

**TOURISM AS AN INSTRUMENT OF LOCAL DEVELOPMENT WITH
PARTICULAR REFERENCE TO PORT ST. JOHNS IN TERMS OF THE
WILD COAST SPATIAL DEVELOPMENT INITIATIVE (WCSDI).**

BY

KAYALETHU HERALD NGQAKA

**SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF COMMERCE (ECONOMICS) IN THE
SCHOOL OF BUSINESS UNIVERSITY OF NATAL (PMB)**

1999

ABSTRACT:

Despite the fact that the Wild Coast area is well endowed with natural resources, the area is severely underdeveloped and experiencing high levels of unemployment. It is against this background that the South African government has chosen tourism as an appropriate development instrument for Port St. Johns. The empirical evidence shows that coastal tourism development has produced benefits such as employment and income generation in countries like Kenya, which share the same development trends with the Eastern Cape. Thus, the Wild Coast Spatial Development Initiative (WCSDI) has been proposed as a vehicle to promote tourism development. The WCSDI aims at unlocking the inherent and under-utilised economic potential of certain specific spatial locations, like Port St. Johns.

In this study a critical analysis of the tourism-related projects proposed for Port St. Johns is undertaken, making use of cost-benefit analysis techniques and drawing on projections made in the course of the WCSDI planning process. The study shows that these projects can lead to economic growth through attracting investment

and creating employment opportunities. However, this study does not show the exact number of jobs to be created by this development, as most of these projects are still in the planning stage.

Lessons should be drawn from the Kenyan Coastal Development Corridor case study, in order to ensure that the WCSDI is a success.

DECLARATION:

I Kayaletu Herald Ngqaka declare that this is my original work, and that all the sources I have used have been indicated and acknowledged.

A handwritten signature in dark ink, appearing to read 'Kayaletu Herald Ngqaka', is written over a horizontal dotted line.

KAYALETHU HERALD NGQAKA

Copyright ©

ACKNOWLEDGEMENTS:

I wish to express my sincere gratitude to my supervisors, Ms J. Schroenn and Mr. G. Oldham for their support and guidance. Without them this study would not have been a success. Special thanks go to Dr. T. Nichola for his support. To George Tembo my colleague and friend. To Messrs Sintu Mpambani (Economics department-UNITRA), Jurgens van Zyl (DBSA), Zongie Mbekeni (DEAET-Bisho), Rala (DPW-Bisho), Willie van Heerden and Mrs T. Nodada (both from CIMEC-East London). To all the staff of Hawkins, Hawkins and Osborn (Umtata). To Messrs P. van der Walt, DT Majola, T. Majezi and Ms DM. Foulkes (Eastern Cape Technikon- East London) for letting me use their facilities.

Above all I thank the almighty God for giving me wisdom and strength.

DEDICATION:

To my wife Andy and my mom Mavis.

TABLE OF CONTENTS:

	<u>PAGE NO.</u>
ABSTRACT	(i)
DECLARATION	(iii)
ACKNOWLEDGEMENTS	(iv)
DEDICATION	(v)
LIST OF ABBREVIATIONS	(xii)
 INTRODUCTION	 1
 CHAPTER ONE	
 DEVELOPMENT PROFILE OF PORT ST. JOHNS	
1.1 The socio-economic profile of the Eastern Cape	5
1.2 The socio-economic profile of Port St. Johns	9
1.2.1 Population	10

1.2.2 Gross Geographic Product	11
1.2.3 Employment, incomes and dependency ratio	13
1.2.4 Importance of government social transfers	19
1.2.5 Poverty gap and poverty line	20
1.2.6 Human development index (HDI)	21
1.2.7 Education	21
1.2.8 General Infrastructure:	
1.2.8.1 Communication	23
1.2.8.2 Water and sanitation	23
1.2.8.3 Electricity and energy	25
1.2.9 Tourism Infrastructure	25
1.2.10 Other resources	27
1.2.11 Conclusion	28

CHAPTER TWO

TOURISM AND DEVELOPMENT

2.1 Introduction	30
------------------------	----

2.2 Tourism: defined	30
2.3 Tourism and development	31
2.3.1 Tourism and employment	32
2.3.2 Tourism and entrepreneurial activity	35
2.3.3 Tourism and improvement of economic structure	36
2.4 Tourism multiplier effect	36
2.5 Economic costs of tourism:	
2.5.1 Overdependence on tourism	38
2.5.2 Opportunity costs	39
2.5.3 Seasonality	39
2.5.4 External costs	40
2.6 Sustainable development	41
2.7 Conclusion	43

CHAPTER THREE

SPATIAL DEVELOPMENT INITIATIVES (SDIs) AS AN APPROACH TO DEVELOPMENT

3.1 Defining SDI	45
3.2 Government's perspective of the SDIs	45
3.3 The main objectives of the WCSDI	48
3.4 Lessons from the Kenyan experience	51
3.5 Conclusion	56

CHAPTER FOUR

CRITICAL ANALYSIS OF THE TOURISM-RELATED PROJECTS IN PORT ST. JOHNS

4.1 Introduction	58
4.2 Some techniques to measure the economic impact of tourism	59
4.2.1 The Multiplier model	61
4.2.1.1 The tourism multiplier	61
4.2.1.2 The employment multiplier	64

4.2.2 The Cost-Benefit Analysis (CBA)	64
4.3 Principles for the planning of tourism projects	67
4.4 Planned spatial development in Port St. Johns	69
4.5 A critical analysis of the planned projects	72
4.5.1 regional road 61 (R61)	73
4.5.1.1 Road development: Some benefits and costs	74
4.5.2 Port St. Johns town entrance	79
4.5.2.1 Upgrading of town entrance: Some benefits and costs	
.....	80
4.5.3 Hotel infrastructure	82
4.5.3.1 Rebuilding Cape Hermes hotel: Some benefits and costs	
.....	83
4.5.3.2 Second Beach holiday resort	89
4.5.3.3 Silaka nature reserve	90
4.6 Conclusion	93

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Constraints to tourism development 95

5.2 Recommendations 97

5.3 Conclusions 102

REFERENCES 104

LIST OF ABBREVIATIONS

CBA - Cost Benefit analysis

CIMEC - Centre for Investment and Marketing in Eastern Cape

CTO - Caribbean Tourism Organisation

CSIR – Council for Scientific and Industrial Research

CSS - Central Statistical Services

DBSA - Development Bank of Southern Africa

DC - Developed Countries

DEAET - Department of Economic Affairs, Environment and Tourism

GDP - Gross Domestic Product

GGP - Gross Geographic Product

HDI - Human Development Index

HSRC - Human Sciences Research Council

ILO - International Labour Organisation

IRR - Internal Rate of Return

LDC - Less Developed Countries

NPV - Net Present Value

SMME - Small, Medium and Micro-Enterprises

SDI - Spatial Development Initiative

SDR - Social Discount Rate

STATSSA - South African Statistical Services

WCSDI - Wild Coast Spatial Development Initiative

LIST OF TABLES

Table 1.1 % distribution of employment in Port St. Johns 17

Table 1.2 Employment and unemployment in Port St. Johns 18

Table 4.1 List of the proposed SDI projects for Port St. Johns 71

Table 4.2 Analysis of the labour costs during the construction stage 76

LIST OF FIGURES

Figure 1.1 Port St. Johns GGP at factor cost (1994 prices) by kind of economic activity 13

Figure 1.2 Eastern Cape's formal employment by kind of economic activity 15

Figure 1.3 Port St. Johns formal employment per kind of economic activity 16

MAP 1 THE WILD COAST SPATIAL DEVELOPMENT INITIATIVE 9

INTRODUCTION

The dismal economic picture of the Eastern Cape in general and Port St Johns in particular calls for some measures of resuscitation. It is in this light that tourism has been identified as one of the key industries that can revitalise this impoverished area. The Port St Johns region has been identified as having significant potential for tourism development and therefore, economic growth.

It is against this background that the Wild Coast Spatial Development Initiative (WCSDI), which focuses on tourism and agro-industrial activities, has been launched (Eastern Cape Ministry of Economic Affairs, Environment and Tourism, 1996/97). Since the promotion of investment is one of the WCSDI's main priorities, it is expected that the provision and upgrading of infrastructure will enable tourism development to kick-off in the Port St. Johns area.

This study seeks to analyse the tourism-related development projects envisaged for the Port St Johns/Umzimvubu region in terms of the Wild Coast Spatial Development Initiative (WCSDI), and to examine how these projects may contribute to economic

development. This will be based on an examination of SDI's as a broad approach to development, and an investigation of tourism as a tool of local economic development.

Information and research on the tourism industry is generally lacking within South Africa. Detailed data for the local Port St Johns economy (as for most of the former homeland areas) is relatively hard to obtain. This exacerbates the difficulties involved in arriving at credible estimates of overall local economic benefits or tourism multipliers. For this reason, studies undertaken in the course of the WCSDI planning process are extensively drawn on in the examination of the proposed tourism-related projects.

Furthermore, at the time of writing, all of the projects were still at the proposal or tendering stage, and detailed estimates of costs and benefits have largely proved to be unobtainable. In some cases the likely impacts of proposed developments can only be identified in a broad and qualitative sense. Nonetheless, it is possible to show that tourism development is crucial to the economic development prospects of the Port St Johns region.

Thus, in chapter 1 of this paper, an in-depth look at the Port St. Johns economy and development needs within the context of the Eastern Cape will be covered. This will give a clear picture of the extent of underdevelopment in the Port St. Johns region.

Chapter 2 will look at the question of tourism's contribution to development at the local level, drawing on economic theory as well as evidence from elsewhere. In chapter 3, the concept of Spatial Development Initiatives as a development strategy for regions with under-utilised economic potential, like Port St. Johns, will be discussed. This will include a case study of Kenyan coastal development, since it shares the same features with Port St. Johns.

In chapter 4, a critical analysis of the tourism-related WCSDI projects planned for the Port St Johns area will be undertaken. Cost-benefit analysis and the multiplier model will be explained, as these are the most commonly used techniques for the measurement of tourism's economic impact. However, the data limitations described above have not allowed the direct application of these techniques in this study. Instead, the chapter will draw on projections made in the course of the WCSDI planning process, and expand on the mechanisms by which each project may be expected to promote economic development.

Chapter 5 of this dissertation identifies constraints on and recommendations for further tourism development in the region, and draws some conclusions based on the findings of chapter 4.

CHAPTER ONE

DEVELOPMENT PROFILE OF PORT ST JOHNS

1.1. THE SOCIO-ECONOMIC PROFILE OF THE EASTERN CAPE

With an area size of 170616 km² (i.e. ±14% of South Africa), the Eastern Cape is the second largest province in South Africa (Province of the Eastern Cape, 1997). The population size is estimated at 6.3 million or 15.5 per cent of the entire South African population, according to Statistics South Africa (STATSSA, 1998). The population growth rate is estimated at 2.96 per cent compared to South Africa's 2.70 per cent and is the third highest following that of Northern Province and North-West. This province has the third largest population, following that of KwaZulu-Natal and Gauteng. About 67 per cent of this population is rural without any industry or craft. The province also suffers from a below national level literacy rate of 73.11 per cent (DBSA, 1998). A low literacy rate can be attributed to the historical social conditions that have prevailed in that region, for example the migratory labour system which caused unstable family lives, as well as high education costs and inadequate infrastructure. For instance, the average cost per

child is R513 per annum (DBSA, 1998), which the majority cannot afford as they live below the poverty line¹.

The life expectancy for the Eastern Cape is 60.7 years, as opposed to South Africa's average of 62.8 years and this is the second lowest life expectancy rate following that of the North-West (59.7 years).

The infant mortality rate for this province is the highest at 57.09 per 1000 live births and it exceeds the South African average of 41.0 per 1000 live birth, according to DBSA (1998). The fertility rate is just above the South African average at 4.6 live births for each woman (Erasmus, 1996). This points to the poor health facilities in the Eastern Cape province.

¹ Poverty line can be described as a minimum income level that enables the individual to meet their basic need(s). Erasmus (1996) estimates it to be R840 per month in urban areas and R740 per month in the rural areas.

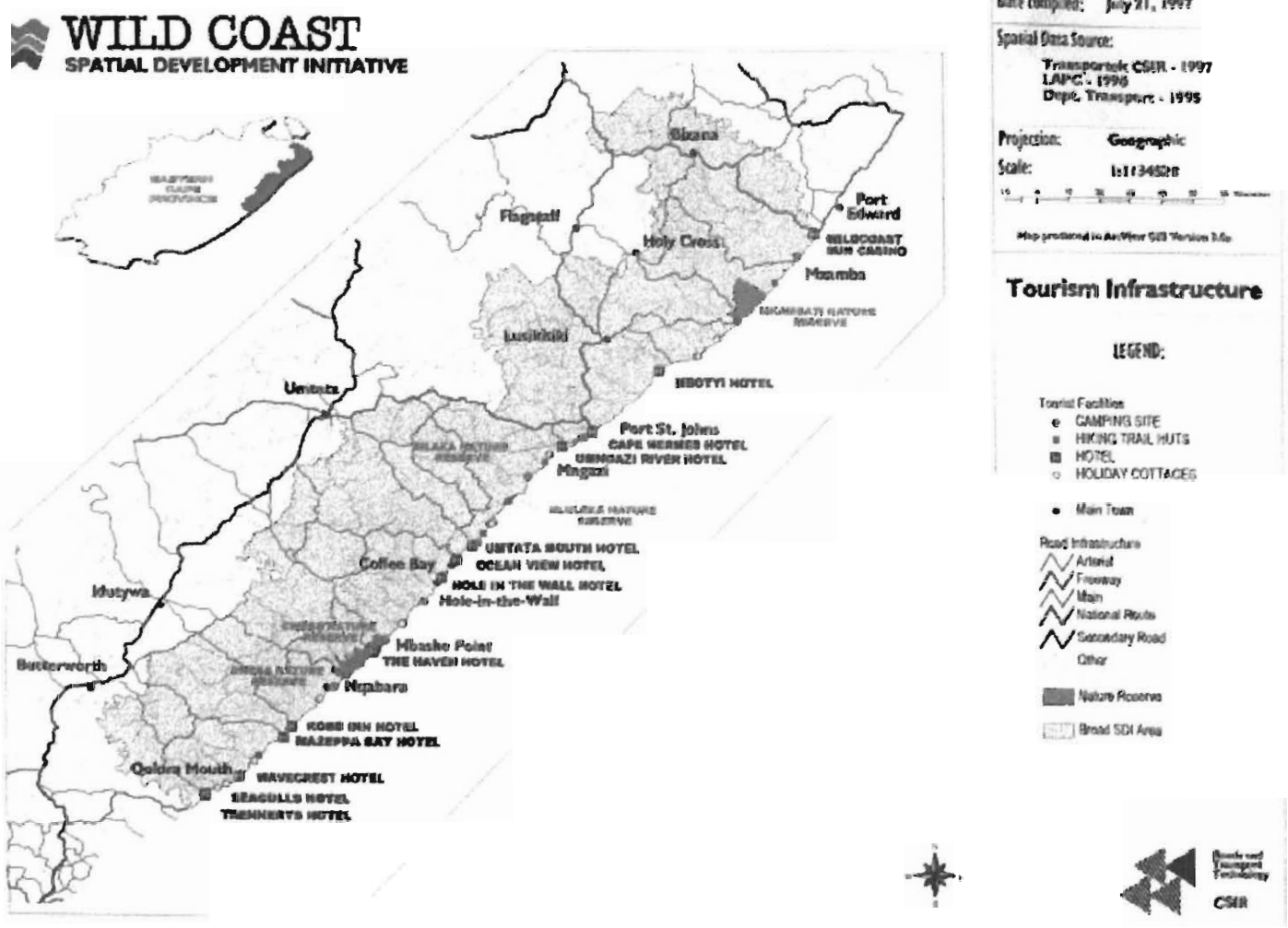
The total unemployment rate for the Eastern Cape province is at 45.3² per cent compared to 29.3 per cent, which is the average South African unemployment rate, according to CSS (1997). However, more recent estimates (STATSSA, 1998 using 1996 census data) put the unemployment rate at 78 per cent. This makes the Eastern Cape the province with the highest unemployment rate in South Africa. Just over a million workers in this province are employed in the formal sector and 168000 in the informal sector. Forty two per cent of those employed are in the community, social and personal services sector (much of which is government employment), followed by agriculture at 17 per cent and wholesale, retail trade and catering and accommodation services at 16.7 per cent.

According to the Province of the Eastern Cape (1997), the main contributors to the value of output or gross geographic product (GGP) are the manufacturing sector at 37 per cent, followed by government at 17 per cent and trade, catering and accommodation at 13 per cent. Despite the fact that the Eastern Cape is the second largest province in South Africa, it contributes only 7.5 per cent of South Africa's Gross Domestic Product (GDP) (CSS, 1994). The per capita income is the second lowest (following that of the Northern

² Expanded definition of unemployment- those who did not work at the time of collecting data, but were looking for work.

Province) at R2626 per annum (DBSA, 1998). Therefore, one can say that the Eastern Cape is the second poorest province in South Africa.

1.2 SOCIO-ECONOMIC PROFILE OF PORT ST. JOHNS



Map 1: The Wild Coast Spatial Development Initiative

1.2.1. POPULATION

The Wild Coast SDI area³ as a whole has a population of 1.4 million, which comprises 15 per cent of total provincial population. The average population growth rate is estimated at 2.8 per cent, according to CIMEC (1997). The Port St. Johns/Umzimvubu region has a population of 55303, of which over 90 per cent live in the rural areas, according to DBSA (1998). However, the 1996 census figures show that the population size is 68144, which shows a growth rate of 0.2 per cent from 1991 to 1996. The majority of this rural population lives in non-formal houses and the average household size is 5.1 people per household among the Africans, according to Erasmus (1996). Most of the rural houses are built from mud, corrugated iron, wood and grass. The town itself has an estimated population of 3647 (STATSSA, 1998). This area has a population density of 85 persons per square kilometre (km²).

³ Port St. Johns is the major town in the Wild Coast.

1.2.2. GROSS GEOGRAPHIC PRODUCT

The Wild Coast area contributes approximately 4 per cent to the provincial Gross Geographical Product (GGP). Port St. Johns town contributes R87m of the GGP to the Eastern Cape's total of R29bn (DBSA, 1998). In other words, Port St. Johns has contributed 0.3⁴ per cent to the province's total GGP. The low GGP contribution for Port St. Johns reflects the high level of unemployment, which is estimated at 71% (STATSSA, 1998), low economic activity and high outmigration of working age adults.

Government services account for 59 per cent of the Port St. Johns region's GGP, which makes it a major contributing sector to this economy. This sector is followed by agriculture at 27.2 per cent, finance at 8.3 per cent. The other sectors like, forestry and fishing and trade and catering also contribute to the GGP. The above figures suggest that agriculture is one of the more productive industries in this area, even though it is still at a relatively primitive stage. One needs to take into account that the majority of the farmers in the Port St. Johns area are subsistence farmers (maize being the major crop).

⁴ $R87m \div R29bn \times 100 = 0.3\%$

They produce primarily for household consumption, with a very limited remainder for the market. Little commercial farming occurs, largely because the land distribution is relatively skewed. Although the greater part of the land is used for grazing, arable land and conservation, subsistence farmers are confronted with small and non-viable land units of less than a hectare. Moreover, they cannot afford heavy machinery required for commercial farming.

The high contribution to GGP by the government and community services sector indicates a high reliance on government as a source of employment income, because it is the major employer in this region.

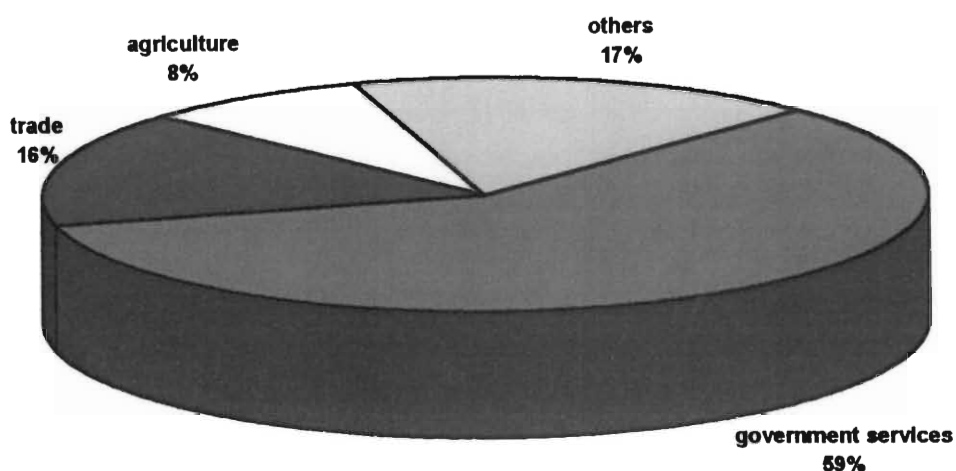


Figure 1.1. Port St. Johns GGP at factor cost (1994 prices) by kind of economic activity

1.2.3. EMPLOYMENT, INCOMES AND DEPENDENCY RATIO

In the Wild Coast area unemployment is high at approximately 45⁵ per cent, whereas that of Port St. Johns is 48 per cent (DBSA, 1998). The reasons for the high dependency

⁵. 1995 figures using the expanded definition

ratio are that this area is characterized by outmigration of adult males who support local families with remittances, existence of subsistence sector and communal land tenure and high population growth,. The outmigration of adult males is estimated at -35.8 per cent.

According to DBSA (1998), in this region 3262 are employed in various sectors, with 32.4 per cent employed in the government services sector, 25.9 per cent employed in agriculture, 23.4 per cent for mining, 12 per cent in manufacturing, 9.1 for commerce and the rest for other sectors. A comparison of the formal employment per kind of economic activity between the Eastern Cape Province and Port St. Johns is illustrated below:

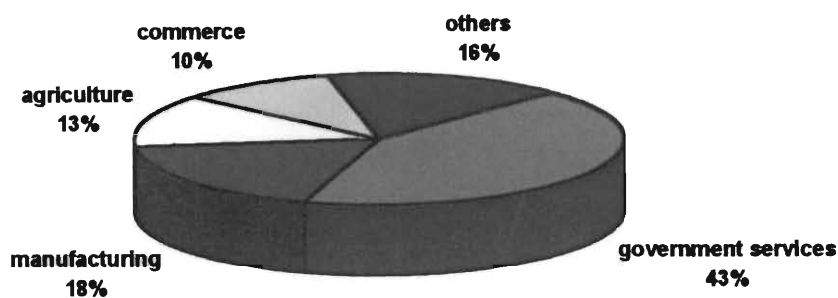


Figure 1.2. Eastern Cape’s formal employment by kind of economic activity

The above diagram clearly demonstrates that the government sector is the major employer in the Eastern Cape, followed by the manufacturing and agricultural sectors. This comparison confirms that even though the government is the major employer in this region, unemployment remains high to an extent that much needs to be done to create more employment opportunities.

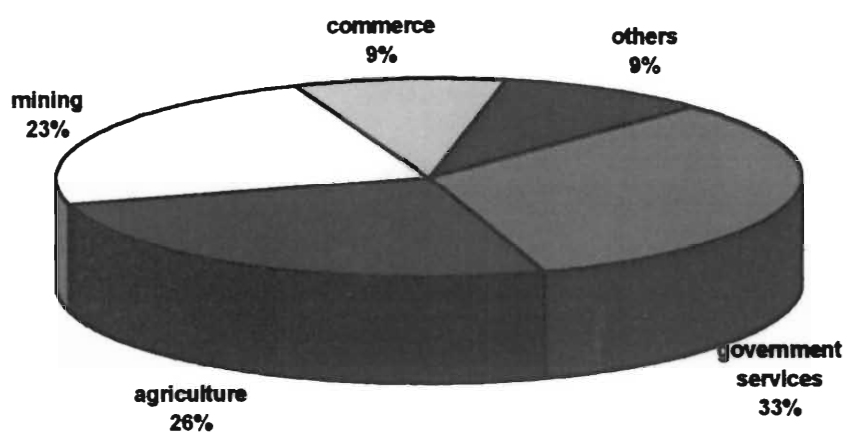


Figure 1.3. Port St. Johns' formal employment per kind of economic activity

As services and the agricultural sectors have been explained, the mining sector in Port St. Johns is mainly silica, some deposits of travertine and limestone. There are also titanium-bearing sands on the banks of estuary at Second Beach, which are not yet exploited (Stavrou and Woolard, 1996). The fourth main sector in this region is commerce, which is dominated by small and medium enterprises as well as some hotels.

Tourism features in commerce as one of the contributing sectors. This suggests that the commercial sector has a greater potential to grow than the other main sectors.

The employment and unemployment levels can be summarized in a table below:

Table 1.1 *Percentage distribution of employment in the Port St. Johns region*

	Eastern Cape	Port St. Johns/Umzimvubu
Formally Employed (%)	42.4	43.9
Unemployed (%)	45.3	48.6
Active in informal sector (%)	12.3	7.4

Source (DBSA, 1998)

The above table shows that in the formal sector the employment rate of the Port St. Johns/Umzimvubu region is higher than for the whole province of the Eastern Cape. This emanates from the fact that more people are absorbed by the public sector in the Port St. Johns area. However, the unemployment rate for the Port St. Johns area is in alarming proportions, as it exceeds even the provincial unemployment rate. While some informal

sector is recorded, this clearly does not include subsistence agriculture. A breakdown of employment numbers for the Port St. Johns region is shown by the table below:

Table 1.2 *Employment and unemployment in Port St. Johns region*

	DBSA (1998)	STATSSA (1998) ⁶
FORMALLY EMPLOYED	4421	3262
ACTIVE IN INFORMAL SECTOR	749	—
UNEMPLOYED	4893	7872
TOTAL LABOUR FORCE	10063	11134

Source: DBSA (1998) and STATSSA (1998)

The above table depicts the seriousness of the situation in Port St. Johns, as DBSA shows unemployment at 48% and STATSSA shows the above 50% unemployment rate. As has been mentioned above, this is due to the fact that more people of this area, who are either miners or sugar cane workers or factory workers in the metropolitan area, are being

⁶ STATSSA does not show the number of those active in the informal sector.

retrenched due to the restructuring process in the industries and the economic stagnation. Even though the proportion of those active in the informal sector for the Port St. Johns area is lower than the provincial one at 7.4 per cent, there is a potential for growth in this sector. This is because the demand in the craft industry is likely to grow due to a greater number of tourists visiting the area.

1.2.4. IMPORTANCE OF GOVERNMENT SOCIAL TRANSFERS

The importance of government's role is also reflected by the fact that close to 90 per cent of the non-employment incomes are derived from the government sources, such as old age pension (McCarthy *et al*, 1998). These government transfers or non-employment incomes (such as old age pensions) form an important basis of income for the rural poor, who are predominantly African.

1.2.5. POVERTY GAP AND POVERTY LINE

The per capita poverty⁷ gap for the Port St. Johns region is the highest in the province at R1917 per annum. The per capita poverty gap of R1917 (HSRC, 1998), can be attributed to low productivity, high dependency ratio, low education levels, high unemployment and inadequate access to services. According to Erasmus (1996), the poverty line for a household with two adults and three children is R840 per month in urban areas and R740 per month in the rural areas. Thus, the majority of people living in the Port St. Johns area are earning either below the poverty line or very low incomes. As the majority are unemployed, it is surprising that over 42% are in the income bracket of zero to R500 and 15% earn between R500 and R800 per month (STATSSA, 1998). This confirms that Port St. Johns is experiencing abject poverty.

⁷. The poverty gap indicates the theoretical minimum government transfer to poor households needed to totally eliminate poverty (HSRC, 1998)

1.2.6. HUMAN DEVELOPMENT INDEX (HDI)

The Human Development Index (HDI) combines measures of life expectancy, education levels and standards of living to indicate the extent to which people live long, informed and comfortable lives. The dismal HDI of 0.21 for Port St. Johns/Umzimvubu, which is equivalent to that of Niger's 0.207 (the lowest of any country) calls for urgent economic rescue. By international norms this falls under low human development category. (This is in contrast to the HDIs of the other parts of the Eastern Cape e.g. 0.96 for whites in the Barkly East, which is equivalent to HDI levels typical of high income countries.)

1.2.7. EDUCATION

Education's main objective is to expand a person's basic capacity, skills and independent thinking. It is therefore a necessity for any government to invest more in human capital (education), as this enables the individuals to meet their basic needs and to achieve a sustainable development.

During 1996 (Erasmus, 1996) the pupil teacher ratio marked 41:1, whereas the South African average amounted to 34:1. The average pupil-classroom ratio for the province is 37:1. This clearly demonstrates the inadequacy of educational facilities in the Eastern Cape. Expenditure on education for Africans comprises 34.9 per cent of personal disposable income per capita, whereas for whites it is only 10.5 per cent. This shows a huge disparity in different regions of South Africa.

Even though there are no data specifically for Port St. Johns with regard to education, Andersson and Galt (1997) point out that in the Wild Coast area, of which Port St. Johns is the major area, the educational levels of males exceeded that of females. Males with education at standard six and over are just over 35 per cent, whereas females with the same education levels are just less than 30 per cent. Those with education higher than standard six can afford decent houses compared to those with low educational qualifications. The main reason for females to drop out at earlier stages at school is due to early pregnancies and marriages. Moreover, women in the rural areas are regarded as, 'hewers of wood and collectors of water'. This leaves them little time to concentrate on education. The low education levels have a tendency to limit modernization and constrain ability of rural people to take part in development projects that require basic literacy.

1.2.8. GENERAL INFRASTRUCTURE

1.2.8.1. COMMUNICATION

Radio and television are the most important media in the Eastern Cape province. However, radio is the most affordable means of information for the majority of the poor. According to Erasmus (1996), nearly 74 per cent of African households in the Eastern Cape own at least one radio.

Only 7 per cent of the total African population have their own telephones and 78 per cent have no access at all. According to Andersson and Galt (1998) of those who had an access to telephones in the Wild Coast rural areas, the average distance from a telephone is 18 kilometers.

1.2.8.2. WATER AND SANITATION

In the whole of the Eastern Cape, 21.7 per cent of houses have water on taps and 7.2 per cent have water on site and 40.2 per cent have access to communal taps (Erasmus,

1996). The other 30.7 per cent have to find water either from well or river. In rural areas, 51 per cent have to rely on communal water taps and 43.6 per cent have to make their own provision. In Port St. Johns, only 2 per cent have water on taps, 3.1 per cent have water taps on site and 4.3 per cent have access to communal taps. One per cent have tanks at home as a source of water (STATSSA, 1998).

In the Wild Coast rural areas 77 per cent had unprotected water sources, such as springs and streams. In the Port St. Johns area 86 per cent use water from the unprotected sources (STATSSA, 1998). As a result there is a high risk of diseases related to contaminated water, such as diarrhea.

Only 25.2 per cent in the Eastern Cape have full water-borne sanitation, and in rural areas 96.8 per cent have other types of sanitation, such as hole toilets. In Port St. Johns only 3 per cent households have flush toilets and 18 per cent use pit latrines. This implies that 79 per cent (the majority being rural households) have no toilets (STATSSA, 1998). This poses a major health hazard.

1.2.8.3. ELECTRICITY AND ENERGY

Wood is the most frequently used source of energy for cooking in the Eastern Cape (41 % of households), followed by paraffin (28%) and electricity (25%) (the latter mostly for towns and holiday resorts). Thus, in many rural areas the demand for wood exceeds the supply, which can easily lead to deforestation of the indigenous forests. For heating the usage of wood, paraffin and electricity is 47 per cent, 27 per cent and 23 per cent respectively. For lighting, 43 per cent paraffin, 32 per cent electricity and 24 per cent candles are used, according to Erasmus (1996).

1.2.9. TOURISM INFRASTRUCTURE

In terms of tourism infrastructure there is already existing tourism infrastructure of two hotels, three camping sites, one holiday resort comprising cottages at Umngazi mouth and hiking trail huts according to CSIR (1997) as cited in CIMEC (1997). The major problem is that these need to be upgraded, as some of these hotels are not up to standard.

There is only one main road, that is, Regional road 61 (R61), which links Port St. Johns to Umtata in the South and to Lusikisiki and Port Edward in the North. Part of R61 to Lusikisiki (± 20 km) is a dirt road, which makes traveling in this area undesirable. Most of the roads in this area are unsurfaced feeder roads, which are in a bad condition. As has been identified by Nicholson *et al* (1996), Woolard and Stavrou (1996), lack of infrastructure like roads to Port St. Johns is the major hindering factor for tourism growth. The means of transport are minibus taxis and vans for the rural community, while the urban people use light motor vehicles.

1.2.10. OTHER RESOURCES

With a rainfall of between 900 and 1050 millimetres (mm) and moderate sea temperatures, this area is well endowed with natural resources, that is, indigenous forests and fauna. These resources constitute a major tourist attraction, since they contribute to the scenery of the area. Furthermore, this climate is more conducive for cash crop farming, as the main crop cultivated here is maize. There is also a great potential fishery business by small entrepreneurs as the coastal area is well endowed with fish, mussels and crayfish. This area also has a fruit (bananas and paw-paw) and vegetables project along the Mngazi River, which is just near Port St. Johns. This project can provide fruit and vegetables as inputs in the surrounding resorts, thereby reducing the leakages and increasing the multiplier effects of tourism developments (discussed further in chapter 4).

Therefore, Port St. Johns with its mostly untapped, undeveloped but attractive landscapes and natural resources has a potential to attract even more tourists, and the contribution of the tourism sector to the region's GGP, if fully exploited, could become very significant. It is against this background that these scenic areas need to be supported by

tourist services, such as lodging and food and beverage establishments and by infrastructure, such as roads. Otherwise the sustainability of tourism development is at stake.

1.2.11. CONCLUSION

In this chapter the indicators have shown that the Eastern Cape as well as the Wild Coast area, of which Port St. Johns is the major town, is economically underdeveloped. This is evidenced by the low GGP contribution to the Eastern Cape's economy and high unemployment levels experienced by the people in the Port St. Johns region. The question of poverty and underdevelopment in this area can be attributed to South Africa's historical background where areas like Port St. Johns were neglected economically and otherwise. This led to major disparities in as far as the economic development of the regions was concerned. Problems like unemployment, low education and poor health are just the outcome of these disparities.

Taking into consideration that the Wild Coast in general and Port St. Johns in particular are well endowed with natural resources, this makes this area attractive to both potential investors and tourists. Therefore, it is imperative for the planners and authorities

to implement prudent economic policies, in order to revamp this region's ailing economy and to promote tourism, which is viewed as one of the remedies to resuscitate this region's economy. Chapter 2 looks more closely at tourism as an instrument of economic development.

CHAPTER TWO

TOURISM AND DEVELOPMENT

2.1. INTRODUCTION

Tourism, as a major force in global trade, plays a major role in social, cultural and economic development of both developed (DCs) and the less developed countries (LDCs). Governments in both the DCs and the LDCs often invest in infrastructure for and promotion of tourism (Copeland, 1991). Hence in LDCs there has been a considerable debate on how to promote tourism as part of the development strategy.

2.2. TOURISM: DEFINED

Tourism can be defined as "an activity in which people are engaged in travel away from home primarily for business or pleasure" (Lundberg *et al*, 1995). Thus the term tourism encompasses several industries providing goods and services to tourists, and

it involves any expenditure incurred by either a tourist or a provider of services, in this case the host.

2.3. TOURISM AND DEVELOPMENT

Most developing countries (LDCs) are plagued by problems like low levels of income, uneven distribution of income and wealth, high rates of unemployment, small size of the domestic market which tends to hamper industrial development, heavy reliance on agriculture for export earnings, and high levels of foreign ownership of industries.

As pointed out in Mathieson (1982), a rapid injection of tourist expenditure and foreign investment into the LDCs can have a significant impact into the economy, more significant than if these sums of money were expended in the developed economies. Economic growth and development requires LDCs to undergo radical economic transformation - from a traditional agricultural economy to an industrial one.

However, such transformation would require huge amounts of capital and loans and the LDCs as the net exporters of primary products cannot afford to raise such funds to finance the proposed transformation. Thus the advocates of tourism believe that tourism in this case is both necessary and relevant.

2.3.1. TOURISM AND EMPLOYMENT

Since tourism is a labour-intensive industry, and creates a significant number of jobs relatively quickly, particularly for the semi-skilled and unskilled workers. Tourism is thus regarded as being more effective than other industries in generating employment in the less developed regions of a country with limited opportunities for development (Ioannides, 1995). Tourism can be viewed as an appropriate development strategy for developing countries, as they have low income and labour in abundance.

Employment arising directly from tourism, such as in hotels, normally absorbs a relatively small number of local residents. Indirect employment may be created from other sectors of the economy that do not necessarily depend on tourism for their existence, but are linked to tourism, for example, public transport, restaurants, bars and

retail outlets, places of entertainment as well as arts and crafts. Induced employment arises from a general increase in demand for goods and services as a result of expansion in tourist expenditure.

According to Gamble (1989), in an employment survey that was conducted in Tunisia in 1974, it was estimated that for every extra hotel bed, 5.2 jobs would be created, that is, 1.1 directly in the hotels and restaurants, 1.4 indirectly in the supporting industries and 2.7 in investment-related construction.

According to Archer (1987) as cited in Harrison (1992), in Bermuda in 1985 tourism was responsible for direct employment for almost two thirds of the labour force. The Caribbean Tourism Organisation (CTO) in 1989 estimated that, on the basis of 1.19 jobs per hotel room, direct employment in accommodation establishments in the Caribbean, Bermuda included, amounted to 141000 people. It went further to indicate that the total number of jobs generated by tourism demand was approximately three times that amount.

However, other authors claim that tourism's contribution to employment has been exaggerated. Bachmann (1988), cited in Harrison (1992), claims that in Kenya the tourism industry in 1979 accounted for 0.5% of all Kenyan workers, i.e., the modern sector contributed 32000 jobs and was indirectly responsible for another 25000. Although tourism created some jobs, in reality it did not resolve the regional unemployment problem, because quite a large number of unemployed people moved from the other parts of Kenya to the tourist centres of Malindi and Watamu, thus increasing unemployed population in those areas.

Rodenburg cited in Harrison (1992), found that international hotels create more jobs than smaller local hotels, pay higher wages and bring in more foreign exchange, but import more, have fewer linkages with local infrastructure and provide few entrepreneurial opportunities for the local population. However, Mayer (1988) as cited in Harrison (1992) claims that in Thailand the locally-owned hotels are more successful than large internationally-owned hotels in as far as creating more jobs, income and government revenue are concerned. The effects of hotel ownership will depend on terms of the partnership between the private owners and government, especially in the WCSDI.

2.3.2. TOURISM AND ENTREPRENEURIAL ACTIVITY

Because the tourism industry exhibits backward linkages, external economies emerge. This is evident in the construction of hotels, improvement of national as well as provincial transportation networks and provision of water and electricity due to the increasing demand in the tourism industry.

However, the establishment of linkages between the tourist sector and local entrepreneurs, according to Mathieson and Wall (1982), depends on the following:

- The types of suppliers and producers with which the tourist industry's demands are linked.
- The capacity of local suppliers to meet these demands.
- The historical development of tourism in the destination area.
- The type of tourist development.

Linkages stimulate demand for local produce, but the effects of this can be constrained by outdated technology and increasing competition from foreign producers.

It is therefore recommended that destination areas try to reduce reliance on foreign suppliers and instead intensify their links with local suppliers, in order to maximise the effects of tourism development. This can be achieved by developing Small, Medium and Micro Enterprises (SMME). Thus a substantial financial assistance and training for the locals interested in running small enterprises in Port St. Johns is needed.

2.3.3. TOURISM AND IMPROVEMENT OF ECONOMIC STRUCTURE

It is likely that tourism development will be accompanied by other changes in the economic structure of destination areas, for instance, an increase in industrial production brought about by increasing demand in the tourism industry. Many changes in economic structure are prompted by radical transformation from a primary producing economy e.g. small scale farming, to one dominated by tourism e.g. construction of hotels and airports.

2.4. TOURISM MULTIPLIER EFFECT

Pearce (1981) as cited in Lea (1993:41) defines the tourism multiplier effect as a way in which tourist spending filters through the economy, thereby stimulating other

economic sectors. The initial benefits of tourism-related expenditure are thus amplified and spread through the local economy. The tourism industry has the potential to generate high multiplier effects, provided a situation of high leakages through imports is avoided by promoting the local industry. The multiplier effects of tourism on income and employment are considered further in chapter 4.

2.5. ECONOMIC COSTS OF TOURISM

2.5.1. OVERDEPENDENCE ON TOURISM

Although tourism is a growth industry, it is vulnerable to influence of many factors, such as, price and income changes, political developments, the state of the economy, the availability of energy and seasonal changes.

A decline in tourism demand due to a change in one or more of the above-mentioned factors in a particular destination area may result in under-utilisation of resources and services, loss of income and even loss of jobs to some extent.

Thus it is important for the destination areas not to depend entirely on tourism, as it is subject to demand fluctuations. These areas should try to promote diversity both within the tourist industry and the base economy, according to Mathieson *et al* (1982). At the same time foreign ownership of the tourist resources should be kept at minimum, as this has some negative implications on the welfare of the local population. On the other hand, tourism increases competition on land use and subsequently land prices increase.

2.5.2. OPPORTUNITY COSTS

Historically, the opportunity costs of tourism have been rarely considered in most cases. In other words the relative economic benefits of investing in tourism, as opposed to investing in another industry, have rarely been investigated.

According to Flemming *et al* (1990), the money invested by government agencies in tourism-related promotional programmes could have been spent on environmental clean-up programmes, or land upon which a resort was built could have been developed for residential housing.

2.5.3. SEASONALITY

The tourism industry is heavily affected by seasonal changes. For instance, in the low season (in most cases, that is during winter) some hotels and holiday resorts close down (except ski resorts) while others get very low revenues and therefore low returns on investment. This makes tourism less attractive an investment than other industries in the

economy, which are normally consistent in production. This affects jobs in the tourism sector as well.

2.5.4. EXTERNAL COSTS

Residents of the destination areas are subject to a number of other costs that are triggered by tourism development. For instance, there can be increased costs for collecting refuse as well as high costs for maintaining the tourist attraction facilities that have been damaged by overcrowding. Other possible costs include vandalism, erosion of beaches, destruction of scenic landscapes, crime, pollution of rivers and beaches, cultural degradation and so on.

However, it is difficult to translate the social and environmental costs of tourism in monetary terms. For example, if the cost of congestion at the overcrowded beaches is undertaken by attempting to survey those at the overcrowded beaches, the results may be biased in favour of those interviewed excluding those who might have left already.

Social costs that result indirectly from tourism activities are not easy to measure. Examples of these include, increased dropout rates from schools as children prefer jobs within the tourism industry to education and an increase in number of pensioners who prefer to spend their retirements at the attractive destination areas, increasing the demand for services like health and transport.

2.6. SUSTAINABLE DEVELOPMENT

The idea of “sustainable development” is particularly relevant to any natural resource-based tourism development. Environmental assets have been identified as the major attractions of Port St Johns, and the source of its tourism potential, so it is necessary to consider this concept in more depth here.

The most commonly used and straightforward definition is given by the World Commission on Environment and Development (1987), also known as the Brundtland report: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. In other words, natural resource exploitation should take account of longer-term effects,

including those on future generations (since decisions taken in the present impose costs, which are likely to be borne by future generations).

Developing countries tend to have a high income elasticity of demand for basic commodities and low income elasticity of demand for environmental protection. This emanates from the fact that the majority of the population is at the margin of subsistence. Tourism development in these countries has often reflected these priorities. For example, Kenya's coastal tourism development has been characterised by high population growth and over-harvesting and overuse of resources, e.g. high demand for fish and prawns, sewage pollution, deforestation, shortage of fresh water etc. (de Beer *et al*, 1997). These led to the deterioration of tourism industry in Kenya. Thus an environmentally based development which fails to take care of its environment is clearly not sustainable (Tisdell, 1999).

Certain requirements have to be met if tourism development is to be sustainable (Odendal and Schoeman, 1990):

- Development should not disrupt ecological systems, over-exploit natural resources, or damage cultures and societies.

- Technology used should be appropriate to the needs, skills, training and finances of the people using it.
- Development should be based on the needs, efforts and ideals of the local community and should ensure self-reliance.

As will be seen in chapter 3, the WCSDI is consistent with these basic requirements.

2.7. CONCLUSION

In conclusion one can say that tourism, in spite of the costs associated with it, can be used as one of the remedies for the sick economies of the developing countries. Tourism can lead to economic growth and development of human living standards. As reflected above, this can be achieved through the creation of employment opportunities, investment opportunities, and revenue for local governments. As Archer (1972, cited in Mathieson and Wall, 1982) points out, many different sectors of the economy will be influenced by tourist expenditure and therefore benefit out of it, so it is inevitable that tourism can lead to economic growth and development.

Recognition of the potential contribution of tourism to growth and development is reflected in the fact that tourism is a key element of several of the Spatial Development Initiatives planned in South Africa, including the Wild Coast SDI. The SDI as an approach to development is the subject of the next chapter.

CHAPTER THREE

SPATIAL DEVELOPMENT INITIATIVES (SDIs) AS AN APPROACH TO DEVELOPMENT

3.1. DEFINING SDI

A Spatial Development Initiative can be described as an initiative by government aimed at unlocking the inherent and under-utilized economic development potential of certain specific spatial locations in South Africa (de Beer *et al*, 1997). According to Wiese (1996) [the SDI is viewed as] "an attempt to overcome the racially and spatially fragmented development pattern inherited from the past and to promote equity, integration and efficiency".

3.2 GOVERNMENT'S PERSPECTIVE OF THE SDIs

According to Jourdan (1998), the government recognises the fact that there is a need for private investment into the country, so that we achieve job creation, economic

growth and development. This is however hindered by the lack of investment and the inefficiencies within the government structures. Thus, the SDI programme has been adopted by the government as a means to create a conducive climate for investment and to improve efficiency in those areas identified as priority for development, e.g. Port St. Johns. This has been done by, forming a public-private partnership in an effort to accelerate delivery of infrastructure, as well as to facilitate delivery of some projects, like tourism and agricultural projects. This public-private partnership requires co-operation between the government and the business community in order to ensure that development materialises.

Furthermore, the strategic investment (in the form of anchor projects), whether in tourism or industrial plant, normally results in large injections into the regional economies. The anchor project has construction and operation phases. These phases create more employment opportunities for the local businesses in the sense that there will be an increase in demand for building materials and other goods and services. In an effort to lure investors into the previously underdeveloped areas, the Department of Trade and Industry has set some incentives, such as Tax Holiday Schemes. These schemes offer investors six years tax holiday, three-year accelerated depreciation grant and foreign

location cash grant (Jourdan, 1998). In order to promote black economic empowerment, private investors are encouraged to enter into joint ventures with the local SMMES. This ensures that small businesses derive benefits out of these initiatives. The SDI is spearheaded by the Department of Trade and Industry.

The main SDIs in this country are Maputo SDI, Fish River SDI, Lubombo SDI, West Coast Investment Initiative, Richards Bay SDI and the Wild Coast SDI, which is the focus of this discussion.

3.3. THE MAIN OBJECTIVES OF THE WILD COAST SDI

These are the main objectives as set out by de Beer *et al* (1997):

- To generate sustainable economic growth and development. This emanates from the fact that rural areas like the Wild Coast were marginalised economically and socially, because of the political and economic policies of separate development that were pursued by the governments of the past. Obviously these areas have substantial under-utilised natural resource potential. Thus, it is imperative that the exploitation of these economic opportunities will lead to sustainable growth and development.
- To generate sustainable long-term employment creation. This is due to the fact that the tourism industry has a wide range of employment opportunities.
- To maximise the extent to which the private sector investment and lending can be mobilised into the process. The strategy, which will be followed will be to attract more private investment to the Wild Coast, as it is emphasised that investment is not only expected from the public sector, but from the private sector as well (de Beer *et al*, 1997).

- To exploit the opportunities arising from the development of tourism and eco-tourism developments for the development of upstream and downstream business opportunities, and for the empowerment of local communities.

In order to achieve the aforementioned objectives, the following strategies need to be taken into consideration:

- **Crowding-in of investment:**

That is, private sector investment including financial, technical and institutional resources. This view is strengthened by the fact that some of the infrastructure development projects, which were previously funded by the government, are now increasingly funded by private sector investment and lending, e.g as is the situation with the WCSDI. There the government's investment is 10% of the total investment value (de Beer *et al*, 1997). This is in line with economic theory which points out that a huge public sector investment has a tendency of crowding out private sector investment. Thus the mobilisation of private sector investment and lending is a core of the SDIs.

- **Full utilisation of the inherent economic potential:**

This is central to the long-term success and sustainability of the SDIs. The SDI as a development strategy can only apply to an area / region which has a proven, inherent, unutilised economic potential, such as Port St. Johns. The ultimate objective is to utilise the identified comparative advantages and convert them into competitive advantages.

- **Quicker and more focused planning:**

This should also take environmental constraints into account. A quicker planning process is advantageous when it comes to delivery, but it needs to be carefully executed. This is necessary to avoid the risk of environmental and resource damage and thus unsustainable development, as discussed in the previous chapter.

3.4. LESSONS FROM THE KENYAN EXPERIENCE

The concept of SDI's, as Koch *et al* (1998) point out, is neither new nor peculiar to South Africa, but there is an international experience regarding this issue and South Africa can learn some lessons from this experience. A good example is that of Kenya's Malindi-Mombasa Coastal Development Corridor.⁸ The Kenyan case study is used in this study because of its similarities with the Wild Coast, e.g. beautiful wild beaches, scenic landscapes and poor population. The Kenyan Corridor initially looked successful, but due to some mistakes, it is generally thought to have failed in meeting its objectives.

From the time that Kenya gained independence, the economic problems experienced were very similar to those of South Africa (especially in the former homelands). These problems range from low investment and corresponding capital shortage to unacceptably high unemployment levels. In view of these socio-economic problems, the Kenyan government identified tourism as an appropriate development tool, which can create more opportunities for economic growth, job creation and private sector investment.

⁸ In the South African context the Corridor concept is used as Spatial Development Initiative.

The key objectives for tourism development along the Kenyan coast were, as pointed out by de Beer *et al* (1997):

- To accelerate growth in order to overcome recession, by maximising international tourist arrivals.
- The government to provide the necessary infrastructure like roads, water and sanitation, electrification, accommodation facilities, game parks and reserves in order to accelerate the proposed development.
- To encourage the locals to control their economy by providing training and education facilities, especially for entrepreneurial development.
- To promote private sector investment in the tourism industry by incentives such as allowing the international private sector to purchase the land they were to develop on a freehold basis and to be able to repatriate profits, dividends and foreign capital without any restrictions. The former provided security of tenure and ensured fixed foreign investment.
- To provide the dynamic for tourism growth and development in order to avert private sector domination and to ensure diversification of the ownership of assets and of economic activities.

From its inception, tourism in Kenya became the second largest sector, with 13 per cent contribution to Gross Domestic Product (GDP) during the 1960s and 1970s. Between 1980 and 1990 it contributed 12 per cent of GDP to the national economy, making it the third largest sector, following agriculture and manufacturing (de Beer *et al*, 1997). The slight decline in the relative importance of tourism in the 1980s has been attributed to economic recession and poor marketing. A further decline in the coastal tourism in the 1990s was also attributed to the over-reliance on international package tourism industry, which was then experiencing declining prices.

Tourism development became very significant for the provincial and coastal economy, and increased its share in the provincial economy from 11 per cent in the '70s to 15 per cent in the late '80s. Most important is that by the end of 1980s the coastal regions' tourism accounted for something between 60% - 70% of the national tourism industry according to Visser and Schoore (1991) as cited in de Beer *et al* (1997). The multiplier effect of this development is clearly shown by the significant numbers - about 90% of the population in Malindi - directly and indirectly employed in the tourism sector.

The total number of the employed in Kenya grew on average by three per cent per annum since 1960. The '70s recorded the highest growth. The ILO (1992) as cited in de Beer *et al* (1997), points out that in 1987 more than 9 per cent were directly employed in the tourism sector. The coastal province, on which this tourism development was focused, constitutes 13% of national employment opportunities. The town of Malindi recorded 26% of total employment in the tourism and tourism-related sectors.

Due to the incentives set forth by the Kenyan government concerning private sector investment, over 50% of the tourist hotel capacity fell under foreign ownership and control, according to Dieke (1991), as cited in de Beer *et al* (1997). Malindi had an exceptionally high foreign ownership of between 80% - 90%. The number of international tourists increased with the increase in hotel accommodation over the last years.

However, the rapid increase in investment in accommodation outstripped the growth in tourism numbers, and led to the lower occupancy rate, which had to be offset by lowering prices of accommodation. The Kenyan tourism market became entirely reliant on international tourism market and external economic policies. As the

international demand for tourism dropped, the government had to devise some means to enhance domestic demand for tourism. However this strategy was ineffective since the hotels were of international standard and therefore charging rates, which the majority of local community could not afford. Furthermore, because domestic tourism was previously neglected, the locals became distanced from hotels and parks to an extent that they perceived these facilities as “sacred” enclaves (Ndenge, 1992 cited in de Beer, 1997).

The tourism industry, particularly hotel ownership, became foreign owned and this resulted in the alienation of the local communities. This was accompanied by the eviction of the people living along the coast of Mombasa, and the land was used for the purposes of promoting tourism. Further, the jobs created in the coastal area attracted more work-seekers from inland, which dampened the positive effect on regional unemployment levels.

As a result of the population explosion into the coastal areas, there has been a significant impact on the physical infrastructure as well as biological environment. This impact has been in the form of over-utilisation of resources, e.g. fish species, sewage

pollution (with little or no treatment), deforestation etc. All these development problems can be attributed to the lack of co-ordinated and integrated planning and local community involvement. However, due to the indigenisation process that the Kenyan government embarked on, a greater proportion of the tourism industry subsequently fell under Kenyan control.

3.5. CONCLUSION

The tourism development trends along Kenyan coast suggest that a haphazard, unplanned and ad hoc tourism development disregarding the environmental impact can lead to the failure of that initiative. Moreover, the Kenyan coast was overdeveloped and they allowed excessive foreign ownership and control. Thus the WCSDI should draw some lessons from the Kenyan Corridor and avoid repeating the same mistakes. As it is generally agreed that tourism has a high multiplier effect, it is important to promote the local ownership of businesses so as to reduce leakages from imports and remittances from expatriate labour.

Furthermore, sound management of tourism resources in a way that fulfills economic and social needs is necessary, as failure to do so can result in serious impacts, more especially, for the underdeveloped areas like Port St. Johns. Sustainable development cannot be achieved if the local communities are excluded in planning and decision making. Instead this has a tendency to lead to confrontation and serious political tensions, as was the case in Kenya. Thus, it is essential to take into consideration the Kenyan development trends, when formulating tourism development strategy for areas like Port St. Johns.

CHAPTER FOUR

CRITICAL ANALYSIS OF TOURISM-RELATED PROJECTS IN PORT ST. JOHNS

4.1. INTRODUCTION

In the previous chapters the economic importance of tourism for developing economies, such as that of the Eastern Cape, has been emphasised. Tourism can help to resuscitate the ailing economies of resource-rich regions, such as Port St. Johns (Umzimvubu). The planners and developers in conjunction with the government are faced with a huge task of upgrading this small and beautiful coastal town. This chapter critically analyses the tourism-related development projects envisaged for Port St. Johns in terms of the WCSDI.

First, it is worth explaining the most commonly used techniques of measuring the economic impact of tourism: multiplier models, and cost benefit analysis. Lack of data does not allow for the application of either technique within this dissertation. However, this

chapter will draw on the broad principles of these methods and on plans and projections made in the course of the WCSDI planning process. Bearing in mind also the findings of chapters 2 and 3, the major tourism-related projects proposed for the Port St Johns region will be examined, and their likely economic impacts and the mechanisms by which they may be expected to contribute to development will be elaborated upon.

4.2 SOME TECHNIQUES TO MEASURE THE ECONOMIC IMPACT OF TOURISM

Several techniques have been applied by economists in measuring the economic impact of tourism at the local and regional levels and to predict the effects of investment in the tourism industry. In practice the most commonly used techniques are:

- The Keynesian tourist multiplier model
- The input-output model
- Cost-Benefit analysis (CBA).

For the interests of this study, the tourist multiplier model and the cost-benefit analysis will be focused on. Due the unavailability of detailed data for the region

(particularly, input-output tables) the tourism multiplier model will not be applied here, but the existence of multiplier effects on incomes and employment should be taken into account in any consideration of the projects' impact. Some studies already undertaken for the WCSDI have made some projections using the CBA approach (the road project and the resort developments) and these will be analysed further below.

4.2.1 THE MULTIPLIER MODEL

According to Lundberg *et al* (1995), new money entering an economy either in the form of investment or tourist expenditures, stimulates the economy several times - the multiplier effect. Mathieson and Wall (1982) describe this as the respending of incomes thereby creating additional incomes.

4.2.1.1 THE TOURISM MULTIPLIER

The tourism multiplier indicates by how much the effect of each new Rand spent by a tourist should be multiplied to determine its impact in the economy. As has been mentioned the income from foreign tourists can be considered as an export. Exports can be viewed as injections into the economy (a view which originated from Keynes). The tendency of injections is such that the income generated, say from tourism, will encourage internal spending even though some of it is leaked through taxes, imports and savings. The extent of leakages determines the size of the multiplier - the smaller the leakages, the greater the multiplier and vice versa.

Economic growth can only be achieved if the injections exceed the leakages. However, in the case of small underdeveloped economies, like that of Port St Johns, the propensity to import is usually high. This makes the leakages greater and the multiplier smaller. As Cater (1987), as cited in Ioannides (1995) points out, in the Gambia for instance, up to 90 per cent of all gross earnings arising from tourism are used to secure imports for that country's coastal resorts. If there is a small multiplier in the economy, expenditure from a tourist visiting the area will have a negligible multiplier effect beyond the initial round of spending. Mathieson and Wall (1982) suggest that in the case of LDCs, local economies usually lack the diversity and capacity to meet the input requirements of international tourism establishments, implying high leakages and small multipliers. On the other hand, this may be offset by a high tendency for local people to be used for activities like catering, the income from which would thus bring mostly local benefits.

Lundberg *et al* (1995) point out that large economies have stronger linkages and therefore, money spent in the economy is more likely to remain in it and be respent. In these large economies, the multiplier effect is likely to be larger than in small economies, where larger proportions of money go out of the economy to pay for imports.

As indicated above, less developed economies have high propensities to import, which implies that their multipliers are usually low. This is evidenced by Cleverdon, as cited in Lundberg *et al* (1995), who points out that countries with multipliers less than 10% (such as Mauritius) are totally import reliant, and those between 10% and 50% are heavily import reliant. Those between 50% and 70%, import luxuries and a few necessities. This implies that for tourism to be a success in Port St. Johns, imports must be minimised by promoting local production.

4.2.1.2 THE EMPLOYMENT MULTIPLIER

The employment multiplier is a ratio of direct and secondary employment generated by additional tourism expenditure to direct employment alone (Lea, 1993). For many governments the tourist employment multiplier is the area of interest as it is based on how many jobs have been created by each investment in tourism.

For illustration purposes, if for each hotel room accommodation, 1.1 direct jobs are created and 4.1 more jobs are created from the other tourism-related industries, such as food manufacturing and construction, then the multiplier will be $4.1/1.1 = 3.73$. (This example uses Gamble's findings for Tunisia [1989], discussed in chapter 2 of this paper.)

4.2.2 COST-BENEFIT ANALYSIS (CBA)

This is an alternative technique to multiplier and input-output models, which takes a wider view of the benefits and costs accrued to the community as a whole, including future generations. The CBA focuses on the net benefits to the host community, unlike the multiplier and input-output models which are concerned with the benefits accrued to a

particular industry in the economy. According to Archer in Briguglio *et al* (1996), the CBA involves assessing and measuring in monetary units the effects of proposed forms of development, e.g. tourism, agricultural development and manufacturing.

Cost-Benefit Analysis (CBA) enables an analyst to decide whether the project proposed will be worthwhile or not. According to Perkins (1994:3), “the economic analysis is employed mainly by governments and international agencies to determine whether or not particular projects or policies will improve a community’s welfare and should therefore be supported”. This is echoed by, Dinwiddy and Teal (1996:82), who mention that there are several reasons why CBA may be undertaken in the LDCs. These reasons can be linked to efficiency and equity (equitable distribution of income). It is very important for CBA to be undertaken regularly to evaluate major government projects, as it considers much broader issues, such as economic and social benefits and costs. CBA has been widely used by institutions like the World Bank in assessing the viability of development projects in the Developed and Developing Countries.

The decision to apply the CBA is mainly prompted by market failure associated with environmental damage or loss. Market failure is taken as a norm in developing

countries, necessitating government intervention. CBA is applied to ensure that investment in public goods has a positive impact on the community's welfare.

In the case of the Wild Coast SDI, where a number of tourism projects are planned, it would be wise to apply CBA to all projects in order to ensure that the main objectives of the WCSDI, as pointed out in the previous chapter, are fulfilled.

Central to the CBA is the issue of Pareto welfare improvements, whereby those benefiting could compensate those who lose, and still be better off themselves (Perkins, 1994). This definition of welfare explains the fact that in the economic analysis, as long as the project's benefits exceed its costs the project will be declared worthwhile, no matter if the poor are losing from the initiative. In order to avoid this problem a social project analysis needs to be undertaken, using distributional weights, as pointed out by Perkins (1994). As Brent (1997) asserts, the poor group should always be considered explicitly, because, a unit to a poor group is worth more in social terms than one to a rich person.

Social project analysis is undertaken by listing all the proposed projects (their benefits and costs) using shadow prices (or shadow wage rate) where appropriate, applying the social discount rate (SDR)⁹ and selecting the one that will most increase the community welfare.

4.3 PRINCIPLES FOR THE PLANNING OF TOURISM PROJECTS

The following are the principles for the Wild Coast SDI as laid out by the Eastern Cape government, according to Koch *et al* (1998):

- The game reserves and the proposed development projects should operate as income generating or profitable concerns.
- Communities surrounding these reserves should be the main beneficiaries from the proposed tourism development projects in the short, medium and the long term. This ensures fair distribution of income and empowerment of the communities.
- Local communities should be guaranteed sustainable access to the reserves, the resources in them and the leisure opportunities they provide.

⁹As environmental resources like fauna and flora become scarce, their value will increase over time, thus a lower discount rate will raise the present value of the future cost and also the value of future benefits associated with today's developments.

- Sound environmental practices must be ensured at all times. Thus sustainability of tourism development is ensured.
- Private sector investment to the anchor project areas must be encouraged at all times. This will help to promote entrepreneurial activity, in the form of SMMEs, in Port St. Johns. Therefore, programmes that vigorously seek to raise the overall share of SMME activity in the economy effectively predispose towards greater spatial concentration of industrial activity (Lewis and Bloch, 1998).
- The development of the anchor projects should ultimately be managed by the local administrations, which are to be empowered with necessary skills, such as finance and technical.
- Since the game reserves are regarded as state assets, the private sector is encouraged to act jointly with the community and state in partnership-based developments by making use of management agreements, lease arrangements and concessions.

4.4 PLANNED SPATIAL DEVELOPMENT IN PORT ST. JOHNS

All the planned SDI projects in Port St. Johns will apply labour-intensive techniques, such as excavation, brick laying, paving etc., because of the area's abundance of labour reflected in extremely high unemployment. So according to Hawkins *et al* (1997), the use of capital-intensive techniques will be restricted and instead labour will be used. The capital, that is, plant and machinery will be used only for heavy earthworks, like blasting.

The target group for employment will be the most needy within the local community, that is unemployed, youth and women. Since capacity building is the main objective, it is believed that through these projects a more sustainable tourism development can be achieved.

Projects will be undertaken in such a way that they do not have a negative impact on the environment, so as to achieve sustainable development (as discussed in chapter 2). Agarwal as cited in Valadez and Bamberger (1994) points out that "development without the concern for the environment can only be short-term development, in the long run it can only be anti-development...". Thus the Department of Transport (1997) adopted as one of

its development principles for the WCSDI, a thorough environmental assessment before construction of any project may begin.

The table below lists the envisaged tourism-related projects for Port St. Johns.

Table 4.1 *List of the proposed SDI projects for Port St. Johns*

PROJECT'S NAME	INVESTMENT COST (Rm)	BENEFITS
Regional Road 61 (R61)	49.2	11% of the investment cost goes to wages. ±800 job opportunities. Easy access to Port St. Johns.
Cape Hermes Hotel	14.6	Tourist-attraction, Employment opportunities in the construction and tourism industries and investment opportunities. SMME development.
Port St. Johns Town entrance	2.9	Employment opportunities for the local people and improvement in natural environment.
Silaka Nature Reserve	10.42	Tourism attraction, employment and environmental preservation
Second Beach Holiday Resort	11	Tourism growth and employment opportunities
TOTAL	87	

Source: KPMG (1998), Hawkins, Hawkins and Osborn (1997)

4.5 A CRITICAL ANALYSIS OF THE PLANNED PROJECTS

Given that these projects are still all to a greater or lesser extent at the proposal stage, it has not been possible to conduct an ex post study of their economic impact. Instead, the following sections will highlight key aspects of the planned projects and elaborate on the mechanisms by which they may be expected to contribute to economic development, drawing on the preceding two chapters. The upgrading of the regional road is considered, drawing partly on work done by Hawkins *et al* (1997). Information for the other projects to be examined in this chapter is drawn mainly from studies carried out by development consultants KPMG (1998), who were requested to prepare investment plans for these sites. For the purposes of gauging economic impacts, the material available suffers from serious gaps – e.g. no explicit projections were available regarding numbers to be employed or wage rates for the resort projects, as planning is still at a preliminary stage. These gaps thus constrain the conclusions that may be reached here.

4.5.1 REGIONAL ROAD 61 (R61)

The initial plan for the WCSDI was to construct a coastal highway, stretching from Port Edward via Port St. Johns to Umtata, at a cost of approximately R1 billion and creating about 50000 jobs. This would lead to increased traffic flow between KwaZulu-Natal and the Eastern Cape, in particular to Port St. Johns. But because the feasibility studies showed that this project would not be financially viable (Financial Mail, November 21 1997), it was decided that instead the existing R61 (between Port St. Johns and Lusikisiki) be upgraded. As has been shown in table 4.1 this will cost approximately R49.2 million. Currently R61 is the major route connecting Port St. Johns to Umtata and Port Edward. The greater part of this road is surfaced, except the last 20 km before Port St. Johns from Lusikisiki.

It is a well accepted view that for every planned development, the government must provide the basic infrastructure in order to encourage investment and create employment opportunities. As has been mentioned the upgrading of R61 will encourage growth in tourism and thus economic growth and development.

4.5.1.1 ROAD DEVELOPMENT: SOME BENEFITS AND COSTS

If the construction of the proposed coastal highway had gone through, it would have meant tourism development opportunities for the Wild Coast coastline would be opened. The travelling distance from Durban to East London would be reduced by 80 km, meaning large travel cost savings (Department of Transport, 1997), a good enough reason to attract more traffic via this route. As has been indicated above this development would have absorbed 50000 job seekers. A traffic count done by the Department of Transport puts the number of vehicles traveling the N2 through this region to be at 4500 a day, of which 11 % (1997 figures) per day are traveling for tourism purposes.

However, the initial plans to construct the coastal highway were abandoned due to the following reasons:

- The construction of this road would mean a great environmental loss, since Port St. Johns is an environmentally “sensitive” area.
- A lot of bio-diversity in areas like Mkambati Nature Reserve would be lost as this highway would pass through these areas.

- The highway construction would be too expensive, even the toll fees and other projects packaged into it would not be able to repay and maintain it.

The above reasons suggest that this planned development would not be sustainable at all, even if the government had used a lower SDR in working out costs and benefits. The above-mentioned reasons suggest that the costs would exceed benefits derived by the host community in the longer run. Resource allocation would thus have been inefficient, the community's welfare would not have been maximised and ultimately would have undermined the hoped for economic growth and development.

That is why the planners resorted to upgrading R61- an option which will save the government over R900 million. Even though the distance between Port St. Johns and Port Edward is 75 km, traveling on the R61 between these two towns is 200 km. Hawkins *et al* (1997) point out that the upgrading of the R61 could create 800 job opportunities at an average monthly wage of R1354. The project is expected to last for 5 months. As indicated above in table 4.1, the labour costs will constitute 11%¹⁰ of the total construction costs. However, this proportion is expected to increase to 20% due to

¹⁰ 11% of R49.2 m = R5.42 m (wages).

government’s labour-intensive policy on SDIs. Thus under a second set of assumptions, the number employed increases to 1600 at a somewhat lower average wage rate of R1230, as shown in table 4.2 below.

The estimated labour costs for upgrading R61 will be as follows, under assumptions that labour costs comprise 11% and 20% of total costs respectively:

Table 4.2 *Analysis of the labour costs during the construction stage*

CONSTR'N COST (Rm)	% LABOUR COST	DURATION OF PROJECT (months)	AVERAGE WAGE- PER LABOURER/ MONTH	NUMBER EMPLOYED	TOTAL LABOUR COSTS (Rm)
49.2	11	5	1354.00	800	5.42
49.2	20	5	1230.00	1600	9.84

Source: adapted from Hawkins, Hawkins and Osborn (1997)

If 800 people are employed, it means regional unemployment of around 8000 (see chapter 1) would be reduced by 10% for five months through job opportunities created by the project. Raising the labour component of costs to 20% would reduce unemployment by 20%.

In evaluating the benefits, one would need to take account of what each worker employed in the road upgrading could be producing and earning in his alternative employment. In this case, given the high unemployment levels in the region, each worker's alternative marginal product or opportunity wage is assumed to be R500¹¹ monthly subsistence output. Thus for each worker employed in this project, it is assumed that R500 worth of output is forgone in the rural areas.

If we take what each labourer will now earn as against what he/she used to produce at home it means we have R854 (R1354 - R500) as the extra consumption, if the labour component is 11%. If the labour component is 20% then it means the extra consumption will decrease to R730 per worker (because individual wage rates are assumed to be lower), but a greater number will be employed. Therefore, the aggregate

¹¹This is in view of the fact that 42% of the population in Port St. Johns earn between 0 and R500, mostly from subsistence farming (STATSSA, 1998).

extra consumption out of this project will be R5,2m, i.e. (R5,42m - R400 000) at 11%. At 20% the aggregate extra consumption will be R9,44m. The multiplier effect discussed above will significantly increase the impact of this additional income on the Port St. Johns economy.

As shown in chapter one of this paper, the majority in the whole of the Wild Coast area is living below the poverty line, that is below R740 per month. The above table shows that by upgrading this road the host community will derive substantial benefits. It should be remembered that each of the 800 (or 1600) people employed would support an average of 4.5 dependants, thus greater numbers of local people stand to gain.

Although employment on the upgrading is temporary, it would provide those employed with skills and exposure to employment which might enhance their prospects of obtaining permanent jobs thereafter, particularly in the context of a growing regional economy as tourism takes off.

The surfacing of this road will further mean an easy access to Port St. Johns from areas like KwaZulu-Natal. This will act as an additional advantage attracting investment into the area, as the provision of infrastructure is a necessary condition for luring

investors. Moreover, the above analysis does not include the further benefits from the likely increases in tourist flows as a result of easier access (no projections have been made in this regard and this is an aspect which requires further investigation).

4.5.2 PORT ST. JOHNS TOWN ENTRANCE

As one of its rare and attractive features, the Port St. Johns town entrance is characterised by two precipitous cliff, known as Port St. Johns cliffs. Next to the town entrance there is scenic and navigable Mzimvubu River, which stretches for about 17 km and provide a good fishing spot. The landscape is covered by, natural vegetation and indigenous trees. To make these good impressions last, the Eastern Cape government has undertaken to facelift the town entrance. This also based on the prediction that the improvement of this entrance will uplift the image of the ailing Port St. Johns and attract more tourists. The upgrading of the town entrance according to Hawkins *et al* (1997) and KPMG (1998), will include the following components:

- Landscaping of the existing parks and public areas
- Shelters and seats
- Electric lights

- Tourist Information Centre
- Museum
- Festival market
- Hospitality Training Institute
- Formalisation of taxi rank

4.5.2.1 UPGRADING OF TOWN ENTRANCE: SOME BENEFITS AND COSTS

As the town entrance is well endowed with natural vegetation and trees, a minimal investment of R2.9 million is enough to “restore and provide a feature which would add greatly to the ambience and atmosphere of the town”, KPMG (1998:24). Thus the natural environment will be preserved and if that is the case then the future generations will also be able to benefit out of this development. The Tourist Information Centre will act as an orientation and marketing facility for the tourists.

The improvement of the museum will strengthen cultural tourism, as the traditional heritage of Port St. Johns will be kept. The Festival Market will create opportunities for the local musicians and artists, since they will be exposed to people

from various places and countries. Perhaps this initiative will reduce the high dependency ratio and raise the economic activity, as more people will demonstrate their talents in arts and craft. This will further boost the individual self-esteems. These initiatives will promote growth of the SMMEs, which are considered today as one of the major sources of employment. The Hospitality Training Institute according to KPMG (1998) will help to improve the standards of those who will be employed for catering to competitive levels. This will make it unnecessary to employ the expatriate workers for the jobs, thus leakages from the local economy will be reduced. For any industry transport is very important, thus improvement of the taxi rank will not only create employment opportunities, but will make it easier to move from one point to another.

The improvement of the town entrance will also address the question of capacity building and make the local community feel that they are the part of this development. This will make this project sustainable. Much of the necessary groundwork has already been undertaken by the community, and the government has set aside SDI funds to kick-start development in the town (KPMG, 1998). The resort projects discussed below will encourage further investment from government as well as the private sector, illustrating the 'leveraging' process envisaged by the SDI approach.

4.5.3 HOTEL INFRASTRUCTURE

Most of the tourism literature acknowledges that in the transitional stages of tourism development, at least one five star hotel is required so as to stimulate tourism growth. Thus the planners of the WCSDI are of the opinion that the success of tourism development in Port St. Johns will rely amongst other things on there being an international standard hotel in place from early stages of development. A proposal is in place to rebuild the Cape Hermes hotel to this standard at an estimated cost of R14.5m. This will be in line with the improvement of the golf course to an international standard, according to KPMG (1998).

4.5.3.1 REBUILDING CAPE HERMES HOTEL: SOME BENEFITS AND COSTS

This hotel used to be one of the finest in the Wild Coast in the 1970s, before it was degraded to where it is today. The rebuilding of this hotel is expected to act as a catalyst for tourism development and economic growth in this region. It is envisaged that the redeveloped hotel will comprise 80 letting units, a restaurant, function and conference venues, and other recreational and leisure facilities (pool, shop, gymnasium, health treatments etc.).

At a later stage, a second phase is proposed which would involve the development of cottages or ‘villas’ on hotel land, for sectional title sale or to be held by the resort for rental purposes. Redevelopment of the golf course will be also incorporated into the development of the hotel. It is the view of the development consultants that the golf course in its attractive setting will provide a marketing advantage for the international-standard resort, despite the current problematic layout of the course and the competition from the growing number of resort-linked golf courses in the rest of the country. The question of whether a five-star hotel and an eighteen-hole golf course will really attract more tourists warrants further investigation.

In the first place the main attraction in Port St. Johns is its natural environment. Secondly it should be taken into consideration that the Wild Coast Sun, which is rated internationally and has an eighteen-hole golf course (where international tournaments are sometimes staged) is just 75 km by helicopter and 200 km away by road. These are the main reasons, which make one sceptical as to whether this development will not end up being a white elephant.

Another question is whether there is a guarantee that this hotel structure will be owned by locals. It is however, important to take the Kenyan Coastal Development Corridor (see chapter 3) into consideration when weighing the benefits and costs of hotel infrastructure and investment therein. In Kenya the hotel ownership was left in the hands of foreigners, who have a tendency to expatriate profits back to their respective countries. If there is no local investor interested in investing in this hotel, it means the ownership will fall into the hands of the foreigners. However, although foreign ownership is not the most favourable scenario, the investment would be valuable for the regions development for two main reasons. First, the foreign buyers of hotels must pay for them before they can even start remitting profits. Secondly, they take risks that the venture will fail and that they will lose their investments.

Annexures A and B (see the end of this chapter) set out some of the projections made by KPMG for the hotel development. These figures relate only to the first phase of hotel development, and also exclude the golf course. It should be noted that these figures reflect the private costs and benefits to the company (using market prices) and not the social benefits and costs as such. At this stage it is not yet clear how many job opportunities will be created during construction and how many will be employed thereafter for the hotel's day-to-day activities.

As shown in Annexure A, the net present value (NPV) at 14% discount rate is - R3,8m and the internal rate of return (IRR) is 6%, when using KPMG figures. A higher discount rate will lower the present value of the project. Thus the sensitivity analysis, as can be seen in Annexure B, shows different values of NPV (which are all positive) and IRR at different discount rates. This is brought about by, making some adjustments in the discount rate, the rooms rates and the general costs. For instance at a discount rate of 10% and 11% IRR, the average rooms rates have been increased from R294 to R300 in year 1 of operation of the hotel and since increased by R5 for the subsequent years. At 13% IRR, which is a most likely assumption, the administrative costs have been reduced, from 15% to 10%. At 14% IRR, the payroll has been reduced by 2%, meaning less money

available for wages and salaries. As inflation is now running at $\pm 5\%$ per annum, if the discount rate is at 10%, it implies that there is a 5% return in constant prices.

Thus in Annexure B, reduction in some expenses and a slight increase in average rooms rates (but kept at competitive level with the neighbouring Umngazi River Bungalows and the Wild Coast Casino) is necessary in order to get a positive NPV and high IRR. Using 10% discount rate and 14% IRR is attained. This is a more than satisfactory return by comparison with current levels of interest rate in South Africa, which appears likely to prevail for the near future. This augurs well for the attraction of investment.

Since the issue of joint ventures is promoted by, the South African government, there is potential for SMME growth, as more small and micro enterprises will benefit out of this initiative. This is likely both during the construction phase, which will provide opportunities for sub-contracting, and during the subsequent operation of the hotel, where opportunities exist for outsourcing of cleaning and laundry services, garden and building maintenance, craft and curio sales, and so on. Backward linkages to local suppliers could also be made in the purchasing of inputs such as seafood, fresh fruit and vegetables (a

practice already undertaken by Umngazi River Bungalows with notable success). However, none of these effects have been quantified in the WCSDI planning documents, and this is a question in need of further investigation if the benefits of this initiative are to be fully appreciated. There is also no indication of the actual capacity of local suppliers to meet the hotel's demand for such inputs.

There will be employment opportunities created directly and indirectly through the resort development, both during the two-year construction period and the subsequent operation of the hotel. Again, the planning studies make no explicit estimate of employment opportunities that may be generated. As Annexure A reveals, KPMG only give estimates of labour costs during the construction phase, and of payroll expenses (calculated as a percentage of total revenue, which is standard practice in the hotel industry) thereafter.

However, it is possible to draw on studies conducted elsewhere to approximate the number of sustainable jobs that may be created. For instance, the research by Gamble (1989) in Tunisia (cited in chapter 2 of this dissertation) found that for every extra hotel bed, a total of 5.2 jobs were created (1.1 directly, 1.4 indirectly and 2.7 in investment-

related construction). Applying this figure to the Cape Hermes (80 beds) would suggest the creation of roughly 416 jobs in total. Similarly, in Bermuda, the Caribbean Tourism Organisation (1989, also cited in chapter 2) estimated that each hotel room generated 1.19 direct jobs, plus three times that in total jobs generated. Using these estimates for the Cape Hermes would suggest 95 direct jobs plus an additional 286 indirect and induced employment opportunities might be created, i.e. 381 in all. Thus the Cape Hermes development could theoretically reduce unemployment in the region by approximately 5% (400 permanent jobs / 8000 unemployed).

These figures are only presented here as an order of magnitude; they should of course be treated with extreme caution, because the actual employment impact could vary dramatically depending on occupancy rates and local skill levels. It is generally accepted that five star hotels have a tendency not to employ the locals, especially if they are unskilled, as is evident in the case of the Wild Coast Sun. But the presence of the proposed Hospitality Training Institute in Port St Johns will probably help to overcome this problem.

4.5.3.2 THE SECOND BEACH HOLIDAY RESORT

The Second Beach is one of the most popular and finest bathing beaches on the Wild Coast. The development of the Second Beach resorts will follow the same pattern as others. Thus, the development of this area should be done in such a way that it accommodates the high demand over the weekends and holidays. It is estimated that 300 to 500 visitors during the weekends and up to 3000 per day during the peak season visit this resort. The main problem with the Second Beach is that it is an open access resource and therefore, it is not easy at all to control the overcrowding, which normally leads to degradation of environment. Thus it is important that the numbers of those visiting these resorts be strictly controlled, but this exercise must not be done to an extent that it alienates the local community.

The proposal for Second Beach leisure resort targets emerging leisure visitors, and the emphasis is on affordability and entertainment. It is proposed that 100 letting units be developed (upgrading the existing 31 bungalows as part of this where possible). Furthermore, a cluster of tourism activities or “resort village” will be developed, catering

for day-trippers, residents and overnight tourists and including a restaurant, sports bar, pool, performance arena and children's play area.

More detailed information regarding projected flows of costs and benefits has not been obtainable for this development, and additional analysis is required before its economic impact may be assessed. It will be necessary to consider the construction phase, as well as the subsequent operational phase. The total cost of the proposed development is R11 million.

4.5.3.3. SILAKA NATURE RESERVE

With a size of 400 hectares, Silaka is one of the most beautiful nature reserves in the Eastern Cape and is managed by the Department of Economic Affairs, Environment and Tourism (DEAET). Silaka offers biodiversity in terms of dense indigenous forest, bird life and large mammals including zebra and wildbeest (KPMG, 1998). Even though its bungalows are in a good condition, they are badly positioned and it has been recommended that they should be demolished and be replaced with more environmentally friendly timber structures. Forty new units are proposed, as well as a

restaurant, bar, shop and conference facilities. Thus, the cost of upgrading this nature reserve has been estimated at R10.4 m.

Detailed projections of costs and benefits are not obtainable. But upgrading of this reserve will surely boost the demand for adventure and eco-tourism. The target market is ecotourist families and groups, mainly from Gauteng and KwaZulu-Natal, as well as international adventure tourists, and corporate 'team-building' participants. Hence the number of visitors to Silaka will probably increase dramatically. Thus there are potential economic benefits like incomes derived out of employment in nature conservation, catering and maintenance of this reserve. In addition to jobs created for staff running the resort and reserve, these tourists can be expected to increase local incomes by creating a demand for local crafts and other goods and services, which would be further enhanced by multiplier effects. In addition, during construction and even ongoing maintenance, there will be increased demand for local building materials and labour since it is envisaged that traditional materials will be used for construction, furniture and fittings of the resort facilities.

KPMG (1998) point out that it will be necessary to upgrade electricity, water, sewerage and roads for this resort. However, the costs of and responsibility for providing this infrastructure have not yet been determined. Such upgrading will create additional local jobs, as well as providing local inhabitants with some external benefits in the form of better access to basic infrastructural facilities. The urgent need for the latter in the Port St Johns region has been detailed in chapter 1. Again, the lack of concrete plans makes it impossible for this study to do more than point to the likely qualitative benefits.

As Tisdell (1999) points out, nature tourism or ecotourism is an expanding segment of the tourism market. Ecotourism is the most effective way of financing nature reserves, as it is potentially a most profitable use of land. The proposal to develop the Silaka reserve thus seems to be a very sound one.

4.6 CONCLUSION

Because these developments are all still at the proposal stage, it has only been possible to identify in a broad and largely qualitative way what their likely economic benefits and costs may be. Nonetheless, it can be said that if the envisaged developments become reality, the proposed tourism projects in Port St. Johns will promote economic growth and development, not only for this area alone, but for the rest of the Wild Coast because much-needed employment opportunities and income will be created. There is no question that investment will have a major impact in the region. Levels of investment in the last 15 years have declined drastically, according to the Department of Transport (1997). This in itself led to the degradation of Port St. Johns as a holiday destination, as well as aggravating the urgent development needs of the area highlighted in chapter 1.

But the planners and developers should guard against concentrating too much on tourism, since this will create overdependence on this sector. The above analysis bears the testimony that it is indeed imperative that tourism in Port St. Johns be promoted and developed up to a level where it can be classified as the world class destination area. Perhaps, this development will trigger further development in other sectors of the

domestic economy, such as construction, agriculture and manufacturing. Moreover, this will reduce leakages and therefore achieve a higher tourism multiplier for the area.

Looking at the question of the road construction, one can conclude that the cancellation of the proposed coastal highway was indeed a step in the right direction, because much would have been lost in as far as the environment is concerned if the original plan had gone ahead. As shown in chapter 2, this irreversible loss of unique environmental assets would run counter to the principle of sustainable development, and ultimately might undermine the natural asset base on which the Wild Coast's development hopes are pinned, with adverse implications for investment and job creation. The proposed resort developments (Cape Hermes, Silaka and Second Beach) have evidently all been planned with an awareness of the need to protect and sustain the region's environmental assets.

Annexure A:**Analysis of the benefits and costs associated with the construction of the Cape Hermes Hotel**

Total Construction costs (R/millions)	14,567,050								
Labour costs @ 40%xconstruction costs	5,826,820								
Professional fees @ 15%xconstruction costs	1,900,050								
Materials and contingencies	6,840,180								
Percentage operational costs (Rm)									
Operated departments (%Expenses x revenue)	0.28								
Administrative costs (% costs x revenue)	0.15								
% payroll from year 1,2,3,4 and on going	0.23	0.22	0.21	0.2	0.19	0.18	0.17	0.16	
Discount rate (%)	0.14								
Construction period (years)	2								

Percentage of room occupancy for the Cape Hermes as set out by KPMG (1998)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 and ongoing
0.55	0.6	0.65	0.7	0.75	0.8	0.85	0.9

Achieved average room rate at 1998 values expressed in Rands

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 and ongoing
294	298	302	306	310	314	318	322

Rooms revenue at 1998 values

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8 and ongoing
4,727,058	5,225,672	5,739,116	6,293,382	6,621,600	7,154,176	7,698,144	8,253,504

Cash flow analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Construction:	7,283,525	7,283,525	-	-	-	-	-	-	-	-
Labour (R'000)	2,913,410	2,913,410	-	-	-	-	-	-	-	-
Professional fees	950,025	950,025	-	-	-	-	-	-	-	-
Materials	3,420,090	3,420,090	-	-	-	-	-	-	-	-
Operational costs:	-	-	3,119,858	3,396,687	3,673,034	3,964,831	4,105,392	4,364,047	4,618,886	4,869,567
Operated department	-	-	1,323,576	1,463,188	1,606,952	1,762,147	1,854,048	2,003,169	2,155,480	2,310,981
Administrative	-	-	709,059	783,851	860,867	944,007	993,240	1,073,126	1,154,722	1,238,026
Payroll	-	-	1,087,223	1,149,648	1,205,214	1,258,676	1,258,104	1,287,752	1,308,684	1,320,561
Revenue	-	-	4,727,058	5,225,672	5,739,116	6,293,382	6,621,600	7,154,176	7,698,144	8,253,504
Rooms revenue	-	-	4,727,058	5,225,672	5,739,116	6,293,382	6,621,600	7,154,176	7,698,144	8,253,504
Net Revenue	(7,283,525)	(7,283,525)	1,607,200	1,828,985	2,066,082	2,328,551	2,516,208	2,790,129	3,079,258	3,383,937
NET PRESENT VALUE		-3848490.49								
INTERNAL RATE OF RETURN		6%								

NPV formula: @NPV(discount rate, cash flow)

The main reason why the NPV is negative is because a high discount rate of 14% has been used. This implies that in order to achieve a positive NPV and a high IRR, a lower discount rate must be used and some adjustments in costs should be done (as shown in Annexure B).

Annexure B: Sensitivity analysis

Assumptions:	Internal rates of return (%)	Net Present Value (Rm)	Discount rate %
Pessimistic	11	660,132	8
Most likely	12	1,690,172	8
Optimistic	13	2,579,459	8
Pessimistic	11	1,669,817	10
Most likely	13	2,942,772	10
Optimistic	14	3,483,675	10
Pessimistic	13	635,339	12
Most likely	14	1,204,657	12

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Certain constraints on tourism development in Port St Johns may be highlighted, and recommendations can be made on the basis of the preceding chapters.

5.1 CONSTRAINTS ON TOURISM DEVELOPMENT

Research into existing and planned tourism in Port St Johns has revealed the following major constraints. Some but not all are being adequately addressed by the WCSDI:

- One of the major constraints to tourism development in Port St. Johns is the underdevelopment or lack of infrastructure. The government has undertaken to provide infrastructure in areas like Port St. Johns, because this lack has hindered any potential investment into the area.

- According to Koch *et al* (1998), the land tenure issue is still very much unclear, with land rights being contested in many instances. This acts as a major bottleneck for private sector investment, when it comes to making concessions with the government.
- There is little institutional capacity to manage the whole development process, as the locals are lacking skills.
- The maintenance of the game reserves has become expensive and an additional financial burden to the government. This has caused them to deteriorate and therefore they have become less attractive to tourists.

5.2 RECOMMENDATIONS

The Kenyan case study has provided some good lessons for the WCSDI on how to ensure successful tourism development that will lead to economic growth and development. Based on those lessons and on some of the other findings of this study, the following should be considered for the WCSDI:

- There must be a well planned and co-ordinate integrated development plan that will ensure a controlled and planned growth of tourism in Port St. Johns. This applies to both the government and the private sector and the community at large. Thus, those involved in planning should adhere to sound planning principles and not implement inappropriate policy for the sake of short-term results.
- Furthermore, the Port St. Johns coastline must not be overdeveloped, as this can destroy the environment, which is the main source of tourist attraction. As pointed out above, if tourism development in Port St. Johns destroys the environment, which is its prime attraction, then that development will be unsustainable. In addition, overdevelopment of the coastline can mean the development of rural slums, as more

people will be coming to town looking for jobs, as well as excessive man-made structures (Tisdell, 1999).

- Environmental education on-site to tourists should be considered as it enhances the ecotourism experience as well as promoting more sustainable use of natural assets by tourists (Tisdell, 1999).
- It is also necessary to limit tourist visits to a nature reserve (protected area) by varying charges for entry, maintaining high entry fees, limiting the issue of permits etc.
- The question of safety and security to the resorts should always be the first priority, as any threat to personal safety or vandalism to the properties is a recipe for chasing away investors and tourists, a cost no one will be interested to incur. Moreover, it must be ensured that the local community takes a vested interest in maintaining peace and security in the area (de Beer *et al*, 1997).

- There must be community involvement in the planning and implementation of the development in order to ensure that the situation experienced in the Kenyan coast, where the community became hostile and violent towards tourists, is not repeated in Port St. Johns.
- A balanced approach between domestic and international tourism must be maintained. Too much emphasis on the international tourism market means that the dynamics in the tourism market will be exogeneously determined, as the international tourism market is vulnerable to economic changes in the countries of origin.
- The problem of influx of labour from other areas of the country, which is one of the reasons for the downfall of coastal tourism in Kenya, can be avoided by making sure that the necessary capacity is built in order to enable the locals to take positions in the running of tourism.
- Foreign ownership and control must be kept at minimum, in order to avoid a situation of repatriation of profits which, increases leakages and lowers multipliers. However,

foreign developers must not be wished away as they bring in opportunities for direct foreign investment, and raise the standards of the local products.

- On the question of the Cape Hermes hotel development, one would recommend that the upgrading of the golf course be delayed until the planners are sure that there is a demand for it. Otherwise it will end up being a cost more than a benefit, since the maintenance of the golf course is expensive.
- More investment is needed for Port St. Johns, as R87 million is not enough to meet the required level of investment and to absorb all 8000 unemployed people in the long run (as has been shown in chapter 5 above).
- After the construction phase of the identified tourism projects in Port St. Johns, a sound management of these resources is required to ensure sustainability of these projects.
- Marketing and advertising of the tourism facilities available in Port St. Johns will be essential in order to boost the tourism demand in the area. Thus, the Eastern Cape

Tourism Board should make sure that the information about tourism in Port St. Johns reaches all the potential markets.

5.3 CONCLUSIONS

In this study it has been shown that there is a potential for tourism, through the WCSDI to play a central role in the development of Port St. Johns. As has been demonstrated above, tourism development means more employment opportunities. As a matter of fact, the tourism industry is well known for its high absorption capacity for unskilled labour. The focus has been on the critical analysis of the WCSDI tourism-related projects in Port St. Johns, and on whether these initiatives can alleviate the problem of high unemployment and poverty and low investment in this area. The study has further demonstrated that indeed this development will benefit the Port St. Johns community in as far as capital formation and job creation are concerned.

However, it is not clear at present whether these projects can absorb a large proportion of the approximately 8000 unemployed people in the Port St. Johns region, as the planners themselves cannot make these estimates until all the projects' tenders are completed. The lack of detailed cost and benefit information about the proposed projects, as well as the general lack of information about the tourism industry in South Africa, has

made it impossible to quantify the potential economic benefits of these developments for the local people.

However, from the above analysis one can say that the WCSDI will benefit the Port St. Johns community, in the form of employment, skills development, SMME development, income redistribution, infrastructure improvement, and exposure to and integration into productive economic activity. It has also been possible to identify some constraints that must be addressed, and recommendations that should be considered, as tourism development in the Port St Johns region progresses.

REFERENCES

Andersson N and Galt K, *The Wild Coast SDI: Community Needs and Views of Development*, Bisho, South Africa, 1997

Brent RJ, *Applied Cost-Benefit Analysis*, Edward Elgar Publishing Limited, Great Britain, 1997

Brent RJ, *Cost-Benefit Analysis For Developing Countries*. Edward Elgar Publishing Limited, Great Britain, 1998

Briguglio L, *Sustainable tourism in islands and small states*, New York, St. Martins Press, 1996

Central Statistical Services, "Gross Geographic Product", *Statistical release*, Pretoria, November 1995

Central Statistical Services, "October Household survey 1995 Eastern Cape", *Statistical release*, Pretoria, February 1997

Central Statistical Services, *Statistical Report-Provincial Statistics: Eastern Cape*, Pretoria, 1997, [On-line]. Available: www.css.ac.za

CIMEC, *The Coast is clear: Opportunities for investment on the Wild Coast*, East London, 1997

Colman D and Nixon F, *Economics of change in Less Developed Countries*, 2nd edition, Phillip Allan Publishers, Great Britain, 1988

Copeland BR, "Tourism, Welfare and De-industrialisation in a Small Open Economy", *Economica*, Vol.58, November 1991, pp.515-29

de Beer GRM., Elliffe SP., Spangenberg PP and Wheeler B., "The Socio-economic Impacts of Tourism-led Development - The Case of the Kenyan Coastline from Malindi to Mombasa", *Development Bank of Southern Africa - Specialist Business Unit*, Johannesburg, 1997

Department of Transport, *Implementing Authority For The Wild Coast Project*, Pretoria. South Africa, 1997

Development Bank of Southern Africa (DBSA), *The Eastern Cape Economic Profile*, Johannesburg, 1998, [on line]. Available. [www. DBSA. za](http://www.DBSA.za)

Dinwiddy C and Teal F, *Principles of Cost Benefit Analysis for Developing Countries*, Cambridge University Press, GB, 1996

Erasmus J, "Eastern Cape: A human development profile", *Development Bank of Southern Africa - Centre for Policy and Information*, Johannesburg, 1996

Financial Mail, "Spatial Development Initiatives", *Wild Coast remains free as road plan is dropped*, Johannesburg, 1997, November 21

Fleming WR and Toepper L, "Economic impact studies: Relating the positive and negative impacts to tourism development", *Journal of Travel Research*, Vol. 29. Issue 1, Summer 1990, pp. 35-42

Gamble WP, *Tourism and Development in Africa. Case studies in Developing Countries*, London, 1989

Harrison D, *Tourism and the Less Developed Countries*, Belhaven Press, Great Britain, 1992

Hawkins, Hawkins and Osborn, *Ministry of Public Works and Transport Feasibility Study, Port St. Johns District- Upgrading of town entrance and taxi rank*, Umtata, 1997

Human Sciences Research Council (HSRC), *Service needs and Provision in the Eastern Cape*, Pretoria Sigma Press, 1998

Ioannides D, "Planning for International Tourism in Less Developed Countries: Toward Sustainability"? *Journal of Planning Literature*, Vol. 9, No. 3 (February 1995), pp. 235-254

Jourdan P, "Spatial Development Initiatives (SDIs) - the official view", *Development Southern Africa - Special Issue*, Vol. 15, no. 5, Summer 1998, pp. 717-725

Koch E., de Beer G., Elliffe S and others, "International perspectives on tourism-led development: some lessons for the SDIs", *Development Southern Africa - Special Issue*, Vol. 15, no. 5, Summer 1998, pp. 907-915

Koch E., de Beer G., Elliffe S and others, "SDIs, tourism-led growth and the empowerment of local communities in South Africa", *Development Southern Africa - Special Issue*, Vol. 15, no. 5, Summer 1998, pp. 809-826

KPMG, *Wild Coast SDI - Preparation of Property Development in Port St. Johns, Eastern Cape*, Johannesburg, 1998

Lea J, *Tourism and Development in the third world*, Rouledge, Great Britain, 1993

Lewis D and Bloch R, “SDIs: infrastructure, agglomeration and the region industrial policy”, *Development Southern Africa - Special Issue*, Vol. 15, no. 5, Summer 1998, pp 727-755

Lundberg DE, Stavenga MH and Krishnamoorthy M, *Tourism Economics*. New York,: John Wiley, 1995

Mathieson A, and Wall G, *Tourism- Economics, Physical and Social impacts*, Longman, UK, 1982

McCarthy J, Baxter G, Schroenn J, McGrath M, Forbes A, Parnell S, and Standish B, *Coastal Economy Specialist Study*. Durban, 1998

Nicholson G, Norton P, and Myles P, *Wild Coast Spatial Development Initiative: Tourism Report*, Land and Agriculture Policy Centre, Johannesburg. South Africa, 1996

Odendal A, and Schoeman V, "Tourism and rural development in Maputoland: A case study of the Kosi Bay area", *Development Southern Africa*, Vol. 7 No.2, May 1990, pp. 195 – 207

Oppermann M, "Tourism Space in Development Countries", *Annals of tourism research*. Vol. 20, Part 3, 1993, pp 535-556

Perkins F, *Practical Cost Benefit Analysis Basic Concepts and Applications*, Sydney MacMillan, 1994

Preu C. and Engelbrecht C, "Background, Conceptual Structure and Organizational-Administrative Establishing of a "Sustainable Development Strategy" for Coral Islands", *GeoJournal*. Vol. 33 part 4, 1994, pp 433-442

Ryan C, *Recreational Tourism -A social science perspective*, Routledge, Great Britain, 1991

Statistics South Africa (STATSSA), *Census '96*, Pretoria, 1998

The Province of the Eastern Cape: *Ministry of Economic Affairs, Environment and Tourism Annual Report, 1996/97*. First Draft. Bisho, 1997

The Province of the Eastern Cape, “Department of Economic Affairs, Environment and Tourism”, *Strategic Economic Plan Green Paper*, Bisho, 1997

Tisdell C, *Biodiversity, Conservation and Sustainable Development*. Cheltenham: Edward Elgar, 1999.

Valadez J and Bamberger M, *Monitoring and Evaluating Social Programs in Developing Countries: A Handbook for Policymakers, Managers, and Researchers*. The World Bank. USA, 1994

Wiese H. 1996, *Regional Industrial Development Strategy: A comparison of Southern African countries*, University of Port Elizabeth, 1996

Williams AM and Shaw G, "Tourism and regional development: Polarisation and new forms of production in the United Kingdom", *Tijdschrift voor Economische en Sociale Geografie*, Vol.86 no.1, 1995, pp.50-63

Woolard I (Data Research Africa) and Stavrou A., *A Tourism Led Development Strategy for the Umzimvubu Magisterial District: Pre-Planning phase*. Johannesburg. South Africa, 1996

World Commission on Environment and Development (WCED), *Our Common Future*. New York: Oxford University Press, 1987