with the existing funds. Evaluation and prioritising of such projects are typical issues that should feature on the agenda of a development forum that consists of different stakeholders within the community.

### **1.3. The LED process in Oudtshoorn**

In line with national thinking and action already taken by many municipalities nationally as well as provincially, the Municipality of Oudtshoorn also decided to embark upon a local economic development process with the initiation of the first phase of the planning process, namely the formulation of this local economic development profile.

The economic profile/ "audit report" has to lay the foundation for the interactive process of strategy planning and formulation that is scheduled for the second phase of the LED strategy planning process. It is therefore *not* a function of this report to indicate what *should* be done in different sectors or policy areas to activate or sustain growth; rather, it is a role of the report to indicate what is happening in Oudtshoorn at present and where critical economic issues are (not) being addressed.

The main part of the profile that follows will give an overview of Oudtshoorn in its broader environment, analyse the first and second economies and discuss the poverty problem in Oudtshoorn. The last part of the report focuses on municipal infrastructure, the natural environment, current economic development initiatives and investment opportunities. The report will conclude with a summary of suggested focus areas for the LED process in Oudtshoorn.

For purposes of the report a variety of sources was used including:

- Official resources from Statistics South Africa, South African Revenue Services and information supplied by Eden municipality;
- Selected information from the Research Report for the Provincial Spatial Development Framework (PSDF) by the Western Cape Provincial Government;
- The review of Dysseidorp prepared for the Provincial Government of the Western Cape of Economic Development by the CSIR in June 2005;
- Three surveys targeting:
  - the first sector with 33 (small and medium) businesses interviewed out of about 3 668 businesses and trusts registered for regional levies. Although the

- number represents less than 1% of the total number of registered businesses and trusts, the selected businesses jointly contributed about 20% towards total business turnover<sup>1</sup>.
- the second economy, with 84 businesses out of an estimated 100 businesses surveyed.
  - low-income households with 300 low income households surveys out of an estimated 5 000 households living in poverty, i.e. about 8% of low income households;
  - Initial consultations with stakeholder groups including the Oudtshoorn Management Forum (OMF), Business Advisors, Training providers, the Youth Forum; Welfare groups, Sport interests and Environmental groups to acquire basic information and ascertain expectations in terms of the LED process.

## 2. OUDTSHOORN IN REGIONAL CONTEXT

### 2.1. A general comparison

**Population:** In 2004, approximately 87 000 people lived in Oudtshoorn, i.e. almost 2% of the total population in the Western Cape. The annual population growth rate was slightly below the national and provincial average for the period from 1998 to 2004, i.e. 1,1% as opposed to 1,4% (national) and 1,6% (provincial).

In terms of population, Oudtshoorn is the second largest town in the Southern Cape with George being the largest (131 000 people), Knysna the third largest with 72 000 people followed by Mosselbay with 66 000 people (*Development Information Unit: DBSA Global Insight database, 2004*).

Of the four larger towns in the Southern Cape, Oudtshoorn experienced the lowest annual population growth between 1996 to 2004 (1,1%) followed by Mosselbay (1,3%); George (1,5%) and Knysna (1,7%). The main reasons for Oudtshoorn's lower population growth could be ascribed to factors such as:

- Oudtshoorn being geographically removed from the Cape Town-Eastern Cape axis for the settlement of Eastern Cape migrants;
- The lower growth in the economy and hence opportunities to attract these migrants;
- The higher ratio of initial (1996) African: total population ratios in the other towns combined with a relatively higher national population growth rate for the African population compared to other population groups for the period;
- The lower settlement of migrants from Gauteng and other northern provinces.

The table below shows the shares of the different population groups in the respective towns between 1996 and 2001. The table indicates the dominance of the Coloured population in Oudtshoorn compared to all the other major municipal areas in the Southern Cape. This fact underscores the reasons for the lower population growth of Oudtshoorn as mentioned above.

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<sup>1</sup> It is estimated that Klein Karoo Corporation alone could have contributed between 10-20% to the total turnover in Oudtshoorn in 2004

**Table 1: Population distribution of Southern Cape towns, 1996 and 2001**

Persons	George	Knysna	Mosselbay	Oudtshoorn	
	2001	2001	2001	1996	2001
African	27.2%	31.7%	22.7%	6.2%	8.1%
Coloured	50.4%	44.0%	48.5%	74.4%	76.5%
Indian	0.2%	0.2%	0.3%	0.1%	0.1%
White	22.2%	24.1%	28.5%	17.5%	15.3%
<b>Total population</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Stats SA, 1996 and 2001

**Economy:** While 2% of the Western Cape population lived in Oudtshoorn in 2004, the economy of Oudtshoorn only contributed 1,1% towards provincial output. Sectors that made relatively larger contributions to provincial output include agriculture (5%) and services (2%).

The annual real growth rate of the Oudtshoorn economy was on par with the provincial average of 1,9% per annum but below national output growth for the period from 1998 to 2004, i.e. Oudtshoorn economy grew at a real growth rate of 1,9% per annum as opposed to growth in national output of 2,8% for the same period.

The performance of the Oudtshoorn economy is especially disappointing when compared to the high growth rates experienced by larger towns in the Southern Cape between 1996 and 2004, namely George (5,5%); Knysna (5,2%) and Mosselbay (3,9%) (*Development Information Unit: DBSA Global Insight database, 2004*). The construction, trade and transport sectors have experienced exceptionally high growth rates in these economies for the period under consideration, whereas the industrial and financial sectors also maintained relatively high growth throughout the period. In Oudtshoorn the relatively higher growth rates of the construction, financial, transport and trade sectors were neutralised by the low growth in agricultural and industrial output.

Despite the relatively higher contribution of the agricultural sector (17%) (as opposed to contribution rates of 2-3% of the other major towns) the Oudtshoorn economy appears relatively diversified and compares well with the other major towns in the Southern Cape. The tress index measures the level of diversification or concentration of a region's economy. A tress index of zero represents a totally diversified economy. On the other hand, the higher the index (closer to 100), the more concentrated or vulnerable the region's economy is to exogenous variables such as adverse climatic conditions, commodity price fluctuations etc. (*DBSA, March 2001*). The national tress index is 41 compared to the provincial index of 51. The economies of Knysna and Mosselbay are relatively more diversified, both with tress indexes of 44, compared to a tress index of 47 for Oudtshoorn and 49 for George. Furthermore, all the major economies of the Southern Cape experienced increased diversification in their economies since 1998.

Although Oudtshoorn is the second largest town in the Southern Cape in terms of population, its economy is only the third largest in terms of output, i.e. producing a Gross Regional Product (GRP) (at constant 2000 prices) of an estimated R 1,9bn compared to R 4,3bn of George, R 2,3bn of Knysna and R 1,86bn of Mosselbay (*Development Information Unit: DBSA Global Insight database, 2004*).

Combining population sizes and production levels, it becomes clear that Oudtshoorn has the lowest per capita income levels of the large towns in the Southern Cape, i.e. R21 855 (2000 constant prices) in 2004 compared to R32 500 of George, R31 400 of Knysna and R28 200 of Mosselbay (*Development Information Unit: DBSA Global Insight database, 2004*).

**Inequality:** The Gini-coefficient measures the degree of inequality in an economy. The coefficient has a maximum value of one (absolute inequality) and a minimum value of zero (absolute equality). South Africa's income distribution is still among the most uneven in the world, with a small percentage of the population possessing a large percentage of the total wealth.

The Gini-coefficient for the Western Cape is slightly lower than the national average, i.e. 0,58 as opposed to 0,64. The average for Oudtshoorn (0,59) indicates greater inequality and is slightly higher than the provincial average and higher than any of the other larger towns.

The Human Development Index (HDI) measures the achievements of an economy in three basic dimensions of human development, namely life expectancy, literacy and income. It is thus seen as a measure of people's ability to live a long and healthy life, to acquire knowledge and to maintain a decent standard of living (*DBSA, March 2001*). The HDI of 1 indicates a high level of human development opposed to a level of 0.

While official HDI statistics are only available on a national and provincial level some economists attempt to estimate the HDI on more detailed levels. Whereas the figures used in this report shows an increase in the national HDI from 0,56 to 0,59, a world report indicates that, while HDI for most countries is improving, most countries in the Post-Soviet area and Sub-Saharan Africa showed a steady decline. HIV/AIDS is seen as the principal cause of the decline in the HDI of Sub-Saharan African countries. The statistics used should therefore be used with a proper degree of caution.

The HDI is as low for Africans living in Oudtshoorn as it is for Africans living in the rest of the country (i.e. 0,53), while it is in general much higher for Africans living in the Western Cape (i.e. 0,58). The Coloured population in Oudtshoorn fare only slightly better in terms of the HDI than the African people living in Oudtshoorn with a local HDI of 0,54 as opposed to 0,62 for Coloureds nationally and an average of 0,60 for three other large towns in the Southern Cape. The White population group, in contrast, enjoys relatively high HDI levels of 0,85 in Oudtshoorn, on par with national and regional levels. While the HDI of whites has remained constant since 1998, it increased significantly for Africans and Coloureds. (*Development Information Unit: DBSA Global Insight database, 2004*).

The slight decrease in the Gini-coefficient of Oudtshoorn from 0,60 to 0,59 echoes the increasing trends in the HDI of the different population groups (*Development Information Unit: DBSA Global Insight database, 2004*).

**Poverty:** The poverty problem in Oudtshoorn has become more acute since 1998 with almost 30% (almost one out of three) of the population living in poverty in 2004 as opposed to 25% (one out of four) in 1998. Although still not on a national level, the percentage of people in Oudtshoorn living in poverty is much higher than the

provincial percentage (23%) and higher than the percentages in George (18%); Knysna (19%) and Mosselbay (25%). The percentage of Africans living in poverty in Oudtshoorn is 50%, compared to 33% of Coloureds and 7% of Whites. However, of the total number of people living in poverty (est. 25 500) an estimated 83% were Coloured, 12% African and 5% White (*Development Information Unit: DBSA Global Insight database, 2004*).

The level of absolute poverty (people living on less than US\$2 a day) is also higher in Oudtshoorn (10% of the population) than for the province (6%) and the major Southern Cape towns (5%) in general, though, lower than the national average of 18%. It was estimated that almost 9 000 people in Oudtshoorn lived on less than US\$2 (about R12) a day in 2004.

## **2.2. The Provincial Spatial Development Framework**

A Growth and Development conference for the Western Cape Province was held at the end of 2003 resulting in the iKapa *Elihlumayo* ('Growing the Cape') initiative.

A study was conducted to inform the Provincial Spatial Development Framework (PSDF) by identifying towns in the province that have inherent development potential and to provide guidelines for the formulation of appropriate policies for places with low growth potential, but where human needs are high. Twelve leader towns were identified for the Western Cape with either "very high" development potential (i.e. Stellenbosch, George, Paarl and Worcester) or towns with "high development potential (i.e. Hermanus, Mossel Bay, Knysna, Wellington, Vredenburg, Oudtshoorn and Malmesbury).

Oudtshoorn town was furthermore identified as a town with High Human Needs as well as High Development Potential. A social and town investment strategy is proposed for the town. Volmoed, Dysveldorp and De Rust were all identified as High Human Needs and Low Development Potential areas. In both cases a social investment strategy is recommended.

## **3. THE FIRST ECONOMY**

### **3.1. General background**

As mentioned earlier, the real growth of Oudtshoorn's first economy was disappointing at 1,9% per annum between 1998 to 2004, especially compared to provincial and national growth rates. Although population growth was lower than the growth of the economy at about 1%<sup>1</sup> per annum, unemployment rates still increased from 24,4% in 1998 to an estimated 29,3% of the labour force in 2004. The unemployment rate is above the current national unemployment rate of about 26,5% and much above the average for the Western Cape Province of 17,6%.

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<sup>1</sup> The lower population growth can be ascribed to the lower representation of the African population as well as lower average growth of the White and Coloured population groups representing some degree of out-migration from the area

The reasons behind the increase in the unemployment rate are twofold:

- While population growth only increased by 1% for the period, the economically active part of the population (aged 16-64) increased at a higher rate of 1,5% per annum.
- The levels of participation within this age group also increased from 57% to 60% with more young people and women offering their services in the labour market. The labour force thus grew at even higher rates of 2,4% per annum for the same period;
- While the economy grew at real average rates of 1,9% per annum, employment only increased at an annual average rate of 1,3% per annum signifying a relatively low absorption of labour. However, this growth pattern is typical of growth patterns nationally due to relatively high labour costs. In Oudtshoorn the economy still fared slightly better in terms of labour absorption capacity than the average national economy.

Between 1998 to 2001, the economy of Oudtshoorn experienced a decline of 0,4% per annum amidst relatively high growth of the labour force of 2,7%. The low growth in the economy is associated with stagnation in the agricultural, manufacturing and construction sectors. Employment opportunities declined at an estimated rate of 0,7% per annum. In 2001, unemployment peaked at almost 32% of the labour force.

From 2001 to 2004, economic growth accelerated to an estimated high of 4,3% per annum while the labour force grew at a relatively lower rate of 2,2% per annum. Employment grew at a slightly lower rate of 3,4% compared to output, resulting in a slight decrease in the unemployment rate of Oudtshoorn from 32% in 2001 to 29,3% in 2004.

The next sections will elaborate on the sectoral composition of the Oudtshoorn first economy, the type of employment opportunities it creates, the geographic distribution of economic activities, major markets, investment by the business sector, social transformation and the potential growth sectors.

### **3.2. The sectoral distribution of economic output**

The table below gives an indication of the sectoral composition of Oudtshoorn's first economy from 1998 to 2004.

**Table 2: The Gross Geographic Product (GGP) at constant 2000 prices: Oudtshoorn, 1998 -2004**

Main sectors	1998		2001		2004	
	R000	%	R000	%	R000	%
Agriculture	302,012	17.9%	305,391	18.3%	326,707	17.3%
Mining	1,084	0.1%	1,062	0.1%	1,500	0.1%
Manufacturing	228,641	13.5%	198,089	11.9%	235,272	12.4%
Electricity	22,419	1.3%	20,755	1.2%	20,239	1.1%
Construction	42,181	2.5%	40,556	2.4%	56,180	3.0%
Trade	263,994	15.6%	268,177	16.1%	328,858	17.4%
Transport	72,134	4.3%	67,102	4.0%	99,479	5.3%
Finance	180,625	10.7%	186,158	11.2%	221,711	11.7%
Services	575,120	34.1%	581,066	34.8%	602,464	31.8%
<b>Total</b>	<b>1,688,210</b>	<b>100.0%</b>	<b>1,668,356</b>	<b>100.0%</b>	<b>1,892,410</b>	<b>100.0%</b>

*Based on information from: Development Information Unit: DBSA Global Insight database, 2004, Stats SA and Eden Municipality RSC levy database.*

The first economy in Oudtshoorn is still characterised as an agri-based regional service and trade centre with the services sector contributing about 32% towards total production followed by agriculture (17%) and trade (17%). The high contribution of services and trade could also be attributed to the relatively large contribution made by tourism to the economy. The manufacturing and financial sectors both contributed about 12% towards the economy followed by transport (5%) and construction (3%). The contribution of the manufacturing sector is low compared to national and provincial contributions of 18% and 16% respectively in 2004. It also compares unfavourably in terms of other major towns in the Southern Cape, e.g. Mosselbay's industry contributing 27% towards GGP and George's 20%.

As was mentioned earlier, the period from 1998 to 2004 could be divided into two growth periods for the economy. The first period from 1998 to 2001 was marked by economic decline with an average real growth rate of -0.4% recorded for the period. It was especially the negative growth in the manufacturing and construction sectors that led to a general decline in economic activity during this period. Most of the other larger sectors such as agriculture and services experienced some growth, albeit low.

The economy entered a definite growth cycle between 2001 and 2004. The growth are currently led by the construction and trade sectors and supported by the transport and to a lesser extent the manufacturing and agricultural sectors. Currently it is especially three external factors namely national interest and exchange rates as well as international reaction to health risks (Asian flu) in the ostrich industry that could well exercise a high influence on the immediate economic well-being of Oudtshoorn.

The structure of the economy remained fairly similar from 1998 to 2004 with the shares the agriculture, manufacturing and services sectors declining slightly whereas the construction, trade, financial and transport sectors gained shares.

A construction-led growth cycle of South Africa is expected to last at least until the Soccer World Cup of 2010. How long this summer will last in Oudtshoorn is debatable - estimates vary from 1 to 5 years. However, while new houses for new

residents have a real and lasting impact on the economy of Oudtshoorn, the construction sector itself is a cyclical, low-wage sector.

The different sectors will be described in more detail below. Although not a traditional sector in terms of Standard Industrial Classification, the tourism sector will also be included in the analysis below.

### **The agricultural sector:**

The climate of Oudtshoorn is favourable for ostrich farming, the production of vegetable seeds as well as niche products such as olives, jojoba, prickly pears, aloes and chilies, The agricultural sector grew at a very low real rate of 0,4% per annum between 1996 and 2001 and increased its growth somewhat from 2001 and 2004 at about 2,3% per annum. The agricultural sector of Oudtshoorn is highly exposed towards the export market due to the large contribution made by ostrich farming and the large percentage of processed ostrich goods that are exported (about 90% of total processed goods) as well as the contribution made by seed farming and the large percentage of seeds exported. It is estimated that about 70% of agricultural income in Oudtshoorn could be directly (seed) or indirectly (ostrich production through processed ostrich exports) dependent on exports. With the South African rand appreciating in value relative to the dollar and other currencies at an increasing rate since mid 2003, the agricultural sector could already have experienced a slowdown since the end of 2003. The negative influence of avian flu will also certainly be visible in data for 2005.

About 612 farmers in the Oudtshoorn municipal area were registered at Eden District Municipality as levy payers compared to 492 in 1998. Total income from farming activities in Oudtshoorn could have been in the vicinity of R1bn in 2004. Farmers are mainly involved in mixed farming with ostriches and seed production dominating overall farming activities. It is estimated that, for the period 1998 to 2004, the ratio of income from ostriches: seed: other farming activities could have been in the region of 75: 23: 2. There are indications that seed production and other farming activities could have increased their respective contributions to farming activities in Oudtshoorn since the early 1990's.

*Ostrich farming:* The ostrich industry is a relatively young (and fluctuating) industry and today's farm stock originates from wild stock that was kept for farming purposes since 1863. The industry originates from Oudtshoorn and achieved its highest export value in 1882 when ostrich plumes were South Africa's most valuable export after gold, diamonds and wool. The market collapsed in 1914 with the outbreak of World War I and the advent of the motor car which made feathered hats impractical. The ostrich industry picked up again after 1945 and since then ostrich breeding, raising and marketing has also become an active industry in other parts of the world including the US, Australia, Canada, China, Philippines and Israel. With intensifying ostrich research as well as promotion and marketing efforts of the different breeders, the demand for ostrich products is increasing in the world market.

Currently most of the farms in Oudtshoorn area are involved in ostrich farming - in varying degrees - with about 150 000 to 200 000 ostriches kept on 500 farms. Roughly calculated, the Oudtshoorn area is home to about 50% of all domestic ostriches in the country with other areas in SA contributing the rest, i.e. an estimated 10% produced by the rest of Western Cape, 34% by the Eastern Cape and 6% by other provinces.

While the highest value of the ostrich originates from leather manufactured from its hide, a very large percentage of the ostrich is processed for its meat, feathers and oils. For the farmer the value of a slaughter bird is broken up as 45% skin, 45% meat and 10% feather. More value is added to the skin along the production line with the values for the ostrich processor being 70 percent for leather, 20 percent for meat and 10 percent for plumes.

In Oudtshoorn, while a number of farms undertake some ostrich processing themselves (e.g. egg decoration, feather dusters and leather products), the first steps towards ostrich processing (slaughter, feather processing, leather manufacturing) are undertaken by the Klein Karoo Corporation (belonging to 1 300 farmers in Klein Karoo, including the area as far as Robertson). This will be further discussed under the manufacturing sector.

Ostrich farmers were severely affected when the European Union (EU), Hong Kong, Singapore and Mozambique banned ostrich (meat, live ostriches and fertile eggs) imports from South Africa after an outbreak of avian flu in the Western and Eastern Cape in August 2004. Although the strain of the virus detected in South Africa, H5N2, is considered less severe than the Asian strain (H5N1) about 30,000 birds (10% of annual slaughter birds) had been culled since the virus was detected in August 2004.

In September 2005, the SA Department of Agriculture gave the industry a clean bill of health, but resuming of exports to the EU (90% of SA ostrich meat exports) will depend on negotiations between the EU and South Africa on government level.

The ostrich industry has attempted to counter the effects of the ban by increasing local consumption of ostrich meat (a 25% increase). However, producers still experienced an income loss of R 600 m due to lower local prices with 4000 (out of 20 000) job losses during 2005. The estimated loss for farmers in the Oudtshoorn area could have been between R100 - R200m (i.e. an estimated 10-20% of total farm income) whereas the loss for ostrich processors could have been in the vicinity of R 100m. It is difficult to access the impact of the avian flu on the number of farm workers employed the Oudtshoorn area, since farming activities in Oudtshoorn are diversified. It is foreseen that contract workers rather than permanent workers on farms could have been affected.

Ostrich farmers in Oudtshoorn and elsewhere are represented in the South African Ostrich Business Chamber (SAOBC). The chamber has recently embarked upon an Ostrivision initiative that, among other things, focuses on improvements in the supply chain and marketing of the ostrich industry. The Chamber also provides direction with regard to BEE-initiatives within the industry. Membership of the SAOBC consists of 600 registered ostrich farms (producers) and 18 abattoirs and tanneries (processors). The producers are being represented by SAOPO (SA Ostrich Producers Organisation) and the processors by NOPSA (National Ostrich Processors of SA).

*Seed farming:* The Little Karoo is also a large seed producing area. Oudtshoorn, in particular, is well-known for its seed farmers and big companies like Mayford, KK Seed and Hygrotec operating in the area. The Klein Karoo Corporation is also involved in the purchasing and marketing of seed.

It is estimated that 90% of South Africa's lucern seeds comes from the Oudtshoorn area. Other seeds include coriander, Japanese radish (cattle feed), onion and other vegetable seeds. Most of the seeds are exported. A large percentage is exported to the US. The onion seeds, for instance, are exported to the US for the famous American hamburger onions. Most recent initiatives include the production of organic vegetable seeds as well as herb seeds.

*Niche markets:* Other farming activities include fruit, capsicum, vegetables, olives, tobacco<sup>1</sup>, small livestock (e.g. "boerbokke"), herbs, flowers, honey and grapes. These activities could jointly have contributed about 2% (an estimated R 20m) to total farm income in Oudtshoorn in 2004.

In Oudtshoorn, the diversification into life-style and Mediterranean-type agricultural products have occurred increasingly in the past ten years with a number of new businesses established in downstream agri-processing, e.g. dried fruit (tomatoes, apricots and pears), dried and pickled chilies, processed olives and olive oils and wine. There are four wine farms/cellars that also forms part of the Klein Karoo Wine Route, as part of the provincial Route 62.

The experimental farm run by Provincial Administration (Department of Agriculture) does research and provides guidance in various new farming activities including olive trees, prickly pears and the growing of jojoba.

Another interesting herb in the area is the (non-indigenous) "sweet root" or liquorice plant that is processed into an extract at the liquorice plant in Dysveldorp.

Niche products currently seem to be marketed domestically. This makes this "sub-sector" less exposed to exchange rate fluctuations than the ostrich processing and seed production industries, mentioned above. The fact that many of the processors were relatively newly established at a stage when the exchange rate began to strengthen (2003/2004), could also indicate that these niche industries may currently be better equipped for the export market.

The development of niche markets holds lots of potential in Oudtshoorn especially the development of products that are not water intensive (e.g. jojoba, prickly pears and indigenous herbs), that are life style and tourism-related (e.g. wine, herbs and olives) and hold some potential in terms of further beneficiation for the development of a small agri-industry hub (e.g. olives, chilies, dried fruit). These industries are also fairly labour intensive and holds more potential for BEE transformation and the development of small farmers. However, expert knowledge of the market as well as a certain entrepreneurial flair are needed to be successful in these markets.

### **Mining and quarrying**

There are about 4 quarries in Oudtshoorn that mostly provide gravel and sand to the brick making industry. The total income from the quarries could have been close to R2m in 2004. The growth in this sector from 2001 to 2004 could therefore be directly linked to the growth in the construction sector. After a slight decline from 1998 to 2001, this sector recorded high real growth of about 12% per annum between 2001 and 2004. The high degree of vertical integration in the brick making industry

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<sup>1</sup> There are indications that tobacco production is, once again, busy increasing again in the Schoemanshoek area

(quarry owners manufacturing their own bricks) could inhibit access of new brick manufacturers to the market and restrict the competitive structure of the industry.

### **Manufacturing:**

The manufacturing industry remained almost constant from 1998 to 2004 with a low growth of 0,5% per annum recorded for this period. However, if the period is separated into two sub-periods, it becomes clear that the manufacturing declined from 1998 to 2001 but grew at relatively high rates of 12% per annum since then to catch up with production levels of 1998 in 2004. There are relatively few factories in Oudtshoorn, especially after the closure of a number of larger factories in the early 1990's, e.g. Bokomo. There is a lack of open space in the industrial area although a number of factories are currently vacant and relatively cheap to acquire. A new industrial area is planned in the vicinity of the golf course.

It is estimated that total income from manufacturing activities could have been about R650m in 2004. The table below gives a rough estimate of the distribution of manufacturing activities in Oudtshoorn. The table illustrates the high contribution made by the agri-processing industries to total manufacturing activities (96%), including ostrich processing, niche product processing, wood processing (based on inputs from coastal areas), meat processing and dairy products.

Although the industry remained fairly constant (in real terms) from 1998 to 2001, ostrich processing experienced relatively high growth between 2001 and 2004. After sluggish growth between 1998 and 2001, furniture manufacturing and brick making also experienced relatively high growth rates during the past 3 years. Metal & steel manufacturing and meat processing (other than ostrich) experienced low growth rates throughout the period. The wood processing industry, on the contrary, experienced relatively high growth throughout. With the establishment of a number of new enterprises the past 3 or 4 years, niche agri-processing has experienced higher growth rates since then.

The large contribution made by the export-orientated ostrich processing industry possibly implicates a slowdown in overall manufacturing activities in 2005 due to the avian flu.

**Table 3: The distribution of manufacturing activities in Oudtshoorn, 2004**

<b>Manufacturing activity:</b>	<b>Contribution to total income</b>
Ostrich processing	86.2%
Wood processing	3.4%
Niche agri-processing (e.g. dried fruit, olives)	3.1%
Meat processing (non-ostrich)	2.6%
Dairy	0.3%
Brickyard	2.5%
Furniture	1.1%
Steel & metal products	0.3%
Other	0.6%
<b>Total</b>	<b>100%</b>

*Based upon Eden municipality RSC levy database and business interviews*

*Agri-processing:* The manufacturing sector of Oudtshoorn is largely dependent on agri-processing industries - with ostrich processing dominating the scene.

Since deregulation of agricultural marketing, the South African *ostrich activities* have spread from the Klein Karoo region (which maintains its prominent role) into the Southern and Western Cape, as well as into the Free State, Gauteng, Limpopo, Mpumalanga, North-West and North Cape. As mentioned above, ostrich farming plays a major role in the Oudtshoorn economy. The downstream ostrich processing industry is dominated by the Klein Karoo Corporation that belongs to 1 300 farmers in the Klein Karoo including the area as far as Robertson. The Oudtshoorn-based KKC generates almost 70% of its total income from ostrich processing.

The value of the total South African ostrich processing industry is about R1.2bn with 90% of total income (before the meat ban) from exports – mainly to the EU, Asia and the US. Leather processing made the single largest contribution (58%) towards total income (R700m); followed by 42% by meat (R500m) and feathers contributing less than R1m (R 0.6m).

Although a number of countries have entered the ostrich industry, South Africa still dominates leather production (79% of total) and meat processing (65% of total). Virtually all feathers (a very labour intensive operation) come from South Africa. South Africa (and Oudtshoorn in particular) still enjoys competitive advantages in the processing of ostriches due to factors such as the favourable climate, early exposure to the product, the consequent development of expertise and intellectual property rights stemming from the registration of designs and trademarks.

The United States is rapidly becoming a primary role-player in leather markets and it is expected that China could play an increasingly important role in labour-intensive ostrich processing such as feather sorting. Separating feathers into more than 200 classes and grades is an extremely labour intensive effort. Exploring possibilities of the beneficiation of ostrich oil from fat, especially for the cosmetics industry, is still underdeveloped in all countries.

The high "hassle" factors associated with entry into the international markets (e.g. health standards and export duties) as well as the high capital requirements serve as natural boundaries to entry the ostrich industry. The supply chain is also long and complicated from production to marketing. The first stage of production involves the incubation of the eggs and raising of chicks. This initial stage is quite labour intensive with low capital requirements and was identified as a suitable stage to involve emerging BEE enterprises. Processing leather and meat requires high capital outlays. Currently only a few abattoirs in South Africa specialise in ostrich, including the dominant KKC in Oudtshoorn and Mosstrich in Mosselbay. Leather processing is also dominated by KKC with Mosstrich in Mosselbay and Exxotan in Eastern Cape as examples of some of the other larger players. KKC also dominates the feather market. A small number of individual farmers has also evolved as prominent individual players in the market involved in all the processing stages and activities.

After the one channel marketing system for ostriches was disbanded in 1993, increased fragmentation and competition threatened volume and price stability in the

industry<sup>1</sup>. Since 1994, the price of leather decreased to a quarter of its 1994 price. The South African Ostrich Business Chamber (SAOBC) was established in 2000 with the aim to ensure the sustainability and profitability of the industry. As was mentioned above, SAOBC consists of producers being represented by SAOPO (SA Ostrich Producers Organisation) and processors represented by NOPSA (National Ostrich Processors of SA). SAOBC embarked upon an Ostrivision project that focuses on generic marketing of the industry, distribution of information and the implementation of an integrated demand – and supply chain approach to stabilise volumes.

As discussed above, with the outbreak of avian flu among ostriches in the Western and Eastern Cape in August 2004, the EU placed a ban on South African ostrich meat, live ostrich and fertile eggs that can be hatched. The ban did not affect ostrich skins, which are used to make handbags, shoes, jackets and other goods. Feathers and egg shells were also exempt. The South African ostrich industry has attempted to counter the effects of the ban by increasing local consumption of ostrich meat (25% increase), producers still experienced an income loss due to lower local prices of R600m and 4000 (out of 20 000) job losses during 2005. The meat ban could have contributed to an income loss for producers in Oudtshoorn of between 10-20% of income (between R100m and R 200m) during 2005. In addition the stronger exchange rate has placed a damper on income from leather and feather exports. The stronger exchange rate has also made it more expensive for foreign tourists to travel to South Africa in general and Oudtshoorn specifically. The decrease in the number of foreign tourists, in turn, had a negative impact on local sales of ostrich goods in Oudtshoorn.

Despite the challenges posed by the exchange rate and avian flu, industry experts remain positive about future prospects for the industry:

- Ostrich feathers are once again in demand in the fashion and entertainment industries, with growing demand from theaters such as the famous Moulin Rouge cabaret in Paris. The Rio Carnival in Brazil uses about 15 tons of Oudtshoorn feathers for costumes - the equivalent of more than 10 000 birds. Plumes are also becoming more sought after to trim expensive shawls and other accessories;
- Apart from its use in fashion and household dusters, ostrich feathers have a variety of other contemporary uses such as for computer dusters;
- Luxury automobiles in the US are increasingly using ostrich leather for panels and seats;
- The opportunity to process ostrich meat for ready-made meals are explored further in the industry;
- Beneficiation of ostrich leather into high value handbags, purses etc for the export market could be developed further;
- The development of ostrich oil and its further beneficiation also hold some further possibilities.

Although the processing of ostrich is mainly restricted to the stages of leather and raw meat processing and sorting feathers, the industry constantly explores further processing as discussed above. Value adding further up the supply chain, especially to leather, is currently also being explored by a number of smaller firms in

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<sup>1</sup> Industry agreements to stabilise the price of ostrich products at high levels could also be considered a high priority in terms of environmental objectives since low yields are related to high number of stock and the consequent over-utilisation of sensitive grazing areas.

Oudtshoorn although the export market still lacks penetration on a large scale. Numerous micro firms (including firms in the second economy) are also involved in the manufacturing and trade of ostrich leather and feather products.

*Wood processing* is the second largest manufacturing activity in Oudtshoorn after ostrich processing. The industry is linked to the forestry industries in the George-Knysna area. The climate in Oudtshoorn is more favourable for the drying of wood than the coastal regions. There is currently only one company in Oudtshoorn operating in this sub-sector.

The other *niche agri-processing* industries were already discussed above and include dried fruit, processed olives and olive oil and wine. There are only a handful of entrepreneurs operating in different niche markets and one community project in Dysveldorp (the liquorice factory).

The red meat abattoir and two meat processing factories dominate the *processing of meat* (other than ostrich) in the Oudtshoorn area. Since a limited number of local stock (especially cattle) is available in Oudtshoorn, the inputs are imported from the broader Western Cape.

*Other industries:* While other industries such as furniture, brick making and metal & steel products only contribute about 4% towards total manufacturing income in 2004, these industries have the largest number of players. The competitive structures of these industries are therefore very high with a number of small players competing. The number of furniture manufacturers is the highest at 24 – up from 16 manufacturers in 1998.

Although there are numerous smaller brick making activities in the Oudtshoorn area, the high degree of vertical integration in the brick making industry (quarry owners manufacturing their own bricks) could inhibit the growth of smaller brick manufacturers. Currently 2 large players dominate the brick making industry.

### **Construction:**

Total income from construction activities is estimated to have been in the vicinity of R200m in 2004. Following the national increase of property prices that gained momentum in Oudtshoorn in 2004, the construction sector entered a growth phase since the second half of 2003. Since 2003, a few high-income residential developments and a hotel development took place in the hospital area (North West) and the Congo route (north central of the town) respectively.

The large number of new (mainly high-income residential) developments in Oudtshoorn (planned and in progress) could indicate that the construction boom will increase momentum in 2005 and could last at least another 2 years. Almost 1000 new residential units are currently being planned or in progress. Two retirement villages are also in the planning stages.

Proposed property developments include the following:

- The largest potential development includes the proposed 500 residential units at the Oudtshoorn Golf course by developers from George and Oudtshoorn. The total project cost is estimated to be in the region of R600 m and is subject to the

completion of an environmental impact study. It will include the upgrading of the golf course, a new club house, conference facilities, a mini hotel and restaurant;

- 93 residential erven (36 security stands) are to be developed at Bergsig by local property developers Kannaprop. Phase 1 (33 stands) is already completed and phase 2 (60 stands) is in progress;
- The development of 66 residential erven Flowerdew Investments at Oewersig close to Bergsig;
- The development of 40 erven at Riempie Village in a residential security development is in progress by a local businessman. Riempie Uitzicht, involves the development of a further 15 residential erven close to Riempie Village;
- In the central town area, the Oxford Terrace residential property development involving 15 town houses is almost completed
- Randstraat-development involves 14 erven and is aimed at the medium-income market;
- Baronie is a prestige security development of 12 erven by two local developers;
- The Riverside Security development next to the Grobbelaarsriver in central town involves an initial 40 units;
- 38 erven are developed for private builders. It is a Victorian-type development;
- The development of 150 Karoo-Victorian style houses west from the hospital extension by Elsefan Enterprises;
- The development of Caves Hotel into a high income retirement village;
- De Pluime development consists of ± 16 units in progress;
- The Klein Karoo Retirement Village & Health Care Centre will involve a luxury retirement village with a modern medical centre. For the development, 119 units are planned (full and shared title) as well as a clinic with 41 rooms and three care units with 23 beds. The development will also have a restaurant, pharmacy, a gymnasium with a heated pool, a heath spa and bar and various sport facilities including a tennis court, bowling court, swimming pool and a club house.

### **Trade, accommodation and restaurants:**

Based upon statistics from Stats SA 2001 and current population forecasts, it is estimated that there are about 22 000 households living in Oudtshoorn earning R60 000 on average per year. The total local household income could therefore be in the region of R1,32bn in 2004. Assuming a joint savings rate of about 0,5% and an average tax rate of 10%, the local disposable income could have been close to R1,18bn in 2004. Based on national ratios and other local data, the disposable household income could have been spent as follows:

- 10% on regional trade;
- 60% on local trade such as household articles, motor maintenance, petrol etc;
- 5% on transport;
- 25% on services such as education, medical services etc.

With 60% of household income spent on local trade, local households could be responsible for about R710m of the total income of the trade and accommodation sector in Oudtshoorn in 2004. *With total trading income in Oudtshoorn estimated to be at least R 1,15 bn in 2004, this means that the rest of trading income (about R 440m) must have been generated by tourism spending and spending by other rural regions in the Klein Karoo (e.g. Ladismith, Willowmore, Prince Albert).* Based on tourism figures for Oudtshoorn, tourism spending could have accounted for about R380m of total trading income, while regional shoppers from the rural areas could have contributed the remaining R60m.

From the above it becomes evident that tourism spending makes out a very high percentage of total trading income in Oudtshoorn (an estimated 33% in 2004). Tourism contributed 100% towards the accommodation industry in Oudtshoorn, i.e. an estimated R105m or 26% of total tourist spending. The contribution towards the total income generated by restaurants, coffee shops and bars could have been as high as 84% or R 48m of total income, representing some 12% of total tourism spending in 2004. The contribution could have been around 70% of total sales of ostrich leather goods and gifts in Oudtshoorn, representing some R40m or 10% of total tourism spending. The tourism sector will be discussed in more detail in a separate section below.

The figures could furthermore suggest that the loss of income from locals buying from other areas in the region might be lower than is generally expected and only involves the higher income groups in Oudtshoorn. These higher income groups generate 50% of disposable income, i.e. income generated by 12% or 2500 households in Oudtshoorn earning more than R100 000 a year<sup>1</sup>.

The table below shows the trading categories for Oudtshoorn by share in total income and by number of enterprises. Motor trade and maintenance by far made the largest contribution to total trading activities and generated almost 33% of total trading income, followed by 13% generated by general dealers and hawkers, 9% by accommodation, 6% by supermarkets and 5% by restaurants, coffee bars and take-aways.

Large numbers of enterprises combined with low contributions to total income reveal a high level of competition in certain categories, e.g. general dealers and cafes, other activities, accommodation, fruit and vegetable trade, restaurants, coffee bars and take-aways.

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<sup>1</sup> The figures suggest that about 30% of income earned by this higher income group could be spent outside Oudtshoorn.

**Table 4: Trade and related activities in Oudtshoorn, 2004**

<b>Type of activity</b>	<b>% of total income</b>	<b>Nr of businesses</b>
Motor trade and maintenance	32.9	113
General dealers and cafes	12.6	397
Accommodation	9.3	111
Supermarkets	6.0	35
Restaurants, coffee bars and take-aways	5.0	103
Agri-trade	5.0	7
Leather and footwear	4.4	24
Medicine	3.4	3
Fruit and vegetables (including hawkers and green grocers)	2.9	738
Plastic, paper and stationary	2.9	15
Liquor store	2.8	28
Hardware (including building materials)	2.3	12
Meat	2.2	46
Electrical and office equipment	2.0	60
Sport and ammunition	2.0	5
Clothing	1.4	33
Furniture	1.1	11
Crafts and gifts and jewelry	0.6	30
Other	1.2	159
<b>Total</b>	<b>100.0</b>	<b>1 930</b>

*Based on information from the Eden municipality RSC levy database*

The largest number of enterprises in the "other" category is in second hand goods (54), home industries (13) and music and video shops (13).

Whereas most trade activities followed the pattern of the whole economy with a slowdown between 1998 and 2001, many activities experienced strong growth between 2001 and 2004 mainly due to lower interest rates since 2002. It is especially trade hardware and construction-related articles that showed strong growth between 2001 and 2004. Interestingly enough, tourism-related articles such as crafts, gifts accommodation and restaurants also showed strong growth between 2001 and 2004. This trend could be dampened with indications of declining foreign tourist numbers mainly due to the strengthening rand since 2003.

The continuous downward trend since 1998 in trade activities of general dealers & supermarkets as well as semi-durable goods such as clothing, furniture and automotive equipment (e.g. tires and batteries) could be indicative of an increasing shift of locals towards these articles in regional commercial centres.

As was discussed under the construction sector above, almost 1000 new residential units are currently planned or in progress in Oudtshoorn. These extensions are moreover planned in the north western and north central (Cango route) of the town. Recently completed developments suggest a relatively large influx of new residents in the higher income group into Oudtshoorn from elsewhere in South Africa. If 50% of new developments are sold to high income "outsiders" this could potentially

increase the total spending on trade in Oudtshoorn with about 3-6% or between R 30m and 60m. This could influence the general trading activities as well as trading in durable and semi-durable articles in the area and provide increased employment for domestic workers such as gardeners and housecleaners.

**Transport:**

Income from transport activities could have been equally distributed between vehicle rentals, goods transport and post and telecommunications with the total income from transport activities estimated close to R100m in 2004. Transport by tourists could have accounted for about R16m of transport income, i.e. about 4% of total tourism spending and 16% of total transport income.

Goods transport and commercial rentals are expected to have showed the highest growth of all the categories due to the construction boom since 2003.

**Financial and business services:**

The largest commercial banks all have branches in Oudtshoorn. The financial sector contributed about 12% towards total economic activity in 2004 and showed continuous growth from 1998 to 2004 mainly due to high growth in income of property investors, surveyors, engineers and accountants/ bookkeepers. Total income from finance and business services could have been in the vicinity of R450m in 2004. Business services could have contributed some 18% towards total income in this sector, i.e. about R80m.

The largest number of businesses is estate agents (30), micro lenders (24) and accountants (20) in the area. Since 1998 the number of new entrants was highest for the accounting business followed by estate agents, insurers, printing activities and attorneys.

**Social and personal services:**

Oudtshoorn has a number of primary and secondary schools as well as the South Cape College providing 3 year National Diploma's and Degree courses.

Apart from provincial government departments and the municipality representing the public sector there are also a number of non-governmental social providers and numerous private social providers. The public sector dominates the services sector, contributing an estimated 88% towards total output.

The total turnover of private social providers is estimated at about R 90m in 2004 with recreational activities contributing about 40% towards total income of private service providers, followed by health services contributing 52%, veterinary services 3% and personal services (beauty and hairdressers) contributing about 5%.

The sector experienced low but steady growth from 1998 to 2004. Private services experienced a mix bag of growth varying from the general pattern of economic slow-down followed by high growth between 2001 and 2004 (personal services and recreational activities) and continuous low growth from 1998 to 2004 (health services).

There are about 36 hairdressers in Oudtshoorn, followed by 20 doctors and 14 undertakers. Large numbers of service providers are also in laundry (10); medicine (8); car washing (7); beauty treatment (7) and dentistry (7).

### The tourism sector:

As was mentioned above, the tourism sector has a high impact on the economy of Oudtshoorn, contributing an estimated 33% towards total income generated by the trade sector in 2004 and 16% of the total income of the transport sector.

For purposes of this study, a distinction was made between 4 types of tourism in Oudtshoorn namely:

- Nature tourism related to the Cango Caves, ostrich farms and nature in general;
- Tourism from the Klein Karoo Nasionale Kunstefees (KKNK);
- Sport tourism based on 4 regular sport festivals in Oudtshoorn each year;
- Religious tourism involving Kruisberg in Dysseldorp.

The table below gives a summary of the type of tourism activities in Oudtshoorn in 2004. The table shows that the total income from tourism for Oudtshoorn was almost R400m in 2004 with the traditional sources of tourism, namely the Cango caves and other natural attractions, contributing almost 76% towards total income from tourism followed by the KKNK contributing 22% and 2% mainly contributed by sports tourism.

**Table 5: Tourism activities in Oudtshoorn, 2004**

Type of tourism:	Duration/ (season)	nr of outside visitors	total spending in local economy
<b>Nature tourism</b>	2 days average stay	250,000	<b>300,000,000</b>
<b>KKNK (central town)</b>	8/9 days (March/April)	120,000	<b>88,759,769</b>
Sport tourism:			
Youth festival	5 days (July)	1,500	2,250,000
Cape gymnastics	2 days (June)	1,600	960,000
Athletics	1 day (Jan-March)	1,200	360,000
Cricket	3 days (Oct-March)	1,200	1,080,000
<b>Total:</b>			<b>4,650,000</b>
<b>Religious tourism – (Dysseldorp’s Kruisberg)</b>	1 day in Easter (March/April)	600	<b>180,000</b>
<b>Total income from tourism</b>			<b>393,589,769</b>

*Based on information supplied by the KKNK, interviews with sport interest groups and tourism figures for the Cango caves*

With the development of the KKNK, sport tourism and religious tourism, Oudtshoorn has expanded its offering to local tourists. Under current circumstances this is an appropriate strategy considering the fact that low interest rates increase the domestic tourism market while the stronger exchange rate makes South African holiday packages much more expensive for foreign tourists.

It is estimated that the larger part of the tourism spending above is spent on accommodation (26%), restaurants and other food outlets (12%), gifts and crafts (10%) and transport (4%). The general retail sector (supermarkets, clothing, entertainment etc) also benefits, receiving an estimated 47% of total spending.

Relating the total spending in the table above to the Gross Geographic Product (GGP) of Oudtshoorn, it is estimated that the value added by the tourism sector is about R200m, i.e. about 8,4% of the local GGP. This percentage compares favourably with

the contribution of tourism to the economy of Cape Town.

*Nature tourism:*

Nature tourism in Oudtshoorn includes a variety of attractions aimed at both the local and foreign market. These include attractions such as the ostrich farms, Cango Caves, Cango Wildlife Ranch, Angora Rabbit Show Farm, Meiringspoort, De Rust and Vrede waterfall and nature reserves.

Internationally recognised conservation efforts (e.g. Meerkat farm and Cango Wildlife Ranch Cheetah) illustrate high compatibility with the foreign tourism market.

As part of a provincial strategy to increase the number of tourists to the Western Cape from 1m to 3m a year, the Destination Marketing Organisation was established with the strategy to lure tourists to Cape Town and then entice them to venture into the hinterland through the development of tourism routes.

Route 62 was developed as the longest wine route in SA and it includes the Klein Karoo Wine route and other attractions as part of the Destination marketing drive. The Cango Valley, has been identified as a major growth corridor for tourism investment along the R62 route. Route 62 is marketed as the tourist route that meanders between Cape Town and Oudtshoorn, the Garden Route and Port Elizabeth, offering the shorter, scenic alternative to the N2 highway.

The total number of "nature-based" tourists to Oudtshoorn was estimated at 246 000 in 1998. From 1998 to 2001, the number of these tourists has steadily declined to 219 700. While the number of domestic tourists to the region has steadily declined from 159 000 in 1998 to 106 000 in 2001, the weak exchange rate encouraged foreign tourists to visit SA and foreign visitors to Oudtshoorn increased significantly with almost 30% from 87 000 in 1998 to 113 000 in 2001.

From 2001 to 2003 both the number of foreign and domestic visitors increased to Oudtshoorn. The decrease in interest rates amidst the then-still relatively low value of the Rand could have contributed to the increase in domestic tourism. In the meantime, the relatively weak exchange rate at the time still made it a proposition for foreign tourists to visit South Africa.

Between 2003 and 2004 the strengthening rand could have contributed to the definite decline in foreign tourists with more than 10% from 124 000 in 2003 to 112 000 in 2004. The small increase in the number of domestic tourists from 116 600 to 117 000 somewhat softened the decline. There are, however, indications that both domestic and foreign tourism figures will be lower in 2005 than it was for 2004.

Tourism experts blame the current situation on a lack of generic marketing on a provincial as well as district level and the need to put pressure on these generic marketing drives. (Rutherford, D. August 2004).

*The KKNK:*

The KKNK began in 1995 after the initiative of local businessman, Nic Barrow and Andrew Marais, to create an Afrikaans version of the Grahamstown festival. Since then the number of visitors have increased significantly. Ticket sales increased from 30 300 in 1995 to about 191 252 sales in 2004. It is estimated that the number of

visitors increased from about 108 000 in 2003 to 125 000 in 2005. Most of the visitors come from other regions within SA (especially from Cape Town, Port Elizabeth, Stellenbosch, Paarl, Johannesburg and Pretoria) with maybe 1% overseas visitors.

In 2005 the festival hosted 159 productions, 20 exhibitions, 27 talks, 7 special events and 1 workshop. There were almost 600 stalls selling a variety of goods. Since it is a national festival, 534 or 90% of stalls were allocated to traders from outside Oudtshoorn while 49 or 8% were assigned to locals. An extra 12 stalls (2%) were allocated to BEE groups.

The festival is mainly a national Afrikaans festival but is still mainly attended by white festival goers (89%) while only 9% of festival goers are Coloured.

Although no permanent jobs are created during the festival, the mere 8 to 9 days that the festival is running, increases the local trade sector's income with almost R90m, i.e. an estimated 7,8% of the total trading income of Oudtshoorn. Expected and realised increases in festival income could have led to the creation of additional businesses and extra jobs in the area. Estimates of additional jobs created by tourism in general will be discussed in more detail in the section below.

A survey conducted amongst 100 people found that the local community (including the Coloured community) is very positive about the festival and sees it as a potential source of income, creating a sense of belonging and having educational and entertainment value (Saayman, 2003).

### **3.3. Employment opportunities**

As was mentioned earlier, although output levels increased at an average annual rate of 1,9% between 1998 and 2004, employment grew at a lower annual rate of 1,3% resulting in an increase in unemployment of 24% in 1998 to 29% in 2004.

The educational levels of the adult population of Oudtshoorn compares favourably with national statistics, but is far lower than compared to metropolitan areas such as say Cape Town. The table below illustrates the level of schooling for the adult population of Oudtshoorn.

The table indicates that the number of people without schooling declined from 10% to 9,7% in 2001 (compared to 14% - national and 3,5% - Cape Town). People who completed primary schooling declined slightly from 42,5% in 1996 to 41,5% in 2001. People with secondary education increased from 50 to 52% in 2001. However, the number of people with tertiary education decreased from 7,5% to 6,7% (compared to 3,6% nationally and 10,6% in Cape Town).

**Table 6: Level of education, Oudtshoorn, 2004**

<b>Highest education levels attained by 20+ year olds</b>	<b>1996</b>	<b>2001</b>
No schooling	10.0%	9.7%
Some primary	22.4%	21.9%
Completed primary	10.1%	9.8%
Secondary	33.9%	32.2%
Grade 12	16.2%	19.6%
Higher	7.5%	6.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Stats SA, 1996 and 2001

The Oudtshoorn skills base has shifted towards semi-skilled (secondary education) levels. The economy employed a higher percentage of semi-skilled workers (25,7% in 2001 as opposed to 25,3% in 1996). However the largest shift has occurred in the percentage of skilled workers (especially technicians) employed from 18% to 20% of total employment. The percentage of unskilled jobs has declined from 57% in 1996 to 54% in 2001.

From the above it becomes clear that tertiary education is one of the priorities in terms of employment creation in Oudtshoorn.

The South Cape College falls under provincial administration and is the Further Education College in Oudtshoorn. The College offers three year higher education programmes in tourism, secretarial services, finance, marketing as well as bridging courses for university in association with the Cape Town University of Technology. The College grants 46 bursaries a year. There are currently 485 higher education students enrolled.

Apart from tertiary education, the College also offers 26 evening classes in Further Education and run 6 learnership programmes including learnerships in furniture production, furniture incubation, secretarial administration, Early Child Development, junior farm management and farm work. An estimated 160 learners are currently involved. Learnerships are developed through the program unit, reacting upon industry needs and developing programs suitable for specific industries.

A national training centre was recently initiated in Oudtshoorn with focus on national skills needs especially related to industry, e.g. carpentry and bricklaying. However, the center will also focus on basic adult education such as Early Child Development and nutrition. The facility will be available to stakeholders in education and training such as the South Cape College.

Some skills shortages that were recorded in the surveys include:

- Basic customer relations
- Glass fitting (motor vehicles)
- Aluminium work
- Heavy vehicle licenses
- Accredited bricklayers
- Plumbers
- Electricians
- Meat cutting

- Basic business skills
- Marketing
- Computer skills

Apart from the industry-related shortages listed above, a skills shortage (cutting across all sectors) that was mentioned on more than one occasion was basic customer relations.

The high contributions of the agricultural, construction and services sectors compared to their output contributions, indicate to the labour intensivity of these sectors. The most labour intensive manufacturing industries are wood processing, niche agricultural products such as dried fruit and olives, furniture and brick making.

**Table 7: Employment in Oudtshoorn, 2004**

Sector	1998		2001		2004	
	nr	%	nr	%	nr	%
Agriculture	4,510	21%	4,532	22%	4,878	21.1%
Mining	22	0%	24	0%	28	0.1%
Manufacturing	2,300	11%	2,004	10%	2,774	12.0%
Electricity	129	1%	90	0%	90	0.4%
Construction	1,518	7%	1,213	6%	1,659	7.2%
Trade	3,525	16%	3,537	17%	3,880	16.8%
Transport	620	3%	559	3%	641	2.8%
Finance	1,044	5%	1,198	6%	1,202	5.2%
Services	7,715	36%	7,749	37%	7,949	34.4%
<b>Total</b>	<b>21,383</b>	<b>100%</b>	<b>20,906</b>	<b>100%</b>	<b>23,101</b>	<b>100%</b>

Source: Based upon data from Eden municipality RSC levy database and Stats SA 1996 and 2001

While some sectors largely create “jobs” for “labourers”, others provide “careers” for “employees”. The working conditions and prospects of these two groups differ vastly and determine to a large extent the ability of a sector to provide “decent work” .

The difference in working conditions is as follows:

**“employees”**

- Career orientated
- Upward mobility
- Clean and healthy working environment
- Exposure to modern technology
- Inter-disciplinary
- Exposed to customers
- Availability of training and self-betterment to improve the productivity of the company

**“labourers”**

- Job orientated
- Little possibility for promotion
- High transport costs due to home being far away from the work place
- Seasonal/contract
- Often health risks in working environment
- Exposed to elements
- Replaceable with machines
- Repetitive work

Keeping the different types of employment above in mind, the different sectors are discussed below in terms of provision of decent work in Oudtshoorn.

The **agricultural sector** mainly provides “jobs” as opposed to “careers”. Wages paid by the *agriculture sector* are the lowest of all the sectors. Employment opportunities are also relatively unstable with only about 20-30% of workers having permanent

positions as opposed to contract work that lasts about 3 to 4 months from April-June. Although the sector's total job opportunities increased since 1998, there are indications that the composition could have changed with the number of permanent workers on farms around Oudtshoorn remaining constant or even declining since 1998, while the number of contract workers employed increased. This situation indicates a trend of contract farm workers living further away from the area of work.

The experimental farm run by provincial administration provides a variety of training courses throughout the year for the Cape Institute for Agricultural Training, e.g. technical courses such as soil preparation and plant nutrition as well as courses for specific products such as deciduous fruit, poultry farming and goat farming. The courses are presented to small emerging farmers as well as workers. The South Cape College also has two learnerships involving 80 farm workers (almost 2% of farm workers in Oudtshoorn). One of the courses is moreover aimed at the technical aspects of farming such as tractor maintenance whereas the other concentrates on junior farm management. Although there are a number of courses in entrepreneurship, financial management and marketing, these courses are very short (3-4 days) and still falls behind the levels of technical knowledge that workers acquire through years of experience on farms. As was mentioned earlier, niche products currently provide lots of potential in Oudtshoorn. However, these products require specific knowledge about markets, capital and entrepreneurial skills.

The Klein Karoo Agri Business Centre opened August 2004 as a joint initiative between KKC, ABSA and the Land Bank. The centre assists entrepreneurs, and especially people from previously disadvantaged communities who have feasible business concepts, in evaluating and developing their ideas. The task of the Centre will amongst others be to develop business plans, identify possible financing for specific projects and training and mentorship for new role players in agriculture in the region.

While a small number of transformation initiatives have already taken place in the agricultural sector, the more successful ones involve BEE groups partnering with established white farmers inter alia through shares in an existing farm with skills transfer built into the contract (and a possibility to eventually acquire majority shares in the farm). However, there are very limited examples of such contracts in Oudtshoorn. Some of the current initiatives will be discussed in more detail below.

The **manufacturing sector** provided almost 2 800 employment opportunities in 2004. Although a larger part of these opportunities also involve "jobs" rather than "careers" the work conditions are, in general, better than in agriculture with more opportunities in terms of training and promotion – with the possible exception of niche agri-processing and brick-making.

The KKC alone provided almost 34% (955 jobs) of the total manufacturing jobs in Oudtshoorn. The ostrich processing industry pays relatively higher wages than the other manufacturing industries though it is not as labour intensive. The most labour intensive manufacturing industries are wood processing, niche agricultural products such as dried fruit and olives, furniture and brick making.

Since manufacturing activities in Oudtshoorn are also strongly linked to agri-processing (ostrich, wood, fruit, olives, chilies) it is expected that the manufacturing sector will also involve a number of seasonal/contract workers. It is estimated that

about 53% of workers are employed on a permanent basis whereas 47% are on contract. The manufacture of niche agricultural products is exceptionally seasonal with a high percentage of contract workers – as high as 80% of total employment.

The manufacturing sector employs a large percentage of semi-skilled labour that is mostly trained in-house according to specific procedures. A few general skills shortages were recorded in the manufacturing sector including licenses for heavy vehicle drivers. The only learnerships currently running in the manufacturing sector involve furniture production (40 learners) and the incubator in furniture (10 learners) - despite the furniture sector being a very small and competitive sector in Oudtshoorn. There is furthermore also a fair degree of in-house training in furniture manufacturing ensuring a degree of upward mobility in this industry. The ostrich processing industry provides a high degree of in-house training to staff. The meat processing industries (ostrich and other) also recorded a high degree of in-house staff training although some definite need was registered for people skilled in the cutting of meat. Due to the relatively low skill levels required, the upward mobility and training opportunities are virtually non-existent in the niche agri-processing industries and brick making.

There are an estimated 70-100 private contractors (electricians, builders, plumbers, architects, surveyors, drawers etc) working in the **construction sector** of Oudtshoorn. They employ about 1 550 people among them, i.e. an average of about 16 persons per contractor. The industry is highly individual with private contractors experiencing a high degree of autonomy. The industry has high risks due to its cyclical nature, large percentages of cash involved etc. The industry, in general pay low wages and due to the relatively low skills base of building-site workers often provide a second employment option to low-wage agricultural workers. However, the industry provides an ideal opportunity for smaller contractors to gain experience in project management and is an ideal opportunity to nourish entrepreneurial talents. The challenge is to develop skills gained during a construction boom and to link it to other less-cyclical industries, e.g. linking carpentry skills to furniture manufacturing. Whilst in a growth phase, skills shortages include experienced plumbers, electricians and accredited bricklayers.

Wages in the **trade sector** are usually higher than in the agricultural and construction sectors but not as high as the financial, personal and community services sectors. Almost 4 000 people were employed by the trade sector in Oudtshoorn. Of these an estimated 1 300 people could have been directly dependant on the tourism sector. Adding another 100 jobs in the transport sector that could have been directly dependant on the **tourism sector**, it becomes clear that tourism contributed about 1 400 or 6% towards total employment opportunities in Oudtshoorn in 2004. This contribution is slightly lower than its contribution to output (8%) and indicates to the relatively higher wages that occur in this sector. The opportunities created by the trade sector are mainly semi-skilled and unskilled with low percentages of managerial, professional and technical employment opportunities.

Most of the training in the **tourism sector and trade sector** in general occur in-house and the restaurant sector is a valuable provider of *temporary jobs for the youth to ease initial entry into the labour market*. Almost 60 new businesses directly related to the tourism industry were established in Oudtshoorn since 1998 including about 28 new guest houses, hotels and pubs and 30 new restaurants and fast food outlets. Assuming an average of about 4 employment opportunities created per

business the tourism industry could conservatively have led to about 240 new jobs in Oudtshoorn since 1998, i.e. about 14% of the estimated 1 700 new jobs created in Oudtshoorn between 1998 and 2004.

The higher wage **financial and services sectors** employed about 9 000 people in Oudtshoorn in 2004 with the majority employed in the services sector, i.e. almost 8 000 people. The majority of the people employed by the services sector are employed by the public sector (almost 65% or about 5000 people in 2004). Of the estimated 5 000 civil servants, Oudtshoorn municipality employs almost 500 people, i.e. 10% of the estimated 5 000. The other people are employed by the hospital, schools, and provincial departments of government. There is a range of employment types in these sectors with, in general typical "career" type work found in the financial and business services sector. On a national level, the services sector also recorded high levels of career orientated work such as managerial, professional and technical work although a slightly lower percentage than the financial sector.

**Summary of type of work per sector:**

Five indicators were chosen as proxy to distinguish a "career" orientated sector from a "job" orientated sector. National ratios complimented local information to establish some qualitative model to evaluate the different sectors in terms of the provision of "decent" work opportunities:

**Table 8: Classification of sectors according to working conditions**

Sector	High % of skilled workers	Employing vulnerable groups (e.g. youth and elderly)	Possibility of upward mobility including potential training	Full-time employment	High average wages
Agriculture					
Ostrich manufacturing					
Wood-processing					
Niche agri-processing					
Furniture manufacturing					
Brick-making					
Construction					
Transport					
Trade and Tourism					
Financial and business services					
Social and personal services					

As could be expected, the table shows better working conditions in the tertiary social and personal services and financial and business services. While the social and personal services sector fares best in terms of working conditions, it should be kept in mind that almost 90% of employment in this sector is provided by the public sector. The financial and business services and transport also fare relatively well in terms of working conditions. It could be assumed that manufacturing activities higher up the value chain would also provide more favourable working conditions than lower value added manufacturing activities.

The services, financial and transport sectors jointly contributed more than 42% towards total employment in 2004 with almost 30% of employment provided by the public sector. While employment in the services sector grew at a low rate of 0,5% per annum, employment in the transport and financial and services sectors grew at a relatively high rate of 1,7% per annum between 1998 and 2004.

### **3.4. Geographic distribution of economic activity**

*Oudtshoorn town, Bongulethu and Bridgton:* The town is strategically located at the nodal intersection of a number of major routes: to Prince Albert and the N1 route, the N12 to Beaufort West in the north, and to the Coastal region and George in the south, the N9 to Uniondale/Eastern Cape region in the east, the R328 to Mosselbay in the south-west, and the start of the very popular R62 tourism route to Calitzdorp and Worcester westwards. The town's nodal position in relation to access routes contributes towards its functional role as a regional service centre.

Commercial activities are centred in the town of Oudtshoorn with a concentration of retail activities around Baron von Rheede Street. Since many new residential developments occur in the north central part of the town (on the Cango route) it is expected that some commercial expansion will follow in that area.

A large number of residential units are completed or in progress in the north western parts of the town (hospital extension) on route to Calitzdorp. The commercial area servicing those areas is relatively small but Queenspark in Voortrekker Street is also in close proximity.

With the proposed golf estate development, residential expansion will occur to the north eastern parts of the town. Further commercial expansions could therefore be expected in the northern eastern and central parts of Oudtshoorn.

The industrial area is mainly located in the south of Oudtshoorn town (east and central). Approaching the town from George in the south, the industrial areas are located mainly to the east adjacent to Bridgton and Bongulethu. There are a few scattered retail areas in Bongulethu and Bridgton, mostly spaza and second hand shops. A number of tourism related activities developed in the Bongulethu/Bridgton area the past few years. These will be discussed in more detail under empowerment initiatives below.

In general, Oudtshoorn is uniquely placed in terms of tourism with all roads from Oudtshoorn offering unique tourism attractions. Entering the town from the coastal regions in the South, traveling north places the visitor on route to the Cango Caves, the Rust and Vrede Waterfall, The Kango Wildlife ranch and a variety of other attractions. Since the 1990's the route to the Cango caves developed increasingly with guest houses and other tourist attractions all along the road. The Cango RDP (2003) specifically sought to address the coherent development of the Cango route into a tourism corridor.

Although the Cango route might dominate in terms of the number of tourism activities, the other routes from Oudtshoorn town are gaining equal importance in terms tourism attractions. The R29 to the east is on the main road to Beaufort West (and further inland) and passes Dysseldorp and De Rust before entering

Meiringspoort. To the west the road leads to Calitzdorp and Cape Town. The highway forms part of the route 62 destination drive and includes the Klein Karoo Wine Route (including Doornkraal, Mons Ruber on route to Meiringspoort; Kango wines inside town, and Grundheim on route to Calitzdorp).

*Dysseldorp:*

Dysseldorp is halfway between Oudtshoorn and De Rust on the R29 route to Meiringspoort. Because of close proximity to Oudtshoorn, the town's economy has not developed and the town is largely dependant on Oudtshoorn for goods and services. There is a small industrial hub close to the entrance from the main road – turning south from the highway. The industrial "hub" includes the Dysseldorp liquorice project, a small brick-making business and a feather-sorting project.

There are a small number of other economic activities inside town including the Kolping training centre, a shopping mall and a filling station. Some 56 shebeens are reportedly also active throughout the town. The fruit drying factory are located on the southern part of the town.

The town is surrounded by private and communal farmland that could be classified as spekboom veld with low grazing capacity. The agricultural activities that dominate include lucerne, vegetables and seed production.

*De Rust/Blomnek:*

The only economic activities in De Rust include mainly tourism related activities (gift and coffee shops, guest houses and restaurants) along the main road from Oudtshoorn. There is also a small commercial centre in Blomnek.

De Rust is also currently experiencing a mini property boom based on selling of properties to city slickers or foreign buyers.

The number of commercial/industrial ratepayers in Oudtshoorn is roughly 90:5:5 for Oudtshoorn town: Dysseldorp: De Rust.

While Oudtshoorn town is classified as a first order node (main town); Dysseldorp and De Rust are classified as third order nodes. Oudtshoorn municipal area furthermore also has two rural nodes in Volmoed (west) and Schoemanshoek (north) and two settlements in Spieskamp and Vlakeplaas.

### **3.5. Forward and backward linkages of major sectors**

According to export base theory, the extent to which a business make sales outside the town can be regarded as a measure of its contribution or importance to the growth of the town. Such activities bring new capital into circulation in the town by attracting it from outside and could be considered a *basic economic activity*. Other activities are more focussed on meeting the needs of the local inhabitants and thus simply keep money that is already there in circulation, so-called secondary, and service, internal or *non-basic economic activities*. If the basic activities of a city expand, a chain reaction (or multiplier effect) takes place, which also increases non-basic activities and thus leads to growth in the town.

For purposes of this study an analysis of the markets of each industry will assist us to make an observation in terms of the nature of each industry (basic/non-basic). Sectors with forward linkages to foreign export markets will furthermore be rated higher than sectors with regional markets outside Oudtshoorn, since they would also contribute to national objectives to earn foreign exchange. One could also assume that sectors that make more use of local inputs and hence have strong backward linkages to the local industry would have greater multiplier effects than a sector that makes use of inputs from elsewhere.

The table below gives a summary of the different sectors in terms of backward and forward linkages.

**Table 8: Backward and forward linkages in Oudtshoorn economy, 2004**

Sub-sector	Local exports	Foreign exports	Backward linkages to local industry
Seed processing	Exports to rest of Western Cape and Gauteng	80% plus of seed production is exported to US; Asia and EU	Gets seed from as far as Ceres and Cape town – about 60% -70% from local farmers
Ostrich production	Low	Low	High – about 70-80% local inputs
Ostrich processing	Exports throughout SA	85% of production is exported to EU, Brazil and Asia	High – about 80% local inputs
Wood processing	Exports to rest of Western Cape	20% of production to Mauritius	Low – 100% from inputs from George area
Dairy products	High	Exports 70-80% to US	Medium
Niche agricultural products	High – Possibly more than 90% of output is currently sold outside. Cape Town and Johannesburg were also mentioned as current markets.	Low- possibly less than 5% of output is exported (i.e. dried chillies to Germany) but the whole industry has potential to increase its exports	Medium: Almost 45% of inputs could be local and varies with type of product: (for example) Dry tomatoes -100% Chillies – 70% Olives -10% (growing) Apricots & pears -10% Liquorice -100%
Furniture	Medium to high – a large percentage of output could be exported to the larger Western Cape	Low. No furniture exports were recorded from Oudtshoorn	Low - large quantities of inputs are acquired from Karoo and coastal regions
Brick making	Low – about 90% of output is provided for local industry	Low	High
Meat processing (not ostrich)	High – about 70% of output distributed in the larger Western Cape	Low	Low - Less than 30% of inputs are acquired locally
Construction	Medium: Some contractors are currently involved in work outside the region. Regional work - about 30-40% of income.	Low	High backward linkages to the local industry.
Wholesale and retail trade	About 15% of income could come from domestic tourists	About 15% of income could come from foreign tourists	Low - it is estimated that contribution of local procurement could have been in the region of 25%
Accommodation	About 50% of income from domestic tourists	About 50% of income from foreign tourists	Medium - about 50% of inputs procured locally
Restaurants and pubs	About 40% of income from regional tourists	About 40% of income from foreign tourists	Medium - about 50% of inputs could be procured locally

Sub-sector	Local exports	Foreign exports	Backward linkages to local industry
Financial services	Low/medium: Most commercial banks are regional branches for the Klein Karoo with 20-30% coming from the region.	Low	Low - procurement for banks is done from head offices elsewhere. With 100% local inputs from business services, only about only 20% of sector inputs will be local
Services	Low/medium: Being a regional service centre to the rest of the Klein Karoo 20% of income on services could have originated from the broader region	Low	Medium. Most (60% and more) of inputs apart from e.g. sophisticated medical equipment are acquired locally.

Source: Based upon business interviews, South African Revenue Service: Customs and Excise data (2005) and Eden Municipality RSC levy database

Combining the three requirements summarised in the table above it becomes clear that three high impact sectors in Oudtshoorn are:

- Seed processing
- Ostrich processing
- Dairy products

Although wood processing fares quite well in terms of external markets, the industry makes limited use of local inputs and was therefore excluded from the list.

The economy of Oudtshoorn is, in general, very open with an estimated R650m value of goods exported in 2004. Earnings from exported goods represent almost 40% of the joint income from agricultural and manufacturing activities in 2004 and could be as high as 15% of total income generated in Oudtshoorn. Exports of both ostrich meat (28%) and leather (28%) are estimated to jointly have contributed 56% to exports in 2004, followed by vegetable and other seeds (28%); ostrich feathers (15%); processed wood (1%) and cheese (0,3%). Exports for 2005 could drop with almost R200m due to the ban on ostrich meat that followed the avian flu.

With foreign tourism contributing about 3% towards GGP and goods exports contributing almost 15% to total turnover generated in Oudtshoorn, the downside is that the economy is susceptible to external shocks such as changes in the exchange rate, health standards and international terrorism.

If stability should become a priority and exposure to foreign markets is not necessarily regarded as desirable, then choice of high impact industries could change to the following:

- Niche agricultural products
- Construction
- Accommodation and restaurants, pubs etc with a focus on domestic tourism

Medium impact industries that could be added to the list include:

- Furniture
- Meat processing
- Wood processing

- Brick making

### **3.6. Investment by the business sector**

The ratio of fixed investment is generally low in South Africa at about 17% as opposed to the required 25% of GDP. This could mainly be ascribed to the low levels of public investment. The private sector has contributed 75% of all new capital formation in the country the last four years. The government's R180bn investment programme is still behind schedule. It is considered that the next phase of development will have to be at a local economic level since investors invest not in SA in general but in a local area with a local authority. Low domestic savings have furthermore also inhibited investment levels.

Despite low corporate savings in general there are indications that the private sector in Oudtshoorn, in reaction to low interest rates, has definitely increased investments the past 3 years. Of the total number of firms surveyed (33), 61% or 20 have increased their investments in their enterprises the past 5 years. Of these 61% respondents, a mere 15% only invested in vehicles, 60% invested in equipment or machinery and 25% were newly established businesses. Of the 15 established businesses that invested in vehicles, machinery or equipment, 67% or 10 also employed more workers. This suggests that only a small degree of labour replacement occurred due to increased investment in capital.

All firms surveyed ranked "lifestyle" highest as a reason to establish a business in Oudtshoorn. Of the reasons listed, 32% claimed that "lifestyle" was the reason they located to Oudtshoorn, 26% listed "proximity to inputs" as the main reason for their location, followed by 23% listing "being born and bred" in Oudtshoorn as primary factor. Other reasons include "market gap/opportunity" (16%) and the central location of Oudtshoorn - being located between Cape Town and East London (3%).

Of the 20 respondents that increased investments in their own enterprises above, almost half (9) indicated that they also invested in other activities in Oudtshoorn. These investments were mostly made in residential development and to a lesser degree commercial property. Other investment groups such as the Klein Karoo Fund (consisting of a group of private investors in Oudtshoorn and environs) are becoming increasingly interested in property investments in Oudtshoorn as next area of growth after the coastal regions of the Garden route. There are already a number of outside groups involved in residential property developments in Oudtshoorn (e.g. the proposed Golf estate development). The next phase may well be increased investment in commercial property.

### **3.7. Social transformation:**

*Background:* Like many other towns in South Africa the production structure is still dominated by whites. The skew distribution of income as well as assets will be discussed further under the poverty section below. This section will focus on the recent progress made by the first sector with regard to social transformation:

Although still unconcluded, the revised BEE code is certain to establish a separate scorecard for Qualified Small Enterprises (QSE's). Although the size of a "small enterprise" is still to be determined, it is fairly certain that most of Oudtshoorn's

businesses will fall under this category with employment levels of less than 50. Micro businesses (with VAT exemption) will be exempt from adherence to the codes.

With ownership expected to carry a relatively smaller weight for smaller business, one could expect that the business sector in smaller towns such as Oudtshoorn would rather concentrate on developing BEE management, BEE enterprise development, procurement and human resource development. The LED process should give support and leverage to the BEE transformation process in the business sector. Since many established enterprises consider themselves too small for ownership sharing, exploring new BEE businesses opportunities is expected to play a large role in local economic development strategies.

The codes will be enforced at all government levels mainly through the application of scorecards in the procurement process and, to a lesser extent, by other means such as decisions related to the granting of business licenses. With these weights in place, local government plays a crucial role in the application of scorecards.

Of the total number of businesses surveyed, 84% were white owned and 16% enterprises owned by previously disadvantaged individuals. 13% of the respondents have already done some score carding with some degree of ownership transfer (or BEE management in place) while 19% was in the process/planning process of ownership transfer (mostly involving up to 30% ownership by a worker trust). Although 13% of respondents has no intention to actively pursue BEE ownership, they regard social investment and preferential procurement in a serious light. Only 14% of respondents were not interested in the process at all.

Considering the lack of progress with regard to BEE transformation, the majority of respondents (55%) considered the lack of appropriate candidates as the main problem, followed by the limited availability of funds to finance these deals (27%) and the fact that the business is a small family business (18%).

The detail of current black economic empowerment projects in Oudtshoorn will be discussed under the respective sectors:

*Agriculture:*

As was mentioned above, the Klein Karoo Agri Business Centre opened August 2004 as a joint initiative between KKC, ABSA and the Land Bank. The centre assists entrepreneurs, especially people from previously disadvantaged communities who have feasible business concepts, in evaluating and developing their ideas. The task of the Centre is to develop business plans, identify possible financing for specific projects and develop training and mentorship for new role players in agriculture in the region. The provincial department of agriculture is also responsible for assisting emerging BEE farmers.

While a small number of transformation initiatives have already occurred in the agricultural sector, the more successful ones involve BEE groups partnering with established white farmers, inter alia through shares in an existing farm with skills transfer built into the contract (and a possibility to eventually acquire majority shares in the farm). Some examples include:

- A partnership between a established game/ostrich show farm (Chandelier) to develop black tour guides while a black empowerment group decorates ostrich eggs;

- Olienhouts Kloof BEE farm project close to Dysveldorp was initiated by established farmer Manie du Plessis. 49% of ownership was transferred to farm workers, and has operated successfully for the past 4 years in terms of financial sustainability and skills transfer. The established farm provides training and support and has indicated willingness to extend help to small farmers.

With the escalating prices of agricultural land and an average land grant of about R20 000, almost 80 eligible individuals (PDI's that do not work for the public sector) are needed to buy an average priced farm of R1-2m. Political complexities associated with the large size of such groups are typical problems encountered with these communal farming projects. A number of these projects are currently operational in Oudtshoorn:

- Blommetjieskloof (Schoemanshoek area) involve 30 farmers that farm with goats and sheep on poor quality soil;
- Groenfontein/Kombuisplaas (Schoemanshoek area) involve 47 women;
- Kopboere (Volmoed area) involves about 30 herb farmers;
- Waterval/Toekomsrus farmers involve about 30 people;
- Dysveldorp farmers association farms with lusern and goats;
- Five goat farmers have a partnership with a farmer close to De Rust where they trade grazing rights for casual labour

Critical institutional factors to consider for these emerging farmer projects include:

- An improved system of evaluating candidates;
- An improved system of training, also with regard to market and financial analysis;
- Linking the emerging farmers to an established businesses, e.g. buying a minority share of an existing farm with the established farmer providing training and preparing the farmers for majority share;
- A smaller group of owners (5- 10 people).

#### *Manufacturing:*

In the *ostrich-processing industry* the Klein Karoo Corporation is actively addressing its BEE scorecard. Given the fact that the corporation is owned by farmers and the fact that the agricultural sector is still mainly untransformed in terms of ownership, the KKC focuses its BEE strategy moreover on BEE management and social responsibility through black enterprise development. At present 10% of senior management at KKC is black and it has 10 Coloured members (out of 1250).

In terms of enterprise development, KKC is already involved in the Red Door enterprise development project as well as the Klein Karoo Transformation Company as was disused above. Other projects in Oudtshoorn that it is involved in are the Klein-Karoo Feather sorting project in Dysveldorp (employing 100 people). The incubation and growing phases of ostriches were identified as the more realistic phases for emerging farmers to enter the capital intensive and risky production chain of ostrich processing. As part of an individual farmers programme, KKC donates chickens to workers, provide assistance with feed, provide mentoring and buy mature slaughter ostriches from workers. In Oudtshoorn, the "Women in Ostrich" project (working through KK Transformation Company) aims to lease a piece of land and train women to raise ostriches.

*Niche agriculture processing:* Developed by the CSIR, Dysseldorp liquorice was funded by the Provincial Department of Finance, Economic Development and Tourism. It is a community project that employs 5 full-time workers operating the extraction plant and 150 seasonal workers harvesting the "sweet root" or liquorice plant from the banks of the Olifantsriver. The project is almost operational for 11 years and currently provides some 20 ton of extract to British American Tobacco in Stellenbosch. An essential oils distillery was recently installed on the premises for the extracting oils from thyme and rosemary. Two extra full-time workers will be employed at the essential oils plant.

*Meat processing:* The large meat-processing plant, Themcor, has recently become 100% BEE owned by a previously disadvantaged female from Cape Town.

*Brick making and construction:* Although a number of smaller plants and businesses are owned by PDI's, a relatively large BEE (female) player emerged in the brick making industry.

*Construction:* As Checkers/Shoprite business woman of the year in 2003, Sandra Africa has emerged as a role model for people in Oudtshoorn and beyond.

*Services sectors:* In the early 1990's, Province's Project Rave had limited success with the establishment of a few small BEE service businesses, e.g. stationers, manufacturing of burglar bars.

*Tourism:* A number of smaller BEE tourism projects have emerged in the Bongoletu/Bridgton areas:

- Hazel's Homestays was launched by community activist Hazel Jonker. It involves a number of homes available for tourists in the suburbs Coleridge View, Bridgton and Bongoletu. As part of the project, an arts project was initiated with unemployed women from Bongoletu, where they manufacture dresses and dolls and other artifacts. The project, called Sebenzela Impilo ("working for a living"), employs 32 women and was initially supported with a R78 000 grant from the Department of Social Services. They have also formed a partnership with Highgate Show Farm that sells the group's decorated feather dusters at their curio shop;
- The Bongoletu Post Box Route started in 2002 with an idea by Ncedisizwe Karoo Abafazi and its chairperson Bettie Jantjies who had a vision of a Xhosa kraal in Bongoletu. The Xhosa kraal acquired 5000 euro from the community of Alphen aan de Rijn (the twin city of Oudtshoorn in the Netherlands) to build a hut on a stand between Bridgton and Bongoletu. A sangoma tells the history of the Xhosa people to foreign tourists and does some fortune telling. Tourists can also overnight at the hut. Using the kraal as anchor project, Rina Antonopoulos (The Bongoletu Tourism Development Project coordinator) initiated the Post Box Route, involving painted houses (Smarty town) with unique ceramic post boxes. A number of other businesses (e.g. feather dusters, ostrich products, bed and breakfasts and a taxi service) also form part of the Post Box Route. Aside from the post boxes the women design ornaments, animals, ceramic pots and calabashes. Thijs Nel, acclaimed artist and ceramist from Oudtshoorn, has trained unemployed women in the techniques of working with clay. A number of other organisations has also invested in the project including: The department and the Independent Development Trust (R500 000); The South Cape Technical College

has invested R134 000 in the tourism and hospitality training of 67 Ncedisizwe Karoo Abafazi women to prepare them for entering the tourism trade as skilled employees.

- A shebeen route was also recently launched in the Bongolethu area.

#### **4. THE SECOND ECONOMY**

The "second economy" consists of unregistered businesses. This covers business activities undertaken "at home", along the roads, in backyards, by door-to-door selling and in other ways where the operator does not have a "business license", VAT registration or a fixed business premises. Profits are very low and at best offer a basic survivalist income.

It is estimated that the second economy could have generated an total income of about R3m a year or value adding of about R1,5m, contributing a mere 0,1% to the GGP and 0,5% towards employment of Oudtshoorn in 2004.

A first survey was conducted that involved 87 enterprises operating in the secondary economy of Oudtshoorn. The majority of the 87 businesses surveyed, was located in Bridgton (33%) followed by Bongulethu (20%) and Toekomsrus (18%). Bokkraal recorded 8% of the businesses followed by the new extension (6%) and Askamp (6%), Dysseldorp (4%), Coleridge View (2%) and West Court Park (2%).

The following are main results form the survey:

- *Type of businesses:* More than half (58%) of the businesses were general retail (spaza) shops, 17% vegetable and fruit stalls while 2% sold specific items such as fish and chips and cell phone cards. Isolated cases were recorded of a hairdresser's salon, pool and games centre and a furniture manufacturing enterprise. The average age of the businesses was 3.5 years;
- *Infrastructure:* Only 24% of these businesses had no access to any services while 76% had access to electricity and water;
- *Growth:* Almost 92% of the businesses grew slowly (38%), remained stable (38%) or just survived (16%) while only 7% grew fast and 2% seems to be failing;
- *Business acumen in establishing the business:* 31% of businesses reacted upon a market need when establishing the business while 30% stays in the area and 8% merely reacted on survival instinct;
- *Industry associations:* Virtually none of the businesses (aside from 2) claimed to be represented by industry organisations;
- *Growth inhibitors:* Generally some of the important issues/problems of the second economy include:
  - Access to finance;
  - Access to markets;
  - Competition
  - Business skills are lacking
  - Facilities/premises/transport/telephones & electricity
- In Oudtshoorn, almost 60% of the businesses experienced available finance as the largest constraint in establishing their business. 34% of businesses experience finances also as the biggest challenge in running their business while 8% consider competition most challenging and 6% regarding debt collection as

the most difficult. Almost 60% of businesses also claimed that their primary need was financial support.

- *Competition:* 28% of the enterprises (all types) considered the competition in general as weak, 16% considered it average while almost 40% considered the competition strong especially from other smaller enterprises in their area;
- *Suppliers:* Most of the enterprises purchase their inputs in Oudtshoorn's retail or wholesale trade sector either at Metro (16%), Paul's Fisheries (10%), general wholesalers (10%) or at the supermarket (7%);
- *Employment creation:* The average full-time employment from these businesses was 0,53 people (excluding the owner) and 0,39 people on a part-time basis;
- *Levels of education:* 8% of the owners have diplomas, 21% has matric, 41% has grade 8-11; and 23% does not have secondary education;
- *Assets:* 63% of the businesses do not have any productive/fixed assets while 23% have vehicles, 7% owns buildings and only 1 % owns machinery;
- *Client base:* The client base for 84% of the businesses is in the immediate areas while 16% sells to people in Oudtshoorn town;
- *Reasons for establishing the business:* In 60% of the cases, the enterprise was established because the respondent had no work. In 18% of the cases the business was inspired by an idea/dream and in 7% of the cases the purpose of the business was to create additional income for the owner;
- *Turnover:* The average income per enterprise is about R 2600 per month, varying dramatically among firms from as high as R 25 000 per month to R 400 a month;
- *First choice would be?:* 88% of business owners would like to stay in the business while 45% of these owners would like to expand their business activities. Only 6% of respondents claim that they would prefer a full-time job instead.

## 5. THE POVERTY ISSUE

**Relative poverty:** The poverty problem was already touched upon when Oudtshoorn was discussed in a provincial context above. In a nutshell following the earlier discussion, the inequality in the income levels and life styles of the different population groups has improved somewhat from 1998 to 2004 – starting from a very skew base in 1998 compared to the other towns in the Southern Cape (although comparable to provincial levels and better than national levels).

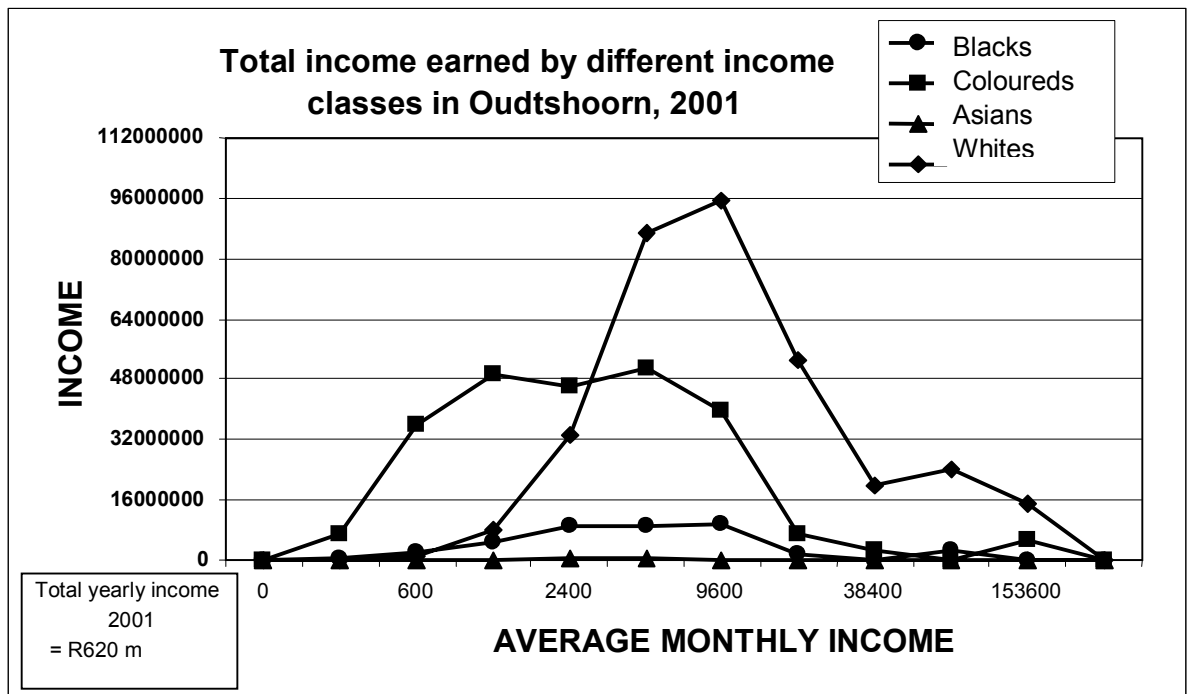
### **POVERTY IS A LARGER SOCIAL PROBLEM:**

Apart from the emotional discomfort and social implications (instability, crime etc) of living in relative opulence alongside people who live in poverty, poverty eventually affects everybody more directly by lowering the economic potential of an area through the tax burden imposed by welfare subsidies. Lower savings also lead to lower investments, lower productivity and lower profits. Lower consumption levels by poorer communities also imply a smaller local market for local goods.

These contrasting scenarios suggest that a small middle class is emerging in the previously disadvantaged communities to diminish the gap that existed between previously privileged white group and other population groups. It also suggests an increasing income gap among the different population groups - between those that are accommodated by the system and those that is "left behind". The growing levels

of unemployment as well as the huge wealth increase caused by the “property boom” and inflated values of middle and higher income properties has increased the gap between the poor and the rich significantly over the past few years.

As was mentioned earlier, it was estimated that, in 2004, 50% of the disposable income in Oudtshoorn was earned by only 12% or 2 500 households in Oudtshoorn that earn more than R100 000 a year. This figure is comparable with the 2001 figure of individuals earning more 100 000 per month being no more than 8% of total earners in Oudtshoorn and yet earning about 44% of the total income generated in the town.



The graph above gives an indication of the distribution of the income among the different population groups. The graph shows that by far the larger share of total income is generated by the White population group, i.e. 54% of total income (15% of the population) as opposed to 39% of income earned by the Coloured group (77% of the population); 6% earned by the African population (8% of the population) and 0,1% earned by the Asian population group (0,1% of population). The graph also supports the notion of a growing middle-income class (earning R5000 and more a month) among with the Coloured population.

**Absolute poverty:** While the problem of relative poverty has improved to some extent, the levels of absolute poverty have worsened. That is to say, the numbers of those falling out of the system has increased from 1998 to 2004. In 2004 almost 30% (almost one out of three) of the Oudtshoorn population lived in poverty, much higher than the provincial average though lower than national averages. Almost

9 000 people or 10% of the population of Oudtshoorn lived on less than US\$2 (about R12) a day in 2004.

The typical profile of poor families:

- Many of the poor households are headed by an unemployed person or someone involved in manual labour (often a female). Many poor households also take care of an extended family – of people that are not only poor, but has nowhere to go and are sometimes severely (mentally or physically) challenged.
- The poor typically stay in “RDP Houses” or shacks quite far from work/employment opportunities, administrative and commercial facilities and most forms of healthy entertainment.
- Houses are often of poor quality, derelict and not maintained; the streets are dusty and bare, with little to no greenery. These houses are mere shelters and do not represent “collateral assets”.
- Transport costs represent a major expense, while locally available goods and services (Spaza Shops) are mostly very expensive and offer poor quality.
- The poor, typically, has little education, life skills (knowledge of how things work and where to go to get things fixed) – find that they always end up in the wrong queue or just miss the cut-off time.
- The poor are extremely vulnerable – to the elements, illnesses, disasters and crime. Disasters such as fires or floods and illness or death in the family, invariably leads to indebtedness (often with “loan sharks”).

**The social safety net:** There are a number of social grants that low income families in Oudtshoorn rely on. These include:

- Municipal grants up to R90 a month for the payment of municipal services (the income of the recipient must be less than R 1500);
- Government pensions of about R 780/month – R 798 for war veterans; Disability grants- R780 per month
- Foster Care grants – R 560 per month
- Child Support grants – R 180 per month
- Care Dependency grants for disabled children under 18 (R 780 per month)
- Unemployment Insurance
- Housing subsidies (income of the recipient must be less than R 3500);

The level of dependency on these grants is high with some 53% of households in Dysseldorp for instance receiving social grants.

Communication of the availability of the different types of grants available could be improved, although at the risk of increasing communal dependency on welfare.

A large number of community organisations are active in Oudtshoorn. There are about 70 church groups (five traditional churches and 63 smaller ones). Although there are interdenominational prayer groups, there does not seem to be any form of an encompassing ecumenical forum in Oudtshoorn. The Roman Catholic Church provides some safety net with projects such as vegetable gardens in Dysseldorp and is currently investigating a youth centre in the Bridgton area.

The Kolping group SA is involved in the formation of self-help groups, vocational and skills training (including Adult Basic Education Training programmes), enhancing spirituality and networking with other groups. They focus on the Dysseldorp area.

There are numerous organisations that focus on social issues such as child care, monitor of childcare and pensioner abuse, subsidised meals for the aged, aged care centres and feeding schemes.

Some of prominent social issues that came to forefront include:

- Family break-down, alcohol and substance abuse and the alarming prevalence of Foetal Alcohol Syndrome (FAS);
- Large number of street children (as well as the relatively large number of organisations currently focusing on the issue);
- The general lack of prospects for the youth with "teenage girls getting pregnant to access the child grants (R180 a month) because they think it is the only way they can get an income"<sup>1</sup> (Brown and Webb, June 2005);
- According to knowledgeable organisations (e.g. the Roman Catholic Church) AIDS /HIV is a growing problem in Oudtshoorn. In 2002, statistics recorded 550 cases but the number is considered too low. An Aids /HIV project of Oudtshoorn is currently in operating from a former Bongulethu school. Sixty women are housed in the school and form part of the Masakhane (let we build) project. They manufacture crafts and clothing.

Although there seems a general lack of coordinated efforts on larger scale in terms of most of the issues discussed above (as well as a low representation of national welfare groups), there is a sense of genuine involvement and commitment of the volunteer groups.

**Subsidised housing:** The housing situation in the Western Cape in general is characterized by significant housing backlogs. Just so Oudtshoorn's housing backlog has increased significantly over the years. Natural population growth and, to a lesser extent, people moving to town from rural areas contributes to the housing demand. The slow delivery of houses aggravates the problem with a waiting list for subsidised housing allegedly being around 9 years.

7200 households are in need of subsidised housing with some 300 people in rural areas (Schoemanshoek, Volmoed and Dysveldorp) in need of housing. The total demand represents about 30% of the total households in Oudtshoorn. The majority of the applications were recorded in Oudtshoorn (25%), followed by Bridgton (47%) and Bongulethu (22%), i.e. 94% of applications originated from areas where 86% of the households of Oudtshoorn live. 49 applications were received from De Rust and 77 applications from Dysveldorp. The spatial framework for the Congo route suggests that further low cost housing in Schoemanshoek should not be considered due to the incompatibility with the vision to develop the route as art/culture route.

Just to meet the current demand, Oudtshoorn needs to deliver at least 275 new units a year and ideally 550 a year to address the backlog. With 1000 units a year the town will be able to erase the backlog. The housing strategy proposes that projects in the rural and outlying areas need to run at the same time with projects in Oudtshoorn town and that these projects could make use of small, local builders.

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<sup>1</sup> In a youth development focus group session (September 2005) a youth centre was proposed for Oudtshoorn. The need for a variety of services/facilities was expressed e.g. IT facilities, youth counseling and helpline, entrepreneurial training and support; low cost and accredited skills training, exhibitions by higher education institutions, intellectual discussion groups.

Currently 100 houses are planned in Volmoed, 100 in Vlakteplaas, 150 houses in Dysseldorp (including houses that need to be rebuilt) and 550 in Neppon (Varkies town).

While public funds are available for the financing of top structures (R31 000 per unit and R9000 after payment of a subsidy), R8000 to R9000 is needed to service the stands. CMIP funds are already largely allocated for the next three years, therefore alternative funding is needed for servicing the stands. The municipality, so far, has given no clear indication where these funds will be sourced.

There is also a risk due to limited water resources for all the municipal owned land developments that will be discussed further under municipal infrastructure below.

**Unemployment and economic growth:** As was mentioned earlier, although output levels increased at an average annual rate of 1.9% between 1998 and 2004, employment grew at a lower annual rate of 1,3% (slightly below the growth rate in the labour force of about 1,4% per annum) resulting in an increase in unemployment of 24% in 1998 to 29% in 2004, an estimated 9 600 people in 2004.

However, while the labour force increased at a lower pace since 2001, economic growth picked up, resulting in a decline in the unemployment rate from a high of 32% in 2001 to 29% in 2004. If this growth trend continues, the unemployment rate in Oudtshoorn might well decline to close to 26% by 2005 – though still higher than its 1998 level. Assuming that the labour force keep on growing at a rate of 2,2% per annum for the next 6 years would mean an average of about 750 new entrants to the labour market each year. At current high growth rates (2001-2004 output averages of 4,3% and job creation averages of 3,4%), the economy of Oudtshoorn could potentially also create around 750 new job opportunities. *If a very positive scenario is assumed namely that the skills demand will match the skills supply of the new entrants, the total number of unemployed people could stay constant at 9 600 at an economic growth rate of 4,3% a year.*

To effectively begin reducing unemployment amongst those people who are currently unemployed, the economy of Oudtshoorn would either have to grow at levels higher than its current growth rate or, it would it would have to grow in more labour intensive ways. The latter is highly unlikely since the output: employment growth ratio is already fairly high at 0,7 – indicating a 0,7% increase in employment for every 1% increase in output levels.

The unemployment is of course not evenly distributed in Oudtshoorn. Areas with the highest unemployment and poverty rates include Volmoed, Blomnek and in Bongulethu, Neppon and Varkietown. In Dysseldorp (wards 10 and 11) seasonal employment from farms only provide temporary relief. The unemployment rate was estimated to be as high as 49% in the area and as elsewhere, the burden was moreover carried by females.

**Results from the poverty survey:** A survey was conducted among 292 low income households in Bongulethu, Bridgton, Dysseldorp, Blomnek and in the rural areas of Volmoed and Schoemanshoek. There was no noticeable difference among the areas in terms of answers to any of the survey questions. The main findings of the survey are summarised below:

- Of the total number of households, 67% received income from work done by a family member, i.e. "working" families" (only 57% of these jobs were permanent while the others were seasonal or ad hoc). The "non-working" families represented 33% of the respondents;
- Only 26% of households received no social grants but earned all their income from a regular work;
- The family that had working members received an estimated average income of about R 2600 a month from wages and grants and on average supported 2,4 people;
- The families that only received money from grants received on average only R 740 per month and on average supported 4,6 people;
- The levels of subsistence is low in the case of both the "working" and non-working families with only 12% of families keeping farm animals or cultivating vegetables;
- 7% of families experienced debt as high as their annual income and a further 31% incurred debt levels between their monthly and yearly levels. Only 12% of families had no debt;
- The most popular skills are plaster and painting (13%), building (12%); wood working (4%) and electrical work (2%). Other skills include feather working, shoemaking, cooking, boiler-making and meat processing. 52% of non-working families had no skills as opposed to 39% of working families ;
- 52% of working families had skills suitable for the building industry (painting, electrical work, building skills etc) whereas only 18% of non-working families had construction –related skills.
- There are no apparent relationship between income levels, type of skills or even skill levels;
- The most coveted skills were building skills (43%), computer skills (32%); drivers licenses (12%); sales and business skills (12%).
- Only 12% of household members received first training;
- Working people get to work per feet (40%), taxi (45%); motorcar (9%) or bicycle (6%);
- 53% of respondents belief that a work will make the biggest difference to their lives, followed by 14% putting poverty relief programmes on top of their lists. Only 3% believe that an own business will make a radical difference to their lives;
- Mirroring the response above, 62% of respondents feel that the biggest difference that organisations can make in their environment is to create jobs. 16% preferred "sopkombuise" (welfare projects), while 9% see it as the prime responsibility of organisations to provide training.

## 6. MUNICIPAL INFRASTRUCTURE

**Background:** Total *municipal employment* remained almost constant from 1998 (498) to 2004 with 98 vacant posts registered with 76% or 75 vacancies in the lower post levels 16 to 18. The employment pattern furthermore matches the equity goals of the municipality of 70% Coloured: 20% White: 10% African compared to the population ratios of the municipality of 77:15:8 (Stats SA, 2001). Of the 17 senior level posts (post levels 0-3) only 18% (3 positions) are filled by Coloured people, 6% (1 position) are filled by Africans while the remaining 76% (13 positions) of the senior posts are filled by Whites. There are no women in senior management positions.

*Total municipal spending* increased from R71,7m in 2000/2001 to R115,5 in 2004/2005, a total increase of 61%. In real terms, the increase was about 2,8% per annum, lower than real economic growth of 4,3% between 2001 and 2004, although higher than the average growth of 1,9% from 1998 to 2004.

As was the case in 2000/2001, salaries and wages contributed a steady 42% to total spending since 2000/2001 and increased with an average of 12% per annum.

The provision of electricity contributed 32% of total spending and increased with 45% between 2000/2001 and 2004/2005. Water services contributed 11% to total spending and increased 81% between 2000/2001 and 2004/2005. Public works contributed 8% and increased with 32% between 2000/2001 and 2004/2005. Sanitation and cleaning services both contributed 4% towards total spending and grew with 1% and 76% respectively between 2000/2001 and 2004/2005.

**Road infrastructure:** There are 200km of roads in Oudtshoorn town of which 40km are gravel and 160km are tarred. 18% or 35km of roads are not kerbed on both sides. 50% of roads in Bongoletu and Bridgton are tarred. The roads need to be surfaced once every seven years, but since limited funds are allocated to the road maintenance, the road infrastructure in Oudtshoorn town is deteriorating.

Old Oudtshoorn has a low level of storm water, which is integrated into the irrigation systems. It will cost R2,5m to R5m to upgrade the system. Bridgton and Bongoletu have a very poor and limited storm water and drainage system. A plan was developed estimating that it will cost R7,5m to implement the storm water system for both areas, while only between R1m and R2m have been budgeted annually.

The access roads to Dysseldorp are tarred roads and some of the residential roads are paved (brick-paving). The road network of Dysseldorp is generally in a poor condition with excessive storm water drainage problems. In 2003 an amount of R2,3m was allocated from the National Poverty Relief Programme for road and storm water improvements. Arrangements are made to commence with the relevant projects.

In the old part of De Rust, the conditions of streets and storm water are reasonable. Streets are mostly of a permanent nature and limited storm water drainage problems are experienced. In the township of Blomnek approximately 1km tarred roads exist and the remaining about 4km of roads are gravel or dirt roads. In general, storm water drainage is poor. An amount of R1 570 300 from the National Poverty Relief Programme was allocated in 2003 for road and storm water improvements in Blomnek.

Total spending on the upgrading and repairing of roads steadily increased from R6m in 2002/2003 to R11m budgeted for 2005/2006. The larger part of this spending is allocated to the job creation project that is largely funded with external funds.

During October 2003 the municipality has embarked on a job creation project with the intention to pave all the existing gravel/earth roads in Oudtshoorn, Dysseldorp and De Rust and to pave sidewalks along public routes in the relevant towns. An important consideration was the creation of job opportunities to alleviate the large unemployment in the townships. Currently 41 contractors are on the database and were selected according to cost, being a PDI from Oudtshoorn, having appropriate

skills and equipment. From 2004 to 2005 about 8km was paved. At the current tempo the work could take up to seven years to be completed.

Work on the project commenced during February 2004 and the funds that were made available for 2004/2005 amounted to R7,8m with R0,2m contributed by internal municipal funds, the DBSA funding R5,6m of the paving of streets, Consolidated Municipal Investment Program (CMIP) and public transport funds contributing R 1,1m towards the paving of sidewalks and Eden District municipality R0,9m towards storm water drainage.

For 2005/6 about R2.1m was budgeted for resealing projects in Bridgton (R430m); Dysselsdorp (R460m) and Oudtshoorn (R1.2m).

**Water and sanitation infrastructure:** Situated within a water scarce area, the risk exposure of Oudtshoorn to a year of drought has increased significantly since 1995. Water consumption increased by an average of 2% (at about the same rate as real average annual economic growth). It is estimated that, at the current growth rate and climatic conditions, the current water supply will only be sufficient for the next 5 to 10 years. Given the rate of current and proposed residential developments (low cost and high income) it has therefore become a high priority for Oudtshoorn to explore alternative water resources that would at least increase the water supply with 25%.

The Zebra/Blossoms underground water project was initiated to search for deep groundwater that will be sufficient. The project is currently only at an exploration phase with expectations that the source could increase Oudtshoorn's water supply – with estimates of 40% to very little. Conservative opinions warn that the use of the water will be subject to the national water regulations and that just enough water will be allocated to Oudtshoorn for domestic purposes so not as to influence water users further downstream. Environmentalists in general are concerned about the use of ground water because of the unpredictable outcome in using this source. An environmental research project revealed that underground use by the Kamanassie water scheme (including borehole-users in Dysseldorp) changed groundwater reserves to such an extent that it had a serious impact on wildlife and farming activities (*Western Cape Nature Conservation Board, 2004*).

For the financial year of 2005/2006, the municipality acquired R930 000 from the Consolidated Municipal Infrastructure Program to investigate the integration of water sources in the Oudtshoorn area. The study will include other alternatives to the Blossoms project such as the building of a new dam. The consulting firm Ninham Shand was appointed for the study.

A study for the broader Gouritz initiative suggested that a larger scale study is necessary to investigate the water-carrying capacity of the entire Gouritz region. One resulting smaller scale study by the CSIR involves research into interconnections between different water sources in the Klein Karoo.

The conflict between short-term economic growth and the development of sustainable water sources is far from being resolved. Oudtshoorn itself needs to decide whether its approach towards water management will remain "reactive" and left to engineering devices (i.e. "fixing" water shortage problems as they arise) or

whether it is going to become more actively involved in the process (i.e. to direct economic development more actively towards water saving projects).

Specific water saving projects include:

- Oudtshoorn's water supply is largely dependent on three sources from the Swartberg Mountains. Removal of invasion plants are important for water conservation in the water capturing areas and forms part of the national objectives of the Working for Water (WfW) project that will be discussed in more detail later on;
- A large extent of irrigation water is lost due to open water irrigation canals. Stakeholders in the agricultural sector and the provincial government departments are currently planning a feasibility study related to the replacement of flood irrigation systems with micro-systems. However, the transformation of current systems is expected to involve large capital outlays and costs.
- Replacement of the open irrigation canals with underground (plastic) pipes is under consideration. The development of a pipe manufacturing plant in Oudtshoorn is expected to be an additional positive spin-off from such a project;
- Selected school fields and the golf course are already irrigated with recycled water. Although the recycled water in general have limited use, due to high salt levels, there is scope (about 700m litres of water annually) to extend the project to other appropriate users;

In terms of the existing water network, Oudtshoorn experiences many problems with old asbestos pipes. The pipe replacement program especially needs to be accelerated in the older parts of town. Since the pipes are mainly located under surfaced road areas, the high maintenance to the old network also impacts on road repairs. Both areas were considered as high problem areas by the business sector (discussed under business perceptions).

With regard to the sewage network, the upgrading of the old facility is under way and will bring relief to the currently over-utilised facility. The feasibility to expand the sewage works further will depend on the availability of new water sources.

**Electricity:** Mirroring economic growth rates, electricity consumption grew at a low average rate of 1% from 1998 to 2001. Growth accelerated to average annual rates of more than 8% between 2001 and 2004. The electricity department maintains that the electricity infrastructure of Oudtshoorn has sufficient capacity to support average annual growth in consumption of 8% and more for the next ten years. A new sub-station was recently constructed close to the golf course, centrally positioned to service both high cost developments to the north and low cost housing to the east.

There are only two large industrial users (i.e. using 11 000 volt connections) in Oudtshoorn, namely the Ostrich abattoir and Themcor meat processing. Checkers is the only retail outlet that could qualify as a large consumer. The other large consumers are service providers such as the Langenhoven High School, Police training centre, correctional services, the hospital, the military base and the magistrate's office.

Despite the fact that the cost of electricity in South Africa in general is low, a number of respondents in the business survey reflected on the high cost of electricity in Oudtshoorn. These high costs can moreover be ascribed to the lack of scale

advantages due to the limited number of large consumers mentioned above. In towns with larger industrial sectors, such as George, the larger industries subsidises residential development as well as decrease costs for themselves due to economics of scale. However in smaller industrial towns such as Oudtshoorn and Knysna, electricity is more expensive.

Since 2001/2002 the idea was developed on a national level to move to a uniform tariff structure and consolidate the fragmented system into regional distribution centers. For Oudtshoorn and other smaller municipalities this implies being drawn into the larger Western Cape distribution network with Cape Town as anchor centre. Distributors will, as a consequence, be physically further removed from their final customers. The target date is 2007.

**Transport infrastructure:** The 2001 census discovered that the majority of people in Oudtshoorn walk to school or to work (64%) compared to 8% driving with minibus/taxis and 20% being transported by car. Private short distance bus services are limited and are being phased out.

Passenger transport is exclusively provided by the private sector. The R62 between Oudtshoorn, Dyseldorp and De Rust is the most important transport corridor and mainly involves minibus taxis. Five operators control the minibus taxi industry with close to 745 vehicles. As elsewhere in South Africa, the fleet is older than 10 years and 48% of the vehicles are in bad condition. People also use minibus taxis as long distance transport to adjacent towns and to Cape Town and Port Elizabeth over week-ends.

The national taxi recapitalisation project was delayed for two years but slowly appears to be coming of the ground. The project entails the replacement of the current fleet of taxis on South Africa's roads with purpose-built 18- and 35-seater diesel vehicles, able to cater for the disabled. Government was set to pay a 20% allowance to taxi owners to subsidise the purchase of the new vehicles.

Private bus services (Translux and Intercape) services the routes to Pretoria, Bloemfontein, Cape Town and Port Elizabeth on a daily basis.

Passenger transport by rail was ended in July 2002. Only unscheduled, luxury trains visit Oudtshoorn on an irregular basis.

The airport is owned by the municipality and is currently managed by the Oudtshoorn Aero Club on behalf of the municipality. With a relatively short runway of 1,7km (by 30m) the airport is not suitable to handle larger national carriers. It is though ideal for usage by lighter passenger aircraft and freight aircraft. The airport currently handles an average of 600 landings a year including 60 diversions from George.

The facility has permanent lighting during the night and an automatic weather station is operational throughout the day. There is a fuel point and overawing capacity with an underground container. An emergency helicopter will be permanently stationed on Oudtshoorn airport from October 2005. The airport also has an air traffic control facility.

The municipality is currently in discussion with the DBSA to upgrade the airport. Fundamentally Oudtshoorn's proximity to the ACSA-owned George airport may put a

severe limitation in terms of further development. However, private non-ACSA airports have been built elsewhere, e.g. Richard's bay, Margate and Pietermaritzburg. Future steps taken by the municipality would possibly entail an invitation to the private sector to tender for a new management contract for the airport and reliance on the private sector's profits motive to assist in the symbiotic development of the airport and surrounding area. Facilities that could be developed around the airport include parachute packing for the military, skydiving and parachuting, vegetable packing and electronic assembly and delivery. The municipality could possibly also consider an incentive scheme around the use of the old civil aviation and military structures to support private developments.

## **7. THE NATURAL ENVIRONMENT**

Oudtshoorn lies within the domain of the Gouritz Initiative. The Gouritz initiative (GI) followed from a scientific study named the Cape Action for People and the Environment, or CAPE project that indicated that three so-called Mega park areas had to be established to support biodiversity of the Western Cape. The recommendations of the CAPE project were endorsed by the Western Cape Provincial and National governments. Western Cape Nature Conservation Board is the implementing agency for the CAPE project.

GI aims to protect, restore and conserve the biodiversity and water resources within a world hotspot along the Gouritz river corridor and all its tributaries. This area houses three biomes (regions with specific types of natural vegetation and climate) which were identified as world hot spots - the Fynbos, Thicket and succulent Karoo. A hot spot is a region that is rich in endemic species, i.e. species that only occur within a specific region. It is also an area where at least 70 % of the area has been changed by human activities.

The aims of the GI include:

- To establish a series of conservation areas (through voluntary co-operation) along the Gouritz River and its tributaries that will link all the major conservation areas of the region;
- To develop a land use ethic within these conservation areas;
- To support programs that will restore severely transformed critical components of the biodiversity of the region;
- To empower civil society to ensure that authorities within the Gouritz area practice the principles of sustainable development.

*The focus of GI is to act complementary and not competitively to economic development in the respective areas.*

It is also the aim of the initiative to provide alternative business opportunities to support a stagnant agricultural sector, through, for instance, the development of eco-tourism and other industries more compatible with environmental sustainability. Partnerships between different industries, government and local inhabitants are crucial for the success of the initiative.

For the Oudtshoorn area, "eco friendly" industries with employment and business possibilities were identified and are discussed in detail under investment opportunities below.

## **8. THE STATUS OF LED INITIATIVES IN OUDTSHOORN**

### **8.1. Past attempts**

In 2000, a section 21 company was established as a joint venture between the business sector and the community in order to facilitate the identification and implementation of LED projects. However the company was closed about 2 years ago due to problems with the external management contract.

### **8.2. Current initiatives**

There are a number of organisations and projects currently active in local economic development.

**Municipal funds for LED:** The LED office of the municipality (created in 2004) is currently administering the economic development fund - funded annually from the capital budget. Within the LED strategy (expected to be completed in 2005/2006) the fund will be allocated to projects expected to contribute to sustainable growth.

In July 2005 an amount of R228 500 was handed out to some 23 entrepreneurs. Since the LED strategy was not yet in place at the time, an interim process had to be followed to select relevant projects. According to the criteria for funding, candidates had to submit business plans, illustrate their need, have bank accounts, prove that their business will create jobs and had to apply the funds for purchase of equipment (not salaries). The type of small businesses that was financed included arts and crafts, agriculture, hawking, sewing and one feeding scheme. The committee that selected the projects consisted of three officials and one councilor. The selection process itself was not perceived as transparent by the broader community and a number of projects received bad publicity. *On balance, the fair degree of criticism that met the process illustrates the need for transparency and larger community buy-in when dealing with LED funds. The LED forum and strategy will fulfill a crucial role in this regard.*

Apart from the municipal funds generated by the capital budget above, the amount of funds for local economic development is expected to increase significantly over the next three years: About 90 hectares of municipal land was sold adjacent to Oudtshoorn golf course as part of the new golf estate development that was discussed above. The municipality will receive 3% of the purchase price up to 2009 on all stands/developed units (to be finalised). This money will be used as a local development fund. With purchases from 2006 to 2009 the size of the funds could, in total, reach between R9m and R12m. A percentage of the income received from the newly installed speed camera will also be allocated to economic development and could amount to more than R100 000 per annum.

**Road infrastructure-job creation project:** As was discussed under municipal infrastructure above, Oudtshoorn municipality has embarked on a job creation project with the intention to pave all the existing gravel/earth roads in Oudtshoorn, Dysseldorp and De Rust and to pave sidewalks along public routes in the relevant

towns. An important consideration was the creation of job opportunities to alleviate the large unemployment in the townships. Currently 41 contractors are on the database and were selected according to cost, being a PDI from Oudtshoorn, having appropriate skills and equipment. The project is largely funded with DBSA and national Consolidated Municipal Investment Program (CMIP) funds.

**The compost project:** In 2000 a small waste beneficiation project was launched at the municipality's sewage plant to process waste into compost. Management and ownership of the project was supposed to have been transferred from the municipality to the private sector but has not yet occurred.

**The Post Box Route:** Additional funds of about R1.2m was donated by the Arts Council and kept in trust by the municipality. Further development of the project is currently on hold due to the vandalising of a kiln (for the firing of ordered post boxes) while premises for the project were finalised. In September 2005, upon an apparent community request, the municipality transferred the project from the initial project coordinator to a new coordinator.

**Business support:** The Klein Karoo Agri Business Centre opened in August 2004 as a combined initiative between KKC, ABSA and the Land Bank. The centre assists entrepreneurs in the agricultural and agri-processing industries that have feasible business concepts, in evaluating and developing their ideas. The task of the Centre is to develop business plans, identify possible financing for specific projects and develop training and mentorship for new role players in agriculture in the region.

As part of the provincial Red Door initiative run by Western Cape Province, Red Door opened in April 2005 in Oudtshoorn and 50% of funding is currently provided by the Oudtshoorn municipality while Province provides the rest. Red Door focus on providing general business advice on entrepreneurs in sectors other than agri-processing and agriculture that is handled by the KK Agro Business Centre. The following are typical Red Door functions:

- Registrations of firms at statutory organisations such as South African Revenue Service, Unemployment Insurance Fund and National Home Builders Registration Council;
- Providing tax clearance certificates;
- Registrations of closed corporations and companies. In September 2004 they have already registered 20 closed corporations and two companies;
- Assist companies to acquire finance through lenders such as the National Empowerment Fund (NEF); The Umzimvumbu Fund, ABSA and Business Partners. In this regard they assist with guarantees from Khula as well as the compiling of business plans that they contract out to accredited persons/organisations. Red Door subsidises business plans that could cost up to R7000 with the applicant only paying R700. Interest rates can vary from 10% (NEF) to 17,5% (Business Partners) and the loan amount can be as high as R250 000. Up to September 2004, Red Door Oudtshoorn had facilitated financing worth R350 000 and compiled 60 business plans.

*While support to the Small and Micro enterprise sector is theoretically available, generally, though, access is restricted due to capacity constraints at support institutions. Major skills shortages exist in identifying market gaps, conducting an elementary industry analysis and financial planning. Collateral requirements and the*

*costs of business plans are other restricting factors. There is also limited availability of business plans compilers and local know-how of tender processes. In addition, established businesses, in general, have a limited awareness of incentives and support services available to them.*

**Tourism marketing:** Tourism marketing is a joint initiative between the tourism sector and the municipality. After two years, a new tourism marketer for Oudtshoorn was appointed late in 2005.

**A new business forum:** The Oudtshoorn Management Forum (OMF) was established in August 2005 as extension of the former employment creation forum that was created in the early 2000's.

Oudtshoorn Management Forum is an initiative of the Oudtshoorn Business Chamber to amalgamate various business interests in Oudtshoorn and also includes the Oudtshoorn municipality. The associations that are represented on the OMF include the Oudtshoorn Business Chamber, the Tourist Bureau, The Oudtshoorn Business Empowerment Initiative (OBEI), Klein Karoo Agri (farmers association), the recently formed Woman in Business (WiB) and the Oudtshoorn municipality.

The national training centre (discussed above) that was recently launched is an initiative of key members of Oudtshoorn Management Forum.

**A twin city for social investment and training:** Driven by the initiative of the business communities of both cities, the community of Alphen aan den Rijn in the Netherlands signed an agreement of cooperation with the community of Oudtshoorn in 2002. The agreement is aimed at strengthening the contacts between organisations and individuals in both towns to increase international awareness in both communities and small-scale participation in issues. There is concern from certain quarters in Oudtshoorn that, if not carefully administered, financial requests ("bedel-actes") from Oudtshoorn could jeopardize the agreement.

**A local purchasing and investment campaign:** Due to a perceived high outflow of money to other areas in the Western Cape (especially George and environs) the community of Oudtshoorn is actively encouraged to buy from and invest in the local economy.

### **8.3. New ideas**

**Proposed industrial incentives:** Although not yet approved, the Oudtshoorn municipality has tabled potential industrial incentives to stimulate the small industrial sector. These measures include:

- Low priced industrial land sold by the municipality;
- Free approval of building plans plus building inspections;
- Free water and electricity connections to new development industrial sites
- Rebates on assessment rates according to a sliding scale;
- Special electricity tariffs (year 1 at cost price; year 2 at cost price plus 10% and year 3 normal charges);
- That purified sewage effluent (PSE) services be provided at 10% discount for one year, subject to availability and available reticulation;

- That the rendering of sewage effluent removal services be provided at an annual 10% discount for one year;
- That aircraft landing rights at the local airport be provided free of charge for 1 year;
- That relocation costs of approved machinery and equipment from a location in SA or a SA port (sea or air) be negotiable.

**Proposed housing project for first time buyers:** Lagging slightly behind the coastal regions of the South Cape, property prices began to increase sharply in Oudtshoorn since 2004. The sharp rises are mostly ascribed to deflection of buyers interested in the Southern Cape that are looking for relatively cheaper inland properties compared to, say, Knysna and George. Lower interest rates and migration of higher income groups into the Southern Cape thus eventually spilled over to Oudtshoorn. With property prices rising faster in the high income areas, the situation is crowding out local emerging black middle class wanting to move up the property ladder. The situation is even worse for first time property owners.

Property transactions could be subject to development levies proportional to sales values while exempting low-priced properties. The funds from these levies could, in turn, could be channeled to moderate/first time owner property developments or used for upgrading existing lower income suburbs. In order to change the racial settlement pattern endemic in towns all over South Africa, new moderate-priced developments should furthermore be developed in areas closer to CBD.

Local government could also place government owned land in the market to increase the supply of land for middle-class housing. Oudtshoorn municipality decided to embark upon this route and plans to set out 150 serviced erven at cost price for first time buyers in the higher-income area of Oudtshoorn of Wesbank.

This commendable project has unfortunately been slightly compromised since the decision was only made after the specific land was set out on private tender. The recall of the tender had a negative impact on business confidence.

**The Dysseldorp Compensation Fund:** In the early 1970's more than 1000 Coloured families from Blaaupunt, Waaikraal, Varkenskloof, Bokkraal and old Dysseldorp were forcibly relocated to the current site of Dysseldorp. While a total of 952 persons have submitted claims to national Government against the forced relocations, a community-based claim was lodged on behalf of 793 of above claimants. During 2000 an award of R24m was made in terms of the communal claim. This money has attracted interests of approximately R12m that is currently being paid to the individual claimants registered in terms of the communal claim. The original R24m was earmarked for development in Dysseldorp.

While about 800 original claimants lodged claims, the claim is shared by descendants where the original claimant is deceased. Currently the number of beneficiaries for the 800 claims is about 4000 people. Although not all the descendents remained in Dysseldorp, this number represents about a maximum of 37% of the Dysseldorp population of about 11 000.

In 2005 the Minister of Land Affairs appointed a task team consisting of Dysseldorp Land Claim Committee, the Dysseldorp Commission, the Oudtshoorn Municipality , The Provincial Department of Local Government and Housing and the Department of

Land Affairs as interim management structure to oversee progress in the management of the money with maximum benefits accruing to the individual claimants.

The CSIR was appointed in April 2005 by the provincial government to conduct a review of the situation in Dysseldorp that would serve as guide to the interim management structure in terms of investment decisions related to the R24m.

In terms of the direct payment of the claim to the individual claimants, the CSIR found that the R24m belongs to the communal claim and is not divisible - apart from the lack of significant long-term effects that such an option would yield. It was furthermore contended that, even if the R24m was fully invested in a high yield asset portfolio of say 30%, it would still represent very low returns of less than R2 000 per claimant per year. In addition, the money was earmarked by the Minister for economic development.

Four principles were used as guidance in the study:

- Investment of the claim should benefit the claimants, while other members from Dysseldorp could enjoy secondary benefits, e.g. as costumers of a new business or to provide goods to a new business;
- The money should not be applied to fund activities that other institutions are obliged to provide (e.g. roads and other municipal infrastructure);
- The funds need to be managed professionally;
- A portfolio of short and long term priorities need to be identified and managed in a low risk environment - so as not to erode the capital base of the investment - while still ensuring a steady income stream.

The CSIR proposed that R8m of the R24m should be kept as reserve and for investment while R4m should be invested in the social infrastructure of Dysseldorp (i.e. a scholarship fund and a debt relief shop). The remaining R12m was earmarked for economic projects mainly in agriculture, manufacturing and tourism. Expectations need to be managed with regard to spin-offs from project. Only an estimated 180 jobs would be created by the suggested projects, reducing unemployment from 67% to an estimated 60%. It was furthermore stressed that all proposals needed to be backed by full-fledged business plans and due diligence reports.

Proposed *agricultural projects* include:

- Expand current *goat farming* activities to include the development of a dairy hub (cheese, butter, milk, and yogurt). In this proposal it was found that the current stock of "boerbokke" that is mostly kept for meat will have to be supplemented with exotic goats such as Saanen, Toggenburg and British Alpine. Although these goats are considered compatible with urban agriculture, the industry needs lots of water;
- A *seed packaging and processing plant* was proposed where quality control would be of utmost importance. It could provide seed farmers of the area with a useful BEE alliance.

*The proposed manufacturing projects* mainly aim to build further on existing activities:

- It was proposed that the bottlenecks concerning management and machinery be addressed to improve the capacity at the current Sakakunje *clay brick project*. It

is contended that the future market for bricks in the area lies in an estimated 140 new houses planned for Dysseldorp and some 800 houses that needs replacing. If the enterprise expand to include cement bricks, the acquisition of a stone crusher could prove to be profitable, specially there is a general lack of capacity in terms of crushers for the construction sector in Oudtshoorn as a whole;

- It was proposed that the *current feather sorting activities* be developed further;
- The current *cabinet-making enterprise* could be expanded to include goods on public tender (e.g. school furniture) and to service the growing construction industry;
- *Further processing of the liquorice extract* currently produced by the Dysseldorp liquorice plant was proposed to include a variety of sweets (e.g. liquorice allsorts, chocolate etc);
- It was proposed that the *liquorice plant and Dysseldorp Fruit Driers* establish a joint venture to produce a liquorice flavoured spirit from the fruit waste water;
- An equity partnership between Dysseldorp Liquorice Plant and Dysseldorp could open the *Fairtrade market for dried fruit*. The Fairtrade industry specialises in the premium priced distribution and retailing of products that are produced in developing countries in the South;
- For a product in the "nutraceuticals" industry, a "*Nutri burger chain*" was proposed. This involves the development of a fast food franchise that specialises in the growing market for nutraceuticals, i.e. natural/organic health food. The chain could offer ostrich-based fast foods combined with olive oils, natural herbs, unleavened bread, gluten free cereals and breads.

The proposed *tourism-related* projects include;

- A *destination marketing service* to link Dysseldorp to Route 62;
- Expansion of current *religious "tourism"* to the Roman Catholic St Conrad Church at Kruisberg to include international tourists for Easter, Christmas and the Saint days. For this purpose, the infrastructure at the Roman Catholic Youth camp and at Kolping House needs to be developed;
- Exploring the current Dysseldorp United Development Trust (closed membership to 56 claimants) request to acquire their respective stakes of R 3.8m to acquire a 45% stake in *Hazenjacht historical farm*. The money will be used to develop tourism-based business activities such as ostrich farming, ostrich handbag-making, ostrich egg decoration, and an ostrich show farm and a hotel.

In addition to the proposed projects related to the fund the CSIR also recommended that above-mentioned investment be strongly supported by social investments from provincial government as well as the Oudtshoorn Municipality.

Proposed projects to be funded by *provincial government* include the following:

- A *community healing programme* is considered of utmost importance and a condition for a successful local economic development program in the community. The community's humiliation and suffering of the past were under-represented at the Truth and Reconciliation hearings held at Oudtshoorn. According to the review the root of the Dysseldorp's social problems still lies in the past and manifests itself in the social ills. The community furthermore displays an inability to come to terms with their past (suspicion and lack of trust and lack of mutual respect). The social healing process is recommended to deliver some tangible results such as a garden of remembrance and a recording of the town's history;

- The *social infrastructure* that is proposed includes a parental rehabilitation programme and educational facilities for children with Foetal Alcohol Syndrome (FAS);
- Proposed *medical facilities* include an after-hours emergency room and a mobile family planning unit;
- The *centralised infrastructure for small farmers* that is proposed includes an animal dip and lucern processing facility.

Proposed projects to be funded by *Oudtshoorn municipality* include:

- A scheduled transport service;
- A Multipurpose Centre (MPC) for small business programmes, skills development, training and youth development. An entrepreneur and community information centre with a CD rom with relevant information should be maintained at the local library. The information could contain information on how to start an own business, available finance, vegetable production, agricultural information and should be supplemented by available mentors.

The review is currently taken under consideration by the interim management structure that needs to decide how to take the process forward.

## **9. CURRENT BUSINESS PERCEPTIONS OF THE LED PROCESS**

In the business surveys, businesses were asked to rate the municipality in terms of some primary LED functions. These included:

- Basic service delivery
- Contact with the business sector
- The capacity of the LED office
- Spatial planning
- Preferential procurement
- Area marketing

The results of the survey are discussed below:

In terms of *basic service delivery* 10% of respondents rated the service delivery of the municipality high, 52% rated services medium and 38% rated it low. General areas of dissatisfaction were the condition of the surface areas of the roads (48% of complaints); high price of services, especially electricity (22% of complaints); the condition of the water network with lots of burst pipes recorded (17%) and the lack of road signs (13%).

The *general contact with the business sector* was regarded as good by 14% of respondents; having little impact (48%) to negative (38%). By the respondents regarding the impact as negative, rigidity and empty promises were mentioned as specific problem areas.

A large number of respondents (54%) did not have contact with the LED office and hence was not able to rate their capacity. Of the respondents who had contact with the LED office, 62% rated their capacity as high and expressed optimism with regard to the LED process while 38% of these respondents rated the capacity low.

About 31% of respondents were unable to comment on the *spatial planning process*. Of the respondents that rated this function, 80% expressed dissatisfaction with the process while only 20% rated it good.

In terms of *local/preferential procurement*, 59% of respondents was unable to rate the process while 67% of the respondents that rated this function rated it high and 33% rated it low.

The *marketing of the area* involves both tourism marketing as well as marketing the area in terms of investment/industries. While 11% of respondents had no opinion, 31% expressed optimism with regard to recent developments at the tourism bureau and 58% rated the marketing low mostly because of an inability to attract new manufacturing companies.

In summary: The business sector's exposure to the municipal functions of general service delivery, spatial planning and area marketing is very high with 100% of respondents rating services, 69% rating spatial planning and 89% of respondents rating the marketing of the area. Dissatisfaction levels were highest in the areas of spatial planning and to a lesser extent with the general marketing of the area. The high exposure to these functions coupled with the high levels of dissatisfaction could have accounted for the low rating of the contact with the municipality in general.

Exposure to the LED office and municipal procurement was, in general, lower with higher levels of satisfaction expressed in terms of both.

The interviewees were furthermore asked "what one thing" they would change in order to increase economic development in the area.

- 40% of respondents would *improve municipal administration* through a variety of measures, including improving internal communication especially between councilors and officials; increasing transparency in relation to the external environment; improving general business etiquette (e.g. attendance of meetings); increasing receptivity in terms of complaints and taking action;
- 16% of respondents chose to *increase industrial activity* through, for example, the establishment of an industrial park and incentives for industry;
- 16% would first *get politics out of the LED process*;
- 12% chose to *improve training and training facilities* for the labour force;
- 8% focused on *tourism marketing* and
- 4% would *upgrade the airport*

## **10. FUTURE SECTORS?**

Currently Oudtshoorn's dominant advantage lies in the ostrich and ostrich processing; seed industries and tourism industries. However, the immediate future of these sectors is under pressure, inter alia, due to the strong rand and the meat ban due to avian flu that has not yet been lifted from the EU's side. While it remains necessary for Oudtshoorn to continue exploring its competitive advantage in these industries (due to factors such as accumulated intellectual property, trademark development), the town also needs to concentrate on the development of additional industries. Some ideas were collected during the course of the project. (Please note

that the list is by no means comprehensive and is merely used as prompt for future debates):

#### **Niche markets in agriculture:**

- *Non-indigenous Jojoba oil* is used in hair shampoos and conditioners, skin care and sun care products, baby lotions, soaps and bath oils, and colour cosmetics. The herb is suitable for the Little Karoo since it is hardy, requires little water and is labour intensive. With a continued decrease in the price of jojoba, it has further potential for replacing sperm whale usage. Jojoba is cultivated on a commercial scale near Ladismith in the Western Cape;
- *Herbs such as lemon grass, fennel, golden seal and saw palmetto* are easy to establish and can grow within a year. They are also labour intensive rather than capital intensive and have good export potential;
- Apart from the "Nutri"-burger chain proposed by the CSIR for Dysveldorp (discussed earlier), the study also highlighted a few *agri-processing possibilities* that could be applied to Dysveldorp in particular or in Oudtshoorn in general:
  - *Goat farming* activities could include the development of a dairy hub (cheese, butter, milk, and yogurt). However, the industry is quite water-intensive.
  - *The further processing of the liquorice extract* produced by the Dysveldorp liquorice plant was proposed. Products could include a variety of sweets (e.g. liquorice allsorts, chocolate etc).
  - It was proposed that the *liquorice plant and Dysveldorp Fruit Driers* establish a joint venture to produce liquorice flavoured spirit from the fruit waste water,
  - An equity partnership between Dysveldorp Liquorice Plant and Dysveldorp could open the *Fairtrade market for dried fruit*. The Fairtrade industry specialises in the premium priced distribution and retailing of products that are produced in developing countries in the South.
- The growth in global demand for *organic food* is strong and has already made an impact on South African markets. With the high growth in international demand, the industry in South Africa (about R10 million a year) exports almost 80% of production. Farmers may only sell their produce with an Organic Agricultural Association of SA label if they are annually certified by Ecocert, or by another international organisation like the British Soil Association. Despite the growing niche market – particularly in exports – and the small price premium, organic farming is not for quick riches. Margins are very low (5-10%) as production costs are labour intensive and therefore fairly high. The price remains fixed to the prices for conventional produce. One of the benefits is that producers retain their independence of market price fluctuations and thereby achieve a premium, on average. In the local market, retail chain confidence in organic farmers remains low, making them hesitant to open new accounts for small growers. The ready supply of manual farm labour at lower cost than in many parts of Europe gives places like Oudtshoorn a competitive edge in the industry. The domestic demand for organic products is growing rapidly, and is far outstripping supply;
- Exploration of the *niche seed market* could include organic vegetable seeds as well as herb seeds.

#### **Environmental initiatives:**

- Local *nature guides* could be trained for the tourism industry. The focus could shift to niche routes outside the normal Route 62 for foreign eco-tourists, e.g. the Herbertsdale and Matjiesriver routes. A niche market could be developed for smaller

fauna and flora such as the "shy" five", i.e. the meerkat, bat-eared fox, porcupine, the antbear (aardvark) and the aardwolf;

- *Indigenous herbal remedies* are becoming popular in developed countries as increasing numbers of people are seeking alternatives to Western medicine. However, the rising trade and increase in commercial uses of medicinal plants is leading to over-harvesting and destruction of many species. Without clear conservation strategies, however, the harvesting of indigenous herbs for medical purposes is running the risk of leading to over-harvesting of the country's natural resources. The CSIR and Resource Africa, a South Africa-based conservation agency, went into partnership in July 2004 to jointly implement the Management of Indigenous Knowledge Systems Project. The Management of Indigenous Knowledge Systems Project seeks to assist rural communities in protecting their rich indigenous knowledge systems from being illegally acquired and patented by western pharmaceutical and food companies, which commonly results in preventing benefits from flowing to the local communities. South African law requires bio-prospecting companies to provide benefit sharing arrangements that have the approval of all stakeholders before being granted a research permit. The Western Cape Provincial Government has also established the Western Cape Beneficiation Initiative to enhance development of primary products and has spend R400 000 to investigate beneficiation opportunities in selected biodiversity or natural products sub-sectors, such as, Rooibos, Buchu, essential oils and seaweed. Indigenous herbs in Oudtshoorn that hold potential include:
  - *Aloe ferox* is indigenous to South Africa, and have long been used to treat skin problems. Although Aloe vera, used in toiletries, cosmetics and medicines, is grown in KwaZulu-Natal, another aloe species, Aloe ferox, grows wild in the Western Cape. Currently harvested from the wild rather than cultivated, the plants are not subjected to pesticides, fungicides or fertilisers. The bitter fraction is extracted and used for medicines, some 80% of it being exported. Aloe ferox's leaves are thicker and wider than those of the more widely-known Aloe vera, giving a higher yield of bitter sap and gel per leaf;
  - "*Kraakbos*" is used as essential oils in perfume;
  - *Kanna* (easy-to-grow "mood lifter") - a small enterprise in Paarl is already involved in such as project;
  - *Pelargoniums* are used as an herbal remedy to treat conditions such as sinusitis, acute respiratory tract infection and tonsillitis. A joint venture was recently established between the Medical Research Council, the Senqu Municipality, German pharmaceutical company Percaval, and the Department of Science and Technology with the initiative to harvest the indigenous pelargonium plant in three areas in the Eastern Cape;
  - The current export value (mostly to Germany) from the national industry of *Buchu (Agathosma)* is R20m and the annual harvest is about 150ton with 50% harvested from the wild. Currently, most of it is distilled and sold as an essential oil that is used primarily in cosmetics and medicines, although an important emerging market is as a fixative for flavouring agents in the food industry. Due to limited supply and increased demand for natural products as remedies and additives, demand for "wet" or fresh buchu is also increasing, pushing prices up. Limiting factors include the availability of suitable soils with irrigation water, and shortage of suitable propagation material. Eco-conscious consumers annually down gallons of berry juice flavoured with buchus by-product. Agricultural Research Council (ARC) scientist Dr Cobus Coetzee is a firm believer in the plant's development value – both commercially and in

terms of job creation in the Western Cape rural hinterland. He estimates that the local buchu industry supports more than 1 000 jobs.

- *Processing of wood from alien vegetation.* There are huge supplies of black wattle, Spanish reed, hakia and poplar in the Kamanassie region. Currently only 2 small teams, sub-contracted by Cape Nature, work in the Uniondale environment to exterminate alien vegetation. There are currently no initiatives in the environment to process the wood. The fight against invasive alien plants is spearheaded by the Working for Water (WfW) programme (since 1995) and administered through the Department of Water Affairs and Forestry. The Programme is globally recognised as one of the most outstanding environmental conservation initiatives on the continent. Invading alien plants (IAPs) are a threat to plant and animal biodiversity and waste 7% of water resources; reduce the ability to farm; intensify flooding and fires; cause erosion, destruction of rivers, siltation of dams and estuaries, and poor water quality and can cause a mass extinction of indigenous plants and animals.

Secondary industries forms an important component of the Working for Water programme and entails manufactured products from the wood being cleared such as screens and blinds, décor items for interior/lifestyle shops, indoor and outdoor furniture, fencing, arches and other garden furnishings, wooden educational toys, mulch, charcoal and smoke chips. Provincial Department of Water Affairs is involved with the development of secondary industries and Working for Water provides part of the capital requirements subject to a specific set of criteria. Secondary industry initiatives provide an ideal opportunity to encourage entrepreneurship amongst people from historically disadvantaged communities.

- *Environmental-orientated construction* could be developed and “exported” to high income markets in the Western Cape that focuses on construction methods with lower environmental impact. For example, US environmentalist Simone Swan developed a mud (adobe) brick that is applied in building methods that use less wood structures supports and is ideally suited for desert areas. The adobe brick has a much lower environmental impact than, for instance fired clay bricks. Even in the manufacture of fired clay bricks, the use of energy-saving igloo kilns has a lower environmental impact;
- Linking to the provincial drive to combine *renewable energy sources* such as solar water heaters (SWH) with low cost housing projects;
- As mentioned above, a large extent of irrigation water is lost due to open water irrigation canals. Since the transformation of current systems is expected to involve large capital outlays and costs, alternative agri-based water-saving enterprises should be encouraged. This includes a *manufacturing plant for plastic pipes* to be used, inter alia, in the replacement of the open irrigation canals with underground (plastic) pipes.

#### **Construction-related developments:**

- There is current under-capacity in terms of a *stone crusher* to service the construction in Oudtshoorn. Such as plant could possibly provide 20 jobs. The plant could also service the large Karoo region. Dysveldorp or De Rust could be a good location for such as plant;
- Developing construction materials into articles that could be used in other industries could provide continuity once the construction boom is over. For example, clay bricks could be developed into exotic paving or clay wall bricks. The demand for garden objects and inputs for commercial property development (e.g. metal structures) usually follows naturally after a residential property boom.

The construction sector could be a useful incubator for smaller enterprises wanting to tackle the larger regional market later.

### **Industrial development:**

- National guidelines for industrial development include the development of *Integrated Manufacturing Systems* (IMS). The principles of IMS revolve around increasing the knowledge intensity of the industry and integrating basic production activities with further processing (beneficiation); packaging, warehousing and distribution activities. Skills development also plays an integral role in these systems. General principles that would apply to Oudtshoorn in particular include products with lower environmental (especially water) impact. Lessons learnt from successful industrial policies developed elsewhere include focusing on particular industries instead of promoting all industrial activities indiscriminately. Preference is given to industries that offer technical benefits and linkages to existing sectors, develop the skills base of the labour force and potentially involves a high value of exports.

Apart from the agri-processing and environmental-related activities discussed above, some relevant potential for Oudtshoorn include:

- *Further beneficiation of ostrich products*, especially leather
- *Internet-based sales with warehousing facilities*, including internet marketing of Klein Karoo products
- *Linking craft industry with an entrepreneurial/marketing drive*, linking to national and provincial initiatives such as the LOSA (London to South Africa) project;
- Industry consolidation:
  - The brick making and furniture industries in Oudtshoorn have a number of small, competing firms. A lot of value could be added to these industries if the *marketing and management effort of these industries are combined*.

### **Service and trade industries:**

- *IT software and call centres* have significant potential due to good communications infrastructure and pleasant living environment of Oudtshoorn. The call industry includes multi-channel contact centres offering services such as fax, e-mail, SMS, data cleansing, technical support and emergency services, medical scheme assistance and supply problems to mention but a few. In 2001, a non-profit organization, Calling-the-Cape, was founded in partnership with provincial local governments and local service providers to promote growth of the call centre mainly in Cape Town. The organisation's key objectives are to provide information to assist investors and ensuring that local service providers comply with international standards;
- The town's popularity as a *retirement centre* is increasing and further growth is expected in this sector. This could provide further scale advantages for a small up-market *retail hub* in the region of planned developments. As discussed earlier, if 50% of new developments are sold to high income "outsiders" this could potentially increase the total spending on trade in Oudtshoorn with about 3-6% or between R30m and R60m;
- In terms of smaller projects there is scope for an accredited local professional to assist with the *compilation of business plans* for Red Door. Red Door compiles, on average, about 10 business plans a month. At R7000 per proposal, the total potential income is approximately R70 000 a month. Currently Oudtshoorn relies heavily on expertise from George;

- There is a market in Oudtshoorn for a *food catering service* for the medical industry. It could provide an ideal opportunity for a small business that could expand later into the medical industry of George and other areas;
- There is national scope for warehousing and packaging facilities. In Oudtshoorn this could be linked to the development of BEE partners for the seed industry. It could also be linked to the packaging hub that could follow the development of Oudtshoorn airport;
- For the *nutraceuticals industry*, the CSIR proposed the development of a "Nutri burger" fast food outlet in Dysseldorp. The nutraceutical industry is a growing industry internationally and specialises in natural/organic health food mainly targeted at the increasingly health-conscious high income market segment. The outlet could provide ostrich-based fast foods; combine with olive oils, natural herbs, and gluten free breads. It could possibly be the beginning of a franchise.

**Tourism:**

- With the stronger Rand, domestic tourism markets and niche foreign tourism should be developed. Focus tourism areas could include religious tourism, food and wine tourism and eco-tourism as discussed above.

## **11. MAJOR DEVELOPMENT ISSUES IN OUDTSHOORN**

The major development issues of Oudtshoorn are discussed below on the hand of the "triple bottom line" guidelines of the Western Cape Provincial Spatial Development Framework (PSDF). These guidelines include the objectives of economic efficiency (prosperity), social justice (people) and environmental sustainability (planet):

### **11.1. Economic efficiency**

***The formal economy***

The Oudtshoorn economy is relatively diversified. The formal economy showed high growth the past 4 years but is currently under pressure due to factors such as the strong Rand and avian flu. The outlook for the trade and construction sectors, though, is positive with relatively low changes in interest rates predicted.

The main competitive industries (ostrich, seed and foreign tourism) are exposed to foreign markets:

The **ostrich industry** produces 24% of total output in Oudtshoorn (75% of agriculture and 86% of manufacturing). The industry experienced relatively high growth rates up to 2004. Due to the ostrich meat export ban since the outbreak of avian flu in 2004, income levels in the ostrich industry is expected to decline with 15% in 2005. This, in turn, will result in a predicted real decline of 2% in agricultural output in 2005 and a 1% decline in manufacturing. Product developments and the prediction that the Rand is decreasing again could imply good prospects for the ostrich industry in the medium term. A slowdown in global growth, consumer resistance to bird meat due to avian flu as well as the low level of beneficiation in the industry could inhibit industry growth in the longer run.

While **seed processing** only contributed 4% towards local output it is also one of the competitive activities areas of Oudtshoorn.

The **tourism sector** is included in the trade (33% of trade) and transport (16% of transport) sectors and contributed 8,4% to total output in 2004. It is estimated that domestic tourism contributes 60% towards tourism spending and foreign tourism the remaining 40%. The sector grew at very high levels the past four years but is currently under pressure due to the decline in the number of foreign tourists. With the number of local festivals increasing, the Klein Karoo Nasionale Kunstefees (KKNK) could be under threat in the long run. The domestic market and niche foreign tourist markets needs to be developed.

The **construction sector** is currently in a boom phase with positive spin-offs on the transport, trade and other sectors. The high growth in this sector mirrors a large portion of new investments in the area in the past year. New residents could also have a positive impact on trade and services.

Contributing 27% towards total output, the **public sector** dominates the Oudtshoorn economy. Apart from local government, a number of provincial offices (e.g. education, health, agriculture) are represented in Oudtshoorn. Local government's wages and salaries increased at a real rate of 4% per annum from 1998 to 2004, higher than the average economic growth of 2% for the period.

Industries with (a) high export potential and (b) local linkages are industries that have a high local impact on output and employment of other industries. High impact industries include:

- Seed production
- Ostrich processing
- Dairy
- Accommodation
- Restaurants
- Niche agri-processing
- Construction

Medium impact industries:

- Furniture
- Wood processing
- Meat processing (other than ostrich)
- Brick making

The business sector views the following as priority areas to be addressed by local government:

- maintenance of road infrastructure
- maintenance of the water network (pipes)
- road signs
- the spatial planning function

The lack of new industrial land inhibits potential industrial development. However, there are a number of vacant buildings inside the existing industrial zone, available at relatively cheap prices.

The business sector survey reveals the following priority areas in terms of business incentives and development funds:

- Businesses are aware of the DTI incentives but experience frustrating delays in response and pay-outs;
- Many businesses also expressed interest in training subsidies but found the process too complex;
- Apart from incentives and funds provided by the DTI, IDC and the National empowerment fund, businesses knew little of other incentives and initiatives.

### ***New business and investment***

Low interest rates led to growing investment in productive assets by the existing business sector (coupled with increased labour).

A number of new businesses were established in Oudtshoorn area the past four years. For all firms surveyed, "lifestyle" ranked highest as a reason to establish a business in Oudtshoorn. Other factors that played a role include "proximity to inputs" and "market gap/opportunity" and the "central location" (being located between Cape Town and East London).

There are a number of outside groups currently involved in residential property developments in Oudtshoorn (e.g. the proposed Golf estate development). The next property development phase in Oudtshoorn may well involve increased investment in commercial property.

Marketing the area has largely focused on tourism (albeit having a vacant office for 2 years). There is currently limited marketing in terms of potential business investors.

Current advantages of Oudtshoorn lie in ostrich and ostrich processing; seed and tourism industries. The immediate future of these sectors is under pressure. To lessen Oudtshoorn's exposure to single industries (and those industries' to foreign markets), Oudtshoorn needs to develop additional industries.

Driven by the initiative of the business communities of both cities, the community of Alphen aan den Rijn in the Netherlands signed an agreement of co-operation with the community of Oudtshoorn in 2002. The agreement is aimed at strengthening the contacts between organisations and individuals in both towns to increase international awareness in both communities and small-scale participation in issues. There is concern from certain quarters in Oudtshoorn that, if not carefully administered, financial requests ("bedel-actes") from Oudtshoorn could jeopardize the agreement.

### ***Employment opportunities***

While the first economy grew at an annual average rate of 1,9% per annum, formal employment grew at a lower annual rate of 1,3% resulting in an increase in unemployment of 24% in 1998 to 29% in 2004. Although lower than output growth, the labour absorption of the economy is higher than in SA in general.

The high contributions of the agricultural, construction and services sectors compared to their output contributions, indicate to the labour intensity of these sectors. The most labour intensive manufacturing industries are wood processing, niche agricultural products such as dried fruit and olives, furniture and brick making.

The total number of unemployed people could stay constant at 9 600 at an economic growth rate of 4,3% a year, i.e. the economic growth rate of Oudtshoorn between 2001 and 2004 – *assuming a very positive scenario namely that the skills demand will match the skills supply of the new entrants.*

Past economic growth was associated with higher growth in skilled (technical) employment. Some skills shortages that were recorded by the surveys include:

- Basic customer relations
- Glass fitting (motor vehicles)
- Aluminum work
- Heavy vehicle licenses
- Accredited bricklayers
- Plumbers
- Electricians
- Meat cutting
- Basic business skills
- Marketing
- Computer skills
- Basic customer relations

A national training centre was recently initiated in Oudtshoorn with the focus on national skills needs, especially related to industry, e.g. carpentry and bricklaying. However, the center will also focus on basic adult education such as Early Child Development and nutrition. The facility will be available to stakeholders in education and training such as the tertiary South Cape College.

### ***Creativity***

The Youth festival originally included art exhibitions but its focus has increasingly shifted towards sport.

While promoting the “creative” image of Oudtshoorn and exposing the local community to arts and culture, it is contended that the KKNK provides limited opportunities for local artists, especially among the youth.

## **11.2. Social justice**

### ***BEE (ownership, employment equity, levels of participation)***

About 10-16% of businesses in Oudtshoorn are estimated to be owned by previously disadvantaged individuals (PDI's). Women entrepreneurs are beginning to make some inroads in the formal economy. As is the case nationally, the pace of transformation is slow with the lack of funds and appropriate candidates considered as the largest constraints for BEE owner-partnerships. Due to the size of firms, BEE transformation is mostly expected to occur in BEE enterprise development (including for BEE procurement).

At a municipal level, only 24% of senior management (post levels 0-3) is filled by PDI's - with no female senior managers.

A few larger institutions in Oudtshoorn (KKK and ABSA) are actively involved in small business support and social projects. It is claimed that processes are frustrated due to fragmented civic organisations and slow action by the municipality.

Inequality in the income levels and life styles of the different population groups has improved somewhat from 1998 to 2004 – starting from a very skew base in 1998 compared to the other towns in the Southern Cape (although comparable to provincial levels and better than national levels). Whites still generate the larger part of total income in Oudtshoorn, i.e. 54% of income while only representing 15% of the population.

Absolute poverty levels got worse since 1998 with 50% of Africans currently living in poverty, compared to 33% of Coloureds and 7% of Whites.

As is the case in South Africa in general there is an emerging black middle class in Oudtshoorn whose access to assets is largely inhibited by high property prices due to the recent property boom.

The unregistered businesses of the **second economy** contributed about 0,1% towards output and 0,5% towards employment and generated a total income of R3m in 2004. The majority of these businesses are located in Bridgton and Bongulethu. The majority of businesses (58%) is in retail activities (spaza shops) buying from formal trade sector in town and reselling at higher prices in low income areas. There are isolated cases of service centers (pool & games, hairdressing) and manufacturing (furniture). The majority of business in this sector is mainly survival-orientated with 60% of businesses established because the owner could not find a job. Once the business is up and running though, 88% prefer to stay in the business and to expand further. The main constraint for second economy businesses is inadequate capital.

While support is available to the Small and Micro enterprise sector (Red Door, Klein Karoo Agri Business Centre), access is restricted due to capacity constraints at support institutions. Collateral requirements and the costs of business plans are other restricting factors. There is also limited availability of business plans compilers and local know-how of tender processes. Major skills shortages exist in identifying market gaps, conducting an elementary industry analysis and financial planning.

Established businesses, in general, have a limited awareness of incentives and support services available to them.

While a small number of transformation initiatives have already occurred in the agricultural sector, the more successful ones involve BEE groups partnering with established white farmers inter alia through shares in an existing farm with skills transfer built into the contract (and a possibility to eventually acquire majority shares in the farm).

### **Poverty**

The levels of absolute poverty got worse since 1998. In 2004 almost 30% (almost one out of three) of the Oudtshoorn population lived in poverty, much higher than the provincial average though lower than national averages. Almost 9 000 people or 10% of the population of Oudtshoorn lived on less than US\$2 (about R12) a day in 2004.

Food security is a problem with only 12% of surveyed families cultivating their own vegetables or keeping animals. The level of dependency on social grants is high with some 53% of households in Dysseldorp for instance receiving social grants.

Communication of the availability of the different types of grant could be improved, although at the risk of increasing communal dependency on welfare. A large number of civic groups are active in Oudtshoorn but the effort is largely uncoordinated.

Typical poverty issues in Oudtshoorn include:

- Family break-down
- Alcohol and substance abuse
- The alarming prevalence of Foetal Alcohol Syndrome (FAS)
- A large number of street children
- The general lack of prospects for the youth
- AIDS /HIV as a growing problem in Oudtshoorn
- High level of debts
- Low levels of skills.

The management of community projects is problematic and reveals a degree of conflict between civic and public sector interests.

The community perceived a lack of transparency and community buy-in in the allocation of LED funds. It was also mentioned that the type of projects that was financed had little real impact on poverty.

### ***Decent work***

Working conditions are, on average, more favourable in the tertiary sectors such as social & personal services and financial & business services. While the social & personal services sector fares best in terms of working conditions, it should be kept in mind that almost 90% of employment in this sector is provided by the public sector. The financial & business services and transport also fare relatively well in terms of working conditions. It could be assumed that manufacturing activities higher up the value chain would also provide more favourable working conditions than lower value added manufacturing activities.

The services, finance and transport sectors jointly contributed more than 42% towards total employment in 2004 with almost 30% of employment provided by the public sector. While employment in the services sector grew at a low rate of 0,5% per annum, employment in the transport and financial and services sectors grew at a relatively high rate of 1,7% per annum between 1998 and 2004.

### ***The apartheid's structure of urban settlements***

The higher income Wesbank and hospital extension areas are almost exclusively white-owned.

Oudtshoorn municipality is planning to sell 150 serviced erven at cost price for first time buyers in the higher-income area of Oudtshoorn close to the hospital extensions. This project was slightly compromised since the decision was only made after the specific land was set out on private tender. The recall of the tender had a negative impact on business confidence.

### ***Quality of life***

In Oudtshoorn, 7200 families (30% of total households) are in need of subsidized housing. Just to meet the current demand, Oudtshoorn needs to deliver at least 275

new units a year and ideally 550 a year to address the backlog. Therefore almost an estimated 1000 units is needed a year to erase the backlog. The housing strategy proposes that projects in the rural and outlying areas need to run at the same time with projects in Oudtshoorn town and that these projects could make use of small, local builders.

Currently 100 houses are planned in Volmoed, 100 in Vlaketeplaas, 150 houses in Dysseldorp (including houses that need to be rebuilt) and 550 in Neppon (Varkies town). While public funds are available for the financing of top structures (R31 000 per unit and R9000 after payment of a subsidy), R8000 to R9000 is needed to service the stands. CMIP funds are already largely allocated for the next three years, therefore alternative funding is needed for servicing the stands. The municipality, so far, has given no clear indication where these funds will be sourced.

### **11.3. Environmental sustainability**

#### ***The sense of place - cultural landscapes, artefacts and buildings***

Oudtshoorn has already lost many of its historical, architectural buildings. Many of the old stone buildings are painted.

In current residential developments, there is some revival locally (and nationally) of the Karoo/Victorian-type style architecture.

Although there are strong individual sentiments (e.g. in terms of architecture, the Khoisan and Xhosa cultures) there is a vacuum in Oudtshoorn in terms of esthetic and heritage lobbying.

#### ***Air pollution***

South Africa in general is a large per capita consumer of electricity and ranks high on the global list in terms of carbon dioxide emissions.

Electricity consumption grew at 4% per annum while output grew at about 1,9% per annum from 1998 to 2004, i.e. a ratio of 2:1.

#### ***Water consumption***

Water consumption increased by an average of 2% at about the same rate as real average annual economic growth from 1998 to 2004. Situated within a water scarce area, the risk exposure of Oudtshoorn to a year of drought has increased significantly since 1995.

Given the rate of current and proposed residential developments (low cost and high income) it has therefore become a high priority for Oudtshoorn to explore alternative water resources that would, at least increase the water supply with 25%. The municipality has sub-contracted a consulting engineering group, Ninham Shand, to investigate the integration of water sources in the Oudtshoorn area. The study will include other alternatives to the Blossoms project such as the building of a new dam.

Potential water saving projects in Oudtshoorn include:

- Removal of invasion plants as part of the national Working for Water (WfW) project

- Replacement of flood irrigation systems with micro-systems. However, the transformation of current systems is expected to involve large capital outlays and costs.
- Replacement of open irrigation canals with underground (plastic) pipes. The development of a pipe manufacturing plant in Oudtshoorn is expected to be an additional positive spin-off from such a project;
- Selected school fields and the golf course are already irrigated with recycled water.

### ***Bio-diversity***

Oudtshoorn lies within the domain of the provincial Gouritz Initiative. The aims of the GI include:

- To establish a series of conservation areas and land-use ethic along the Gouritz River;
- To support programs that will restore critical components of the biodiversity;
- To empower civil society to practice the principles of sustainable development.

Partnerships between different industries, government and local inhabitants are crucial to the success of the initiative.

There exists a large scope for greater co-operation between the environmental lobby group and the business sector to the advantage of both. The fragmentation in the ostrich industry, for example, has placed prices and profitability in the industry under pressure since the early 1990's. This situation, in turn, had dire implications for the environment due to pressure on farmers to keep larger numbers of stock on sensitive grazing land. Greater co-operation between industry players would increase prices while less stock (with less environmental implications) will be needed to maintain profit levels.

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