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EXECUTIVE SUMMARY

INTRODUCTION

As part of its local government mandate, the Knysna Local Municipality\(^1\) has embarked on a process of updating and finalising the 2016 draft Economic Development Strategy (EDS) for the greater Knysna municipal area. The aim of this process is to provide the Knysna Local Municipality, the private sector and the local community the opportunity to develop a planning guide that promotes economic growth, facilitates job creation and addresses poverty within the area.

The purpose of the EDS is to interrogate available economic information in an integrated and coordinated manner so as to identify opportunities that can broaden the economic base of the greater Knysna municipal area. These opportunities are then packaged into an implementation framework which sets out guidelines as to how existing economic potential can be utilised to generate positive spin-offs for the local economy.

Furthermore, the EDS is also aimed at ensuring that the Knysna Local Municipality can efficiently and effectively facilitate the creation of an appropriate enabling environment, conducive to economic development and investment.

Specific objectives of the EDS are as follows:

- Revise and update the current 2016 draft Knysna EDS, ensuring that it is a credible strategy;
- Align the 2016 draft Knysna EDS with the Knysna Local Municipality’s Economic Development Department’s annual work plans and strategic focus areas;
- Update the socio-economic profile with the latest statistics and new ward delineation;
- Develop an infrastructure investment pipeline linked to the capital expenditure/investment framework proposed in the SDF;
- Provide a linkage with the new SDF to identify the growth nodes;
- Update the sector potential section in the 2016 draft Knysna EDS with new trends and projects;
- Determine the critical factors needed for project implementation;
- Develop the implementation action plans in terms of EDS interventions that can be executed by public and private sector role players;
- Develop a prioritisation model for the outcomes of the sector potential analysis; and
- Link the EDS action plan to the institutional arrangement of the Economic Development Department to ensure execution and appropriate roles and responsibilities.

It is important to note that this document serves as a summary of the outcomes of the full 2019 Knysna EDS report. As such it does not provide detailed commentary on all aspects of the EDS. It is therefore strongly recommended that this summary be read in conjunction with the full report in order to obtain a comprehensive picture of the factors presented here to.

\(^1\) The greater Knysna municipal area refers to the administrative area established by the South African Demarcation Board, while the Knysna Local Municipality refers to the municipal administrative structure. Knysna is used to refer to the town.
DATA SOURCES

A number of different data sources, both primary and secondary, were used in compiling the Knysna Local Municipality’s EDS. Primary research undertaken as part of the EDS included:

- Site visits to the greater Knysna municipal area
- Targeted engagements with sector specialists
- Market research (including surveys) relating to property prices, vacancy, and rental rates (commercial and residential)
- Interviews with the broader community
- Interviews with various government departments (town planning, technical services, LED)

Secondary research related primarily to statistical analysis. Statistics were obtained from a number of different sources (i.e. Department of Agricultural, Forestry and Fisheries; Western Cape Department of Education) but the majority of data was obtained from either Quantec (Pty) Ltd. or StatsSA (Census 2011, Community Survey 2016). Limitations with statistical analysis are acknowledged, and every effort was made throughout the document to test statistical results against observable reality.

Other secondary research undertaken focused on a review of a range of national (e.g. National Development Plan, New Growth Path), provincial (e.g. Western Cape Provincial Growth and Development Strategy), district (e.g. Garden Route REDS) and local planning documents (e.g. 2016 draft Knysna EDS). This secondary research also included considering a number of other sectoral documents and surveys undertaken at both a national and local level. Specific documents used are sourced throughout the report.

DEVELOPMENT ENABLERS

There are a number of different demographic factors that are likely to impact/influence the economic development of the greater Knysna municipal area over the next 20 years. It is therefore necessary to assess these demographic factors, identifying underlying trends through statistical research, and establishing what impact these trends are likely to have on the development trajectory of the greater Knysna municipal area.

KNYSNA’S DEMOGRAPHIC PROFILE

Table 1 illustrates a summary of the key socio-economic and demographic characteristics of the greater Knysna municipal area as well as for each settlement within it. As evident in Table 1 the population of the greater Knysna municipal area grew by 1.9% per annum between 2011 and 2018 with the number of households increasing by 0.9% per annum over the same period.

Educational attainment has an impact on the ability of residents within the greater Knysna municipal area to find employment and improve their living standards. Education is therefore acknowledged as being inextricably linked to the economic development of an area. Only 3.5% of the population of the greater Knysna municipal area had no schooling in 2018, which is below the provincial average of 3.8%. Similarly, 40.7% of the population has completed matric or attained some form of higher education, in comparison to the provincial figure of 31.2%.
TABLE 1: SUMMARY OF SELECTED SOCIO-ECONOMIC INFORMATION FOR THE GREATER KNYSNA MUNICIPAL AREA IN 2018

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<tr>
<th></th>
<th>KNYSNA TOWN</th>
<th>KARATARA</th>
<th>KNYSNA NON-URBAN</th>
<th>RHEENENDAL</th>
<th>SEDGEFIELD</th>
<th>GREATER KNYSNA MUNICIPAL AREA</th>
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<tr>
<td>Population (2018)</td>
<td>52 874</td>
<td>928</td>
<td>5 634</td>
<td>4 156</td>
<td>8 871</td>
<td>72 463</td>
</tr>
<tr>
<td>Population growth (2011 – 2018)</td>
<td>1.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Households</td>
<td>16 840</td>
<td>270</td>
<td>1 701</td>
<td>958</td>
<td>3 338</td>
<td>22 477</td>
</tr>
<tr>
<td>Households growth (2001 – 2018)</td>
<td>0.4%</td>
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<tr>
<td>Average people per household</td>
<td>3.1</td>
<td>3.4</td>
<td>3.3</td>
<td>4.3</td>
<td>2.7</td>
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<td>Average household income</td>
<td>R202 072</td>
<td>R85 482</td>
<td>R224 981</td>
<td>R60 440</td>
<td>R196 125</td>
<td>R195 654</td>
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Educational Attainment

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<tr>
<th></th>
<th>No Schooling</th>
<th>Some Primary</th>
<th>Complete Primary</th>
<th>Some Secondary</th>
<th>Matric</th>
<th>Higher</th>
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<tr>
<td></td>
<td>2.7%</td>
<td>4.7%</td>
<td>3.9%</td>
<td>4.5%</td>
<td>1.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td></td>
<td>11.9%</td>
<td>18.1%</td>
<td>15.4%</td>
<td>30.8%</td>
<td>9.9%</td>
<td>13.7%</td>
</tr>
<tr>
<td></td>
<td>5.1%</td>
<td>10.3%</td>
<td>7.2%</td>
<td>7.9%</td>
<td>4.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td></td>
<td>37.8%</td>
<td>48.7%</td>
<td>30.1%</td>
<td>41.2%</td>
<td>32.3%</td>
<td>36.1%</td>
</tr>
<tr>
<td></td>
<td>30.4%</td>
<td>18.2%</td>
<td>26.3%</td>
<td>14.8%</td>
<td>35.2%</td>
<td>28.7%</td>
</tr>
<tr>
<td></td>
<td>12.1%</td>
<td>0.0%</td>
<td>17.1%</td>
<td>0.8%</td>
<td>16.7%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

Employment Status

<table>
<thead>
<tr>
<th></th>
<th>Employment rate</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>69.1%</td>
<td>21.1%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>91.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td></td>
<td>65.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td></td>
<td>81.3%</td>
<td>12.6%</td>
</tr>
<tr>
<td></td>
<td>79.7%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

Source: Urban-Econ calculation based on Quantec Standardised Regional (2019); and Knysna EDS (2015)

In 2018 approximately 79.7% of the greater Knysna municipal area’s working age population was classified as employed. A further 20.3% of the population was classified as unemployed (actively seeking but unable to find permanent employment).

KNYSNA’S CHANGING POPULATION

The size of the current and future population is one of a number of variables that affect the economy and the environment. Understanding population change within greater Knysna municipal area is therefore critical when it comes to long term planning.

Utilising several population forecasting models, as well as the population recorded in the 2011 Census (68 657), it was possible to estimate what the population of the greater Knysna municipal area could be by 2030. The average growth rate from these models suggests that by 2030 the greater Knysna municipal area will have a total population of 83 679. This represents an average annual population growth rate over the period of 1.2%, and a growth of 15 022 people.
HOW THIS IMPACTS PLANNING

This increase in population impacts a range of different factors, each of which was explored in more detail in the EDS. These factors include:

- Labour force
- Consumption expenditure
- Housing requirements (considered as part of the draft 2019 Knysna Local Municipality’s SDF)
- Rates base

Labour force

Given the forecasted population it is anticipated that by 2030 the Knysna economy will have to have created between 1,689 and 8,038 jobs simply to absorb the increase in the working age population. Utilising a job creation target of 1,689 over the period will see the unemployment rate remaining unchanged from its 2018 figure of 20.3%. Achieving a 1,689 job creation target, which would constitute the absorption of all new working age market entrants, however will see the unemployment rate declining to 10.3%.

Consumption Expenditure

The increase in the population is also likely to impact total consumption expenditure, which is forecasted to increase to R4.9 billion by 2030 (2018 prices). This equates to an additional R716.5 million (2018 prices) in new spending over the 2018 to 2030 period, part of which could potentially be injected into the greater Knysna municipal area’s economy.

KNYSNA’S EDUCATIONAL ENVIRONMENT

The level of education provision within a particular location is one of the main determinants when it comes to an economy’s ability to achieve long term, positive economic growth. The provision of education alone however does not ensure that this growth will occur. Equally important is ensuring that the education provided is of sufficient quantity and quality to meet both the communities and the broader economy’s needs.

Based on these observations and in the context of economic development, the level of education within a particular area determines and enables:
• Individual incomes
• Labour productivity
• Skills base and employability

**Individual incomes**

Through comparing earnings of those individuals with a Grade 12 or higher level of education and those without, it was possible to estimate what the likely impact of an improvement in educational attainment would be on individual income. Calculations suggest that a 2% improvement in the number of individuals with some form of tertiary education by 2030, could potentially increase cumulative individual earnings by as much as R427.4 million (2018 prices).

**Labour productivity, skills base and employability**

Statistical analysis suggests that labour productivity in the greater Knysna municipal area decreased between 2011 and 2018. Over this period however gross fixed capital formation increased suggesting that productivity gains may have been linked to increased mechanisation.

**STATE OF THE KNYSNA ECONOMY**

Economic development in the greater Knysna municipal area must start with a thorough assessment of where the economy is currently, and how it has changed in recent years. Understanding these dynamics and trends forms the basis for the identification of comparative and competitive advantages as well as the identification of any potential economic opportunities that could be exploited. Two techniques were undertaken in order to obtain this understanding.

• Firstly, a statistical analysis using different economic tools, to establish the current economic realities in terms of economic infrastructure and the economic structure of settlements
• Secondly, an assessment of specific economic sectors within the Knysna economy focusing on both statistical analysis and primary research

**CURRENT REALITIES**

In order to better understand the economic realities that have historically and currently driven the greater Knysna municipal area’s economy at a macro-economic level a number of factors were considered:

• GDP-R contribution of each economic sector
• GDP-R growth rates between 2001 and 2011
• Total number of people employment within each economic sector
• Location quotients, Leading/Lagging Analysis, Industry Targeting Classification

**Regional Performance**

Figure 1 is a useful tool as it provides an overview of the greater Knysna municipal area’s economy in terms of a number of factors such as GDP-R growth, sectoral contribution to GDP-R and total employment figures per sector. Each one of the bubbles in Figure 1 represents one of the ten SIC economic sectors as well as the Catering and Accommodation subsector. The vertical axis represents average annual sectoral growth between 2011 and 2018. The horizontal axis represents the average GDP-R contribution of each sector in 2018.
Finally, the size of each of the bubbles is based on the employment contribution of the sector relative to total employment (i.e. the larger the bubble the more people are employed by that sector).

**FIGURE 1: GDP-R ANALYSIS OF THE GREATER KNYSNA MUNICIPAL AREA, 2018**

The ideal situation for an economy would be one in which the bubbles are of a similar size, clustered at the end of the horizontal axis and high up on the vertical axis. This would indicate a highly diversified economy that is characterised by high output growth, and a balanced distribution of employment.

The dark line indicated in Figure 1 represents the average annual GDP-R growth rate for the entire economy between 2001 and 2018 (1.3%). Sectors indicated above this line are those which have exhibited a GDP-R growth that exceeds that of the economy as a whole between 2001 and 2018. Sectors indicated above this line are those sectors that have exhibited GDP-R growth that exceeds that of the economy as a whole between 2011 and 2018. These are low paying jobs that generally require either unskilled or semi-skilled workers (e.g. agriculture).

- The wholesale and retail trade sector employs the greatest number of people in the greater Knysna municipal area, and is the second largest contributor to the local economy
- The government and community services sectors collectively employ over a quarter of the labour force
- The construction sector had moved from a high-growth, high-contribution sector in 2011, to a low-growth, high-contribution sector by 2018

In addition to the above analysis, the 2019 EDS also considered the growth share matrix and location quotients for the greater Knysna municipal area. These two analyses however have several limitations. In order to address these, the results were integrated into a single table (see Table 2) in order to establish the net importance of the sector based on GDP-R, Growth Share Matrix and Location Quotients. The final interpretation is also informed by the descriptive wording from the Carvalho and Industry Targeting Classification criterion.
TABLE 2: OVERALL IMPORTANCE OF ECONOMIC SECTORS TO THE GREATER KNYSNA MUNICIPAL AREA’S ECONOMY IN 2018

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>GDP-R Analysis</th>
<th>Growth Share Analysis</th>
<th>Location Quotient Analysis</th>
<th>NET SECTORAL IMPORTANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Mining</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Utilities</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Trade</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Catering and Accommodation Services</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Community Services</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Government Services</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

The collective results from the various analyses show that the following sectors have been of historical importance to the greater Knysna municipal area’s economy and are likely to continue to be so in the future:

- Catering and accommodation services
- Wholesale and retail trade
- Construction
- Manufacturing

According to the Industry Targeting Classification, the trade sector (including the catering and accommodation services sub-sector) is of particular importance, having been identified as a high priority retention sector. Development programmes and interventions should therefore be targeted at these sectors.

In comparison, the analysis showed that the following sectors historically played a limited role in the greater Knysna municipal area’s economy:

- Agriculture, forestry and fisheries
- Utilities
- Mining
- Transport and communication

The agricultural sector is somewhat unique in that it has historically been an important sector, primarily the forestry sub-sector. This is evident by the fact that the sector still contributes 5.7% to the total GDP-R of the greater Knysna municipal area, and accounts for 9.0% of its employment.

**ECONOMIC INFRASTRUCTURE**

Infrastructure is fundamentally important to economic development as it supports not only a location’s productivity and competitiveness, but also its social and environmental wellbeing. Infrastructure investment
also provides positive benefits to a range of other sectors, for example, high-quality transport systems improve business efficiency, innovation, competition and trade, support agglomerations of economic activity, and facilitate a mobile and flexible labour force.

The review of the economic infrastructure in the EDS did not seek to provide a detailed overview of the infrastructure within the greater Knysna municipal area. The focus of the review was rather on outlining the infrastructure environment, and highlighting how these assets could be best utilised to promote job-intensive, economic development.

Key outcomes of the infrastructure assessment as they relate to economic development were:

- Improving access between the greater Knysna municipal area and the George airport would help to enhance local businesses supply chains
- Better quality road infrastructure would reduce transport costs and positively impact local businesses profitability
- Good telecommunication infrastructure particularly broadband, could promote both productivity and business efficiency
- Prescriptively high electricity costs reduce the attractiveness of the area for external and internal investment

SECTOR REALITIES

Statistical analysis however can only provide a single dimension to a sectors performance. Sector profiles were therefore developed to provide a more detailed review of a selection of critically important sectors informed by those identified in the statistical analysis. These sector profiles were informed by both additional statistical research (using other data sources), the review of sector specific documents as well as engagement sessions held with key stakeholders. As part of this process the following factors were identified:

- **Construction**
  The greater Knysna municipal area’s construction sector showed muted growth between 2011 and 2018, with the sectors GDP-R growth rate in 2018 being the lowest since the global recession at -3.4% year-on-year. While the performance of the sector has been poor, the rebuilding efforts following the Knysna fire are anticipated to lead to a short to medium term boost for the sector. This is already evident in the 588 residential building plans already approved in 2018, exceeding the total number of business plans passed in 2016 (179) by 228.5%.

- **Wholesale and Retail Trade**
  The performance of the wholesale and retail sector is strongly correlated with consumer consumption expenditure, which has been adversely impacted by negative market sentiment since 2015. This reduction in consumption spending over the period is estimated to have cost the trade sector R16.9 million in lost GDP-R since 2015. Many retailers in the greater Knysna municipal area have been struggling and vacancy rates remain high.

- **Financial and Business Services**
  This sector is closely linked to the construction sector through its architectural, engineering and town planning services. An important component of this sector is also the real-estate industry. Given this close link, the upturn in the construction sector as a result of the Knysna fire is likely to positively affect this sector over the short to medium term.
Agriculture, Forestry and Fisheries
The agricultural sector within the greater Knysna municipal area is comparatively small and has historically been driven by the forestry sub-sector. The collapse of the local forestry sector has led to the development of a timber cluster, which will seek to address this decline. Other opportunities in high-value niche crops are also being explored across the municipality.

Manufacturing
Traditionally manufacturing in the greater Knysna municipal area has been driven by the timber industry (i.e. sawmilling, furniture production etc.). The decline in the forestry sub-sector has resulted in the closure of a number of timber-related businesses. This led to a temporary increase in the amount of vacant industrial space, a large percentage of which has subsequently been filled by a range of niche manufacturing businesses.

Government and Community Services Sector
Government and community services, although an important sector within the greater Knysna municipal area, is not considered a vehicle for future growth. Budgetary expenditure by entities within this sector, however, has the potential to inject significant funds into the local economy as well as facilitate future development.

COST OF DOING BUSINESS

According to Section 4 of the Municipal Systems Act (No. 32 of 2000) every municipality has the right to finance its operations by, amongst others, charging fees for services, imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties.

The affordability of these fees however, has a direct bearing on how attractive such a municipality is for direct investment, be it from existing businesses already operating in the area; new local start-ups; or businesses seeking to relocate to the municipality. As such, a municipality wishing to attract additional investment can potentially restructure its tariffs, fees, and surcharges to make it more competitive, relative to other municipalities. There is however a trade-off, with the municipality being forced to forgo the potential revenue that could be generated from these businesses.

The ESD investigated a selection of these fees, tariffs and surcharges levied on commercial/retail and industrial properties by the Knysna Local Municipality, and benchmark them against other municipalities in the Garden Route District Municipality.

Specific fees and tariffs considered were organised under the following four headings:
1. Town planning
2. Building plan submissions
3. Consumption charges (i.e. electricity, water, sanitation and refuse)
4. Property rates

To establish how affordable it was to do business in the Knysna Local Municipality in 2018/2019, relative to other local municipalities, a composite ranking, incorporating the above four categories. These results are illustrated in Table 3.

**TABLE 3: OVERALL RANKING FOR COST OF DOING BUSINESS IN 2018/2019**

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>TOWN PLANNING</th>
<th>BUILDING PLANS</th>
<th>CONSUMPTION CHARGES</th>
<th>PROPERTY RATES</th>
<th>OVERALL RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Bitou</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>George</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Overstrand</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

From Table 3 the following was observed:

- The Mossel Bay Local Municipality was the most affordable destination to conduct business. It had the lowest relative consumption charges and property rates; and the second lowest town planning related fees. It was however had the highest building plan submission fees, relative to the other local municipalities particularly for industrial-type developments.
- With the highest town planning related fees, and the second highest consumption charges, and building plan submission fees, the Bitou Local Municipality was the least affordable destination from a cost of doing business perspective.
- The Knysna Local Municipality was ranked as the third most attractive destination for doing business. Key drivers of this were the affordability of its building plan fees (ranked 2nd), town planning costs (ranked 3rd) and consumption charges (3rd third). Its high property rates relative to other local municipalities however, adversely impacted its overall attractiveness.

When comparing the rates presented in Table 3 with those levied in 2017/2018, the following additional information was noted:

- The Knysna Local Municipality’s overall ranking for cost of doing business, remained unchanged between the two financial years. While its overall ranking remained unchanged, its consumption charges ranking improved from 4th to 3rd and its property rates ranking improved from 6th to 5th.
- These improvements resulted in the Knysna Local Municipality’s overall ranking score relative to the other local municipalities decreasing by 2.4%. This meant that that the Knysna Local Municipality become relatively more affordable and accordingly a more attractive destination for investment in 2018/2019 than it was in 2017/2018.
ECONOMIC STRUCTURE OF SETTLEMENTS

As part of assessing the state of the greater Knysna municipal area’s economy, the economic structure and purpose of each settlement was assessed. The economic activities within each of these settlements was based on the Knysna Local Municipality’s 2019 draft Spatial Development Framework.

FIGURE 2: KNYSNA LOCAL MUNICIPALITY’S SETTLEMENT AND ECONOMY FRAMEWORK

Table 4 indicates the various settlement types, their function/roles, and which settlements within the greater Knysna municipal area fall into these various types.

TABLE 4: SETTLEMENT HIERARCHY

<table>
<thead>
<tr>
<th>SETTLEMENT TYPE</th>
<th>FUNCTION / ROLE</th>
<th>SETTLEMENT(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Services Centre (Town)</td>
<td>This main urban centre is the location of new housing, jobs, services and facilities with a focus on development and densification. It hosts the main health, education, cultural facilities as well as government services. As an economic hub it contains industry, services and other business.</td>
<td>Knysna</td>
</tr>
</tbody>
</table>
Specialised Coastal Centres

Small urban centres with a special function (largely tourism, recreation and retirement related) as well as a role in terms of servicing the surrounding areas and containing a mix of economic activities and services

Sedgefield; Buffalo Bay; Brenton on Sea

Villages

Meeting the local convenience needs with basic social facilities for their own population and the surrounding rural communities

Rheenendal; Karatara

Rural Hamlets

Small residential clusters without commercial or business uses. Populations range from 30 to 200 people and up to 40 erven.

Bergvallei; Bibby’s Hoek; Kraaibosch; Noetzie; Springfield; Middelerf; Brackenhill; Farleigh; Goudveld; Windheuwels; Vrystaat; Swaneberg

The Knysna Local Municipality’s 2019 Draft SDF Land noted that land uses within the greater Knysna municipal area's settlements should be managed with due respect for their role in the broader municipal wide settlement system as well as their local economies. Appropriate economic development for each of the aforementioned settlements is outlined in Table 5, and based on the outcomes of the Knysna Local Municipality’s 2019 draft Spatial Development Framework.

TABLE 5: APPROPRIATE ECONOMIC ACTIVITY DEVELOPMENT PER SETTLEMENT

<table>
<thead>
<tr>
<th>SETTLEMENT(S)</th>
<th>APPROPRIATE ECONOMIC ACTIVITY DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>Low density development and/or “eco-estates” are not ideal. Developable land is scarce and must be optimally utilised to meet the demand for housing (across all income groups) and economic development.</td>
</tr>
<tr>
<td>Sedgefield; Buffalo Bay; Brenton on Sea</td>
<td>Within the urban edge, focus on activities that support the local tourism and surrounding rural economy.</td>
</tr>
<tr>
<td>Rheenendal; Karatara</td>
<td>Attracting economic investment that creates job opportunities for existing residents should be the focus of public sector attention in these villages. Potential for tourism attractions linked to agricultural activity and surrounding natural landscape should be explored. Agro-processing and cottage industries should be supported. Suitable remaining land within the urban edge should be prioritised for these uses.</td>
</tr>
<tr>
<td>Bergvallei; Bibby’s Hoek; Kraaibosch; Noetzie; Springfield; Middelerf; Brackenhill; Farleigh; Goudveld; Windheuwels; Vrystaat; Swaneberg</td>
<td>If it supports/diversifies agriculture, supports tourism or broadens the value chain</td>
</tr>
</tbody>
</table>
POTENTIAL IDENTIFICATION

In order to identify projects that are likely to have a significant impact on the economy, it was necessary to identify the current and potential future economic development opportunities within the greater Knysna municipal area. This potential identification was based on the findings outlined above, as well as a set of nine criteria which allow for the identification of interventions that are both sustainable and which ensure future economic upliftment and growth.

As part of this process a SWOT and sectoral potential analysis were undertaken. These two analysis techniques provided insight into what competitive advantages the identified economic sectors had and what developmental potential exists that could be exploited. These two analysis techniques sought to identify supply and demand factors, and thereby assess market opportunities based on the gap between existing and potential levels of development. This was complimented by a review of the potential resource base for exploitation or beneficiation.

In addition, constraints to development such as international market fluctuations, environmental degradation, lack of entrepreneurial skills and poverty were identified.

Based on the analysis techniques outlined, a range of development opportunities and constraints in the greater Knysna municipal area were identified including:

- The agriculture and manufacturing sectors as well as the tourism industry within the greater Knysna municipal area have all been shown to have a comparative advantage, with the tourism industry demonstrating a latent potential comparative advantage.
- Within the agricultural sector, the main constraints to development are availability of suitable land, water scarcity, high input costs (particularly land), low productivity and lack of access to financial support.
- Opportunities identified within the agricultural sector include the use of digital agricultural; organic horticulture products including those that cater for vegans and vegetarians; hydroponics, aquaponics, permaculture as well as a focus on niche high-value agricultural products (e.g. honeybush, berries, mushrooms, herbs, nuts, ornamental plants).
- Development opportunities within the manufacturing sector include: waste recycling; timber related products (furniture, prefabricated homes, coffins, school desks, etc.); food processing (e.g. juice concentrates, ice cream); natural products (e.g. bio-degradable materials; natural supplements including sweeteners, and herbal remedies; and cosmetics); environmental and energy technologies (including biomass), additive manufacturing; ICT (e.g. information analytics, cybersecurity); drones; transport equipment (e.g. vintage cars, yachts, canoes, boats and refurbishment, restoration and maintenance of these); and construction materials (e.g. luxury vinyl tiles). The demand for energy efficient products and other “green products” is a particularly important growth area.

The performance of many of the other sectors, such as finance and business services, is essentially a derived demand. These sectors will benefit from the development of the previous economic sectors as well as the general strengthening of economic linkages within the greater Knysna municipal area. The transport and communication sector has a particularly important role to play in terms of creating an enabling environment for economic development. The improvement and expansion of transport linkages and communication technology will improve the accessibility of the municipality. A transportation framework plan should be
developed to guide the establishment of future mobility infrastructure. This should be aligned to the Knysna Local Municipality’s Spatial Development Framework and capital investment framework.

The successful roll out of fibre networks in the greater Knysna municipal area will significantly improve ICT infrastructure in the area. Furthermore, it will position the greater Knysna municipal to take advantage of the rapid increase in the use of digital technologies in a range of economic sectors pertinent to the area. The introduction of a high-speed fibre network will also create opportunities in new areas such as:

- Film industry development
- Business Processes Outsourcing
- Secure data storage
- E-sports and game design
- Edu-tech
- E-government and data driven policy
- Digital health services

**ECONOMIC PLANNING FRAMEWORK**

The Economic Planning Framework contains the response to the existing economic situation as presented in the previous sections of the EDS. As such, it serves as a means of unlocking the identified opportunities within the greater Knysna municipal area as well as mitigating the various challenges facing the area.

As part of this process various Local Economic Development (LED) projects were identified for implementation in the greater Knysna municipal area over the short- to long-term. These projects seek to:

- Build on the region’s strengths
- Address the locations’ current weaknesses
- Take advantage of opportunities for development that exist currently or in the foreseeable future
- Mitigate the impact of possible threats to the achievement of the Knysna Local Municipality’s economic development vision
- Provide a guide for the selection of projects over short-, medium- and long-term for implementation by the public sector, the private sector and other stakeholders

The full list of proposed projects to be implemented per economic sector are outlined in Table 6.

**TABLE 6: LED PROJECTS FROM POTENTIAL ASSESSMENT**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>PROJECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>• Green Construction</td>
</tr>
<tr>
<td></td>
<td>• Sports and Recreational Facilities</td>
</tr>
<tr>
<td></td>
<td>• Municipal Infrastructure Upgrading/Development in Urban and Rural Area</td>
</tr>
<tr>
<td></td>
<td>• Transport Framework Plan</td>
</tr>
<tr>
<td></td>
<td>• CBD Renewal Programme</td>
</tr>
<tr>
<td></td>
<td>• Heidevallei Redevelopment</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>• Formal and Informal Retail Space Development</td>
</tr>
<tr>
<td></td>
<td>• Informal Trading Management</td>
</tr>
<tr>
<td></td>
<td>• Retail Logistic Distribution Point</td>
</tr>
</tbody>
</table>
The aim of the project prioritisation process was to determine which of the identified projects were likely to have the greatest impact on the attainment of the vision of the Knysna Local Municipality. Furthermore, the prioritisation process sought to establish which of the projects would have the highest impact on the greater Knysna municipal area’s economy in terms of job creation, capacity building, social upliftment and infrastructure development.

In order to achieve this, a prioritisation model was developed as a guide to assist in the assessment of the identified projects. The model utilises four criteria, each of which was allocated a weighting based on its relative importance. The criteria used for the assessment of the projects were:

1. Strategic Importance
2. Economic Impact
3. Feasibility
4. SMME Promotion, Skills Development and BBBEE Impact

From the list of projects presented in Table 6, ten were identified as having the highest total scores and thus the most important projects required for local economic development. Table 7 below shows these top ten prioritised initiatives which should be undertaken by the Knysna Local Municipality, private sector and other development partners in the short to medium term.
It needs to be noted, however, that the high priority initiatives do not exclude any of the other projects identified to be pursued should one or more of its impact indicators that affect its priority change at any given point in time.

### TABLE 7: PRIORITISED FOCUS AREAS AND PROGRAMMES

<table>
<thead>
<tr>
<th>OVERALL RANKING</th>
<th>PROJECT</th>
<th>SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eco-Tourism Development</td>
<td>Tourism</td>
</tr>
<tr>
<td>2</td>
<td>Niche Manufacturing Growth Strategy</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>3</td>
<td>SMME Development</td>
<td>Wholesale and Retail Trade</td>
</tr>
<tr>
<td>4</td>
<td>Niche Agricultural Development</td>
<td>Agriculture</td>
</tr>
<tr>
<td>5</td>
<td>Industrial Area Development</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>6</td>
<td>Municipal Infrastructure Upgrading/Development</td>
<td>Construction</td>
</tr>
<tr>
<td>7</td>
<td>Timber Sector Marketing Initiatives</td>
<td>Agriculture</td>
</tr>
<tr>
<td>8</td>
<td>Formal and Informal Retail Space Development</td>
<td>Wholesale and Retail Trade</td>
</tr>
<tr>
<td>9</td>
<td>Invest Knysna Brand &amp; Incentives</td>
<td>Community &amp; Government Services</td>
</tr>
<tr>
<td>10</td>
<td>Bioenergy Production</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

### IMPLEMENTATION GUIDELINES

Local Economic Development is essentially an approach that guides the planning, management, implementation and evaluation of economic development within an area. It is driven and overseen by various role-players that represent the LED institutional environment. These include intra and inter-governmental departments, organisations, agencies, and their working arrangements with multidisciplinary groupings, various private sector entities and civic organisations.

The EDS’s implementation guidelines provide inputs on the optimal implementation approach through:

- Institutional arrangements
- Roles and responsibilities
- Implementation plans
- Monitoring and evaluation framework

After looking at which organisations and entities will be involved in driving and facilitating economic development within the greater Knysna municipal area, the implementation plan provides proposals on arrangements that will facilitate the achievement of the EDS objectives.

It also discusses recommendations towards enhancing the technical and administrative capacity of the various agencies responsible for economic development within the greater Knysna municipal area by:

1. Capacitating the restructured Economic Development Department so that it is in-line with national best practice LED department models and is able to effectively provide the following services:
   - Economic research and knowledge management
   - Stakeholder liaison
   - Inward investment attraction
   - Support sector and business development
   - Promote the development of the informal economy
• Coordinate area targeting and regeneration

2. Establish a multi-stakeholder business forum. This forum would not only help with facilitate economic development in the greater Knysna municipal area, but it would also act as a mechanism to enhance social cohesion and cooperation between various stakeholders in the local LED environment. Critical to the success of this process, however, will be ensuring Business Forum represent a diverse range of businesses within the greater Knysna municipal area (i.e. taxi associations, informal traders, SMME’s, cooperatives, organised labour etc.).

CONCLUSION AND WAY FORWARD

A critically important aspect for the successful implementation of the Knysna EDS is the need to ensure that all stakeholders and parties involved in the economic development process take ownership of the programmes and projects identified.

Based on the formulation of the strategy with the numerous potential products and projects, the following is recommended to achieve optimal sustainable local economic development, employment creation, and a reduction in poverty and inequality:

• Start by focusing on the sectors with the highest development potential, followed by those sectors that exhibit less potential. Ensure balanced stimulation of growth and development within all sectors by not focusing solely on one sector.
• Before embarking on the implementation of specific projects, ensure that adequate funding sources and management capacity are in place
• Start by implementing those projects with the highest potential for stimulating economic growth and development first
• Make sure that the projects that stimulate economic growth do not adversely affect the environment or human living conditions and are likely to be sustainable over the long-term
• Set reasonable time frames for implementation and ensure effective and continuous monitoring of project progress and impacts

The role of the Knysna Local Municipality should be on strengthening and capacitating the municipality’s Economic Development Department so as to permit it to coordinate and integrate all LED projects within the municipal area, as well as facilitate stakeholder participation and the formation of public-private partnerships.

In addition to strengthening and capacitating the Economic Development Department, focus should be placed on establishing a Business Forum within the greater Knysna municipal area. A well-functioning and effective Business Forum will not only help with facilitate economic development in the greater Knysna municipal area, but also act as a mechanism to enhance social cohesion and cooperation between various stakeholders in the local LED environment.

Incentives should be considered to attract the private sector to invest in the greater Knysna municipal area. The achievement of local economic development will be made easier when there is participation from all sectors within the greater Knysna municipal area.

For economic development to function effectively, all LED stakeholders should receive regular training. There are various ways in which the staff members can be trained and be capacitated to do LED. Firstly,
training can be done by using in-house training material and on-the-job training, secondly, by attending courses at universities/colleges.

It is also important that the monitoring and evaluation elements of the EDS are incorporated into the performance management system of the Knysna Local Municipality. This will ensure accountability and responsibility for the implementation of the EDS and its programmes, and will mitigate any potential conflict.
CHAPTER 1: INTRODUCTION

As part of its local government mandate, the Knysna Local Municipality has embarked on a process of updating and finalising the 2016 draft Economic Development Strategy (EDS) for the greater Knysna municipal area. The aim of this process is to provide the Knysna Local Municipality, the private sector and the local community the opportunity to develop a planning guide that promotes economic growth, facilitates job creation and addresses poverty within the area.

The strategy focuses on identifying mechanisms to enhance the greater Knysna municipal area’s competitive environment thereby contributing to inclusive, sustainable economic growth. Furthermore, the EDS identifies existing resources, infrastructure and skills within the greater Knysna municipal area and establishes how these elements can be best leveraged to create opportunities for all stakeholders.

The purpose of the EDS is to interrogate available economic information in an integrated and coordinated manner so as to identify opportunities that can broaden the economic base of the greater Knysna municipal area. These opportunities are then packaged into an implementation framework which sets out guidelines as to how existing economic potential can be utilised to generate positive spin-offs for the local economy.

Furthermore, the EDS is also aimed at ensuring that the Knysna Local Municipality can efficiently and effectively facilitate the creation of an appropriate enabling environment, conducive to economic development and investment.

This however can only be achieved if there is a comprehensive understanding of the current development situation within the greater Knysna municipal area. The analysis will therefore consider the current demographic, socio-economic and economic characteristics of the area, as well as the trends within these respective characteristics, in order to highlight the main challenges faced by the greater Knysna municipal area and to propose a framework for economic development interventions that respond to the economic challenges.

1.1 GOALS AND OBJECTIVES

The overall goal of the study is as follows:

To develop a credible Economic Development Strategy that investigates economic development opportunities in the greater Knysna municipal area. The study should focus on updating and finalising the draft 2016 EDS and the formulation of a revised, inclusive and credible strategy that ensures the effective and continued implementation of economic development projects, programmes and initiatives. Key issues that need to be addressed include: the eradication of poverty through sustainable job creation, skills training and enhancement, economic development as well as diversification of the economic base for effective investment.

The following objectives have been identified for the study:

- Revise and update the current 2016 draft Knysna EDS, ensuring that it is a credible strategy;

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2 The greater Knysna municipal area refers to the administrative area established by the South African Demarcation Board, while the Knysna Local Municipality refers to the municipal administrative structure. Knysna is used to refer to the town.
• Align the 2016 draft Knysna EDS with the Knysna Local Municipality’s Economic Development Department’s annual work plans and strategic focus areas;
• Update the socio-economic profile with the latest statistics and new ward delineation;
• Develop an infrastructure investment pipeline linked to the capital expenditure/investment framework proposed in the SDF;
• Provide a linkage with the new SDF to identify the growth nodes;
• Update the State of the Knysna Economy to include a section on the cost of doing business in the greater Knysna municipal area relative to similar local economies to determine the relative competitiveness of the economy;
• Update the sector potential section in the 2016 draft Knysna EDS with new trends and projects;
• Undertake the mapping of all socio-economic indicators using GIS for all relevant wards in greater Knysna municipal area;
• Determine the critical factors needed for project implementation;
• Update and refine the implementation action plans in terms of EDS interventions that can be executed by public and private sector role players;
• Develop the findings and identified interventions into a strategic document that can be adopted by the council;
• Develop a prioritisation model for the outcomes of the sector potential analysis; and
• Link the EDS action plan to the institutional arrangement of the Economic Development Department to ensure execution and appropriate roles and responsibilities.

1.2 KNYSNA LOCAL MUNICIPALITY’S JURISDICTION

The Knysna Local Municipality’s administrative area spans 1 059 km² (4.7% of the Garden Route District Municipality’s land area), comprises eleven wards and is located in the Garden Route District Municipality on the southern coast of the Western Cape. The municipality borders by the George Local Municipality to the north and west; and the Bitou Local Municipality to the east (see Figure 1.1).

FIGURE 1.1: BOUNDARIES OF THE KNYSNA LOCAL MUNICIPALITY AND GARDEN ROUTE DISTRICT MUNICIPALITY
The greater Knysna municipal area is characterised by vast natural resources such as the Outeniqua Mountains, farmland, forests, rivers (Hoogekraal and Karatara), valleys, lagoons (Sedgefield and Knysna), varied natural vegetation, Garden Route National Park, nature reserves (Goukamma, Featherbed and Penzula), lakes, beaches (Leisure Isle, Brenton-on-Sea, Buffels Bay and Noetzie).

The major settlements within the greater Knysna municipal area include the town of Knysna, which is the administrative seat of the Knysna Local Municipality, Sedgefield, Karatara and Rheenendal.

1.3 METHODOLOGY

The methodology used in achieving the objectives outlined above is illustrated in Figure 1.2. This methodological approach presents the logical order of actions followed in compiling the Knysna Local Municipality’s EDS. This process permits an accurate assessment of the greater Knysna municipal area’s economy to be made and results in the specific recommendations in line with benchmarked LED principles.

**FIGURE 1.2: METHODOLOGY FOLLOWED**

- **Orientation**
  - Inception meeting with client
  - Collection relevant information from stakeholders

- **Review and Update Situation Analysis and Status Quo**
  - Review and update policy documents as well as other relevant documents
  - Determine data gaps and update Development Enablers and State of the Knysna Economy sections

- **Update Assessment of Economic Potential**
  - Review and revise SWOT Analysis
  - Review and update sectoral potential analysis with new trends and opportunities

- **Revise Implementation Framework**
  - Project identification and packaging
  - Institutional recommendations for EDS implementation
  - Policy implications
  - Monitoring and Evaluation Framework

1.4 LOCAL ECONOMIC DEVELOPMENT CONCEPT

Local Economic Development (LED) is an approach towards economic development that aims to involve a range of different stakeholders (e.g. community; business; government) in the achievement of sustainable economic growth that provides benefits such as employment, skills development and SMME support to a given area. Sustainable economic growth in this sense refers to economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

The LED concept has been applied as a government programme to improve the economic performance of municipal areas across all industries (agriculture, manufacturing etc.) and sectors (formal and informal).

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Local Economic Development is primarily implemented at a local municipal government level due to this sphere’s degree of accountability to the public through its elected officials.

Local Economic Development is an on-going process, rather than a single project or intervention. It involves identifying and using both current and underutilised local resources, ideas and skills to stimulate sustainable economic growth and development. The primary aim of LED is to create employment opportunities for local residents, alleviate poverty and the associated poverty cycles, as well as redistribute resources and opportunities to the benefit of all local residents.

In order for LED to be effective, a community needs to identify and consider its own economic strengths, weaknesses, opportunities and threats and agree on a shared strategy. This will ensure that identified LED strategies and projects are matched with local available skills and resources. Local Economic Development is therefore characterised by the following objectives:

- Ensuring strong economic growth that promotes job creation;
- Bringing the poor and previously disadvantaged to the centre of economic development;
- Supporting trade and investment promotion through business retention, expansion and the attraction of inward investment that increases local employment opportunities;
- Ensuring service delivery and municipal development planning that creates an enabling environment for business growth and development; and
- Assisting with local implementation of national, provincial and regional economic development strategies and plans.

1.5 DATA SOURCES

A number of different data sources, both primary and secondary, were used in compiling the Knysna Local Municipality’s EDS. Primary research undertaken as part of the EDS included:

- Site visits to the greater Knysna municipal area
- Targeted engagements with sector specialists
- Market research (including surveys) relating to property prices, vacancy, and rental rates (commercial and residential)
- Interviews with the broader community
- Interviews with various government departments (town planning, technical services, LED)

Secondary research related primarily to statistical analysis. Statistics were obtained from a number of different sources (i.e. Department of Agricultural, Forestry and Fisheries; Western Cape Department of Education) but the majority of data was obtained from either Quantaec (Pty) Ltd. or StatsSA (Census 2011, Community Survey 2016). Limitations with statistical analysis are acknowledged, and every effort was made throughout the document to test statistical results against observable reality.

Other secondary research undertaken focused on a review of a range of national (e.g. National Development Plan, New Growth Path), provincial (e.g. Western Cape Provincial Growth and Development Strategy), district (e.g. Garden Route REDS) and local planning documents (e.g. 2016 draft Knysna EDS). This secondary research also included considering a number of other sectoral documents and surveys undertaken at both a national and local level. Specific documents used are sourced throughout the report.
It is noted that the EDS is a working document and that certain results are likely to change over the project’s lifetime as further inputs are received and new findings become available. As such, certain facts and figures presented in earlier drafts will likely change.

1.6 STRUCTURE OF THE REPORT

POLICY ALIGNMENT 02
Outlines a range of national, provincial and local planning documents applicable to the Knysna Local Municipality and how these documents are likely to impact economic development.

DEVELOPMENT ENABLERS 03
Provides an overview of a range of socio-economic factors focusing on population and education and what impact these will have on long-term planning for the greater Knysna municipal area.

STATE OF THE KNYSNA ECONOMY 04
Analyses the greater Knysna municipal area’s economy using a range of statistical tools, considers specific infrastructure elements as well as the economic nodal structure of the area. The cost of doing business in the greater Knysna municipal area relative to other municipalities in the region is also considered.

POTENTIAL ASSESSMENT 05
Identifies the strengths, weakness, opportunities and threats within the greater Knysna municipal area and how these can be leveraged to promote and facilitate economic development. The chapter further unpacks key economic sector to detail to identify specific development opportunities.

ECONOMIC PLANNING FRAMEWORK 06
Specifies the various economic development projects and indicates the order in which projects should be prioritised.

IMPLEMENTATION GUIDELINES 07
Sets out the institutional arrangements that should be put in place to successful implement as well as outlines the step-by-step approach that needs to be followed to implement the identified interventions.
CHAPTER 2: POLICY ALIGNMENT

In the process of developing the Knysna Local Municipality’s EDS, several key legislative and policy documents need to be considered. This review ensures that there is appropriate alignment with national, provincial and district policies, as well as ensuring that the future policy implications of these strategic documents are considered when planning.

Beyond this, the national, provincial and district priorities need to be reflected in the overall Economic Development Strategy. The following section will consider a range of core strategies from all spheres of government applicable to the greater Knysna municipal area.

2.1 NATIONAL PLANNING FRAMEWORK

2.1.1 NATIONAL DEVELOPMENT PLAN

The National Development Plan (NDP) serves as a long-term strategic plan for South Africa and aims to eliminate poverty and reduce inequality by 2030. The NDP sets out a range of challenges currently being experienced by South Africa which need to be addressed in order to achieve its long-term goals. These challenges include:

<table>
<thead>
<tr>
<th>SOUTH AFRICA’S NINE PRIMARY CHALLENGES</th>
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<tbody>
<tr>
<td>1. Too few people work</td>
</tr>
<tr>
<td>2. The standard of school education for black learners is of a poor quality</td>
</tr>
<tr>
<td>3. Infrastructure is poorly located, inadequate and under-maintained</td>
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<tr>
<td>4. Spatial divides hobble inclusive development</td>
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<tr>
<td>5. The economy is unsustainably resource intensive</td>
</tr>
<tr>
<td>6. The public health system cannot meet demand or sustain quality</td>
</tr>
<tr>
<td>7. Public services are uneven and often of poor quality</td>
</tr>
<tr>
<td>8. Corruption levels are high</td>
</tr>
<tr>
<td>9. South Africa remains a divided society</td>
</tr>
</tbody>
</table>

In reaction to these challenges, the NDP sets out six interlinked priorities and a range of functional areas which need to be focused on over the next 20 years. These six priorities are:

1. Uniting all South Africans around a common programme to achieve prosperity and equity.
2. Promoting active citizenry to strengthen development, democracy and accountability.
3. Bringing about faster economic growth, higher investment and greater labour absorption.
4. Focusing on key capabilities of people and the state.
5. Building a capable and developmental state.
6. Encouraging strong leadership throughout society to work together to solve problems.

Whilst the above strategic areas are broad, the three priorities that are highlighted include: raising employment through faster economic growth; improving the quality of education, skills development and innovation; and building the capability of the state to play a developmental, transformative role. These are seen as essential to achieving higher rates of investment and competitiveness, and expanding production and exports.
PLANNING IMPLICATIONS:
Based on the National Development Plan, projects/interventions proposed in the Knysna Economic Development Strategy (EDS) should aim to create sustainable employment opportunities that address income inequality; and improve local educational and skill levels.

2.1.2 NEW GROWTH PATH (NGP)

The New Growth Path’s principle objective is to address unemployment through the creation of five million jobs by 2020. The creation of these five million jobs is projected to reduce the unemployment rate from 25% to 15% by 2020. The New Growth Path seeks to place the economy on a production-led trajectory with growth targeted in ten ‘jobs drivers’. As a first step, government will focus on unlocking the employment potential in six key sectors and activities, namely:

- Infrastructure, through the massive expansion of transport, energy, water, communications capacity and housing, underpinned by a strong focus on domestic industry to supply the components for the build programmes
- The agricultural value chain, with a focus on expanding farm output and employment, and increasing the agro-processing sector
- The green economy, with programmes in green energy, component manufacture and services
- Manufacturing sectors in IPAP2
- Tourism and certain high-level services

The New Growth Path indicates that current investment and savings are below the levels required for sustainable growth, which is seen as an imbalance in the economy. The NGP therefore sees the need for government to encourage stronger investment by the private and public sectors to grow employment-creating activities rapidly, while maintaining and incrementally improving South Africa’s core.

PLANNING IMPLICATIONS:
The Knysna EDS must seek to meet national employment targets set out by the New Growth Path. Job creation must therefore be one of the key considerations when initiatives/projects are undertaken. This is especially relevant for LED projects that are in line with the Growth Plan’s key sectors.

2.1.3 NATIONAL FRAMEWORK FOR LOCAL ECONOMIC DEVELOPMENT (LED)

The National Framework for LED aims to support the development of sustainable, robust and inclusive local economies that exploit local opportunities, real potential and competitive advantages, address local needs and contribute to national development objectives. It views LED as the outcome of actions and interventions resulting from local good governance and the improved integration and coordination between national, provincial and local government programmes and projects. The National Framework for LED seeks to mobilise local resources, within the framework of the PGDP and NSDP, to become competitive in the economic marketplace, both domestically and internationally.

STRATEGIES TO IMPLEMENT THESE OUTCOMES INCLUDE:
Improving good governance, service delivery, public and market confidence in municipalities through an alignment of national, provincial and local programmes
Identifying and exploiting an area’s competitive advantage as a means of understanding the opportunities and constraints in local economies

Instituting Sustainable Developmental Community Investment Programming, building community and thus using a powerful cultural dynamic as the main vehicle and partner for LED, together with the resourcing of organised communities, to become important productive units

Intensifying enterprise support through the Small Enterprise Development Agency (SEDA)

**PLANNING IMPLICATIONS:**

When developing the Knysna EDS it is necessary to follow the guidelines set out by the national government. This framework impacts on the management of the municipality – it is essential that internal resources of the municipality are fully mobilised and utilised in an efficient manner. The Knysna Local Municipality needs to build internal organisational capacity in order to meet local development objectives.

### 2.1.4 INDUSTRIAL POLICY ACTION PLAN 2018/19 – 2020/21 (IPAP)

The Industrial Policy Action Plan (IPAP) sets out specific objectives and mechanisms to achieve the outcomes outlined in South Africa’s industrial policy. The IPAP also constitutes a central tool in the NGP job creation strategy. IPAP2018 focuses on the following ten key themes which inform the work of national government, and act as a roadmap for the country’s wider industrial development efforts:

1. **Grow the economy.**
2. Strengthen efforts to raise aggregate domestic demand – mainly through localisation of public procurement and intensified efforts to persuade the private sector to support localisation and local supplier development.
3. **Accelerate South Africa’s export efforts.**
4. Create and reinforce policy certainty and programme alignment.
5. Strengthen ongoing efforts to build less concentrated, more competitive economic and manufacturing environment in which barriers to entry for new entrants are lowered.
6. **Build a strong system of industrial finance and incentives to support and secure higher levels of private sector investment in the productive sectors of the economy and grow exports.**
7. Press ahead with technology-intensive, value adding beneficiation projects which fully leverage South Africa’s comparative resources endowment advantage into a global competitive advantage.
8. Optimise technology transfers and diffusion and, working closely with the DST, further ramp up efforts to commercialise ‘home-grown’ R&D in key sectors.
9. Support the further strengthening of energy-efficient production and carbon mitigation efforts and measures in a manner that allows for sustainable adaption by all the energy-intensive sectors of the economy.
10. Understand and prepare for the foreseeable effects of the Digital Industrial Revolution and emergent disruptive technologies, collaboratively adapting South Africa’s productive and service sectors to meet the challenges, including those relating to employment displacement.

This will be achieved through cross-cutting and sector specific interventions that include:

- Industrial financing;
- The deployment of conditional incentives;
- Local procurement and the offset programme the National Industrial Participation Programme (NIPP); and
• A wide variety of demand- and supply-side industrial policy levers designed to secure higher levels of investment and raise the competitiveness of the productive sectors of the economy.

PLANNING IMPLICATIONS:
The Industrial Policy Action Plan (2018/19 – 2020/21) has a specific relevance to LED within the greater Knysna municipal area given that national funding is linked to manufacturing initiatives that fall within the purview of IPAP strategic clusters. Of particular relevance is manufacturing linked to: Agro-processing (e.g. Halal industry, niche regional sectors, fruit exports); Forestry, Timber, Paper, Pulp and Furniture; Plastics, Pharmaceuticals, Chemicals and Cosmetics (e.g. plastic polymers from waste, biopharmaceuticals, medical devices, natural ingredients for cosmetics); Green Industries (e.g. resource efficiency); Business Process Service (BPS); and Marine Manufacturing and Associated Services (e.g. boat building).

2.1.5 BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT, NO. 53 OF 2003

The objective of the B-BBEE Act is to substantially increase the number of black people, particularly women, youth and people with disabilities, who have ownership and control of new and existing enterprises, and the number of black people in executive and senior management positions. In terms of the Act, “black people” is a generic term referring to Africans, Coloureds and Indians.

This economic empowerment is intended to be achieved through a diverse but integrated range of socio-economic strategies that include but are not limited to:

• Increasing the number of black people that manage, own and control enterprises and productive assets
• Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises
• Human resource and skills development
• Achieving equitable representation in all occupational categories and levels in the workforce;
• Preferential procurement
• Investment in enterprises that are owned or managed by black people

PLANNING IMPLICATIONS:
The provisions of the Broad-Based Black Economic Empowerment Act are important to economic development in the greater Knysna municipal area as any interventions implemented by the Knysna Local Municipality will be evaluated against the following policy objectives as set out in the act:

• Promoting economic transformation;
• Changing the racial composition of ownership and management;
• Increasing the extent to which black women own and manage existing and new enterprises;
• Promoting investment in B-BBEE programmes;
• Empowering rural and local communities; and
• Promoting access to finance for black economic empowerment.
2.2 PROVINCIAL POLICIES

2.2.1 WESTERN CAPE PROVINCE GROWTH AND DEVELOPMENT STRATEGY: IKAPA ELIHLUMAYO

The Western Cape Province Growth and Development Strategy aims to provide provincial and local governments in the Western Cape with a guideline for formulating their respective IDP’s so that provincial and local goals may be aligned.

The strategy further sets out a rationale and plan to achieve the imperative of shared growth and integrated development within the Western Cape by 2014. As part of this objective the strategy outlines a range of interventions and targets that are intended to guide government with respect to its priorities, resource allocations, operational plans and partnerships. These interventions are divided into “Path Breaking Actions”, “Path Shaping Interventions” and “Path Consolidating Interventions”. The following Path Breaking Actions were identified in the strategy:

- Integrated non-motorised and motorised public transport
- Integrated regional rail network (freight logistics, passenger and commuter rail)
- Transport and development corridors
- Strategic roads and interchanges

The following Path Shaping Interventions were identified:

- Energy and water (including sanitation) infrastructure projects
- Scare skills development
- Cape Flats Infrastructure Initiative
- MEDS priority sector implementation strategies: BPO/Call Centres, Tourism, Oil & Gas and Creative Industries
- Implementation of Intergovernmental Relations Act by building regional planning and coordination capacity
- Western Cape Provincial Spatial Development Framework

The following Path Consolidating Interventions were also identified:

- Sustainable and integrated human settlements
- Health Care 2010 and Burden of Disease interventions
- Strategic Infrastructure Plan (especially bulk infrastructure) implementation
- Early Childhood Development (ECD)
- Safety and security programmes
- Social Capital Formation Strategy roll out
- Integrated Law Reform Project
- Institutional reforms associated with the new Human Capital Development Strategy
- Economic Sector Support initiatives associated with Microeconomic Development Strategy and ASGISA priorities
- Implementation of the Provincial Sustainable Development Implementation
PLANNING IMPLICATIONS:
Integration between the Knysna Local Municipality and the Western Cape Provincial government is important for the vertical alignment of local IDP and LED goals with the Provincial Growth and Development Strategy. This helps to foster greater coordination and cooperation between provincial and local spheres in respect of resource allocation to priority areas.

2.2.2 WESTERN CAPE: MICRO-ECONOMIC DEVELOPMENT STRATEGY

The Micro-Economic Development Strategy (MEDS) consists of a comprehensive framework of cost-efficient interventions to boost the Western Cape's economy with the view that it may be sustainable in the future. This framework includes 18 tailor-made strategies for sectors identified as having high growth potential, such as Exports, Tourism, Agriculture, ICT and Cultural industries.

PLANNING IMPLICATIONS:
To promote the development of the regional economy, the Knysna Local Municipality should follow the guidelines provided by the MEDS. The MEDS provides direction to the Knysna Local Municipality in harnessing their resources into meaningful cooperation and co-funding arrangements to achieve policy goals in a focused and coordinated manner.

2.2.3 WESTERN CAPE PROVINCIAL SPATIAL DEVELOPMENT FRAMEWORK

This policy aims to address the biased nature of historical investment by the public sector. Former infrastructure and development strategies have largely benefited a small proportion of the Western Cape population and consequently it is necessary to pursue strategies that counteract these imbalances.

The Provincial Spatial Development Framework (PSDF) gives priority to bolstering the spatial performance of the Southern Cape region (under which the Knysna Local Municipality falls) and recommends the preparation of a Regional Spatial Implementation Framework (RSIF), which is currently being developed. The PSDF highlights the need to enhance the emerging industrial centres of George and Mossel Bay, as well as the Garden Route coastal belt as a leisure and tourism region. The Garden Route District, and Knysna Local Municipality in particular, have therefore been identified not only as having a high growth potential but also strategic areas within the province due to their scenic value, regional competitiveness and economic performances.

PLANNING IMPLICATIONS:
The Knysna Local Municipality should take cognisance of the spatial challenges outlined in Provincial SDF and engage in strategies that address the issues raised in the framework.

2.2.4 PROJECT KHULISA

Project Khulisa identifies the economic sectors in the Western Cape that are growing the fastest, and which have the potential to create job opportunities. These sectors include: tourism, agri-processing and oil and gas. The development of these sectors is a priority for the Western Cape Government. Specific goals for these three sectors are:

- For tourism, to achieve an increase in the sector’s GVA from R17.0 billion to R28.0 billion and to grow tourism jobs by up to 100 000.
- For agri-processing, to increase the sector’s GVA contribution from R12.0 billion to R26.0 billion, potentially creating a further 100 000 formal jobs.
- For oil and gas, to increase the sector’s GVA contribution from R1.0 billion to R3.0 billion and increase direct jobs by up to 60 000.

To achieve these goals, the following strategic interventions have been identified:

- Boost awareness of the Western Cape in key tourism markets.
- Improve accessibility of Cape Town and its major tourism regions, such as through awareness campaigns on local transport options
- Boost the attractiveness of the region through competitive tourism product offerings and compelling packaging (e.g. Cycling Capital of Africa; food and wine destination)
- Growing the Western Cape’s share of the global Halal market from less than 1.0% to 2.0% by 2025.
- Doubling the value of wine and brandy exports to China and Angola by 2025.
- Increasing local production capacity to process agricultural products.
- Expand suitable infrastructure by developing the port infrastructure and service industrial facilities to transform Saldanha Bay into a free port and rig repair hub. Khulisa Oil and Gas Project will continue further implement initiatives under the following levers:
  - Skills development
  - Ease of doing business
  - Supplier development
  - Marketing and coordination

**PLANNING IMPLICATIONS:**
Project Khulisa sets out the strategic direction and economic focus areas for the Western Cape economy until 2025. Provincial funding will accordingly be aligned to these sectors. To access such funding, the Knysna Local Municipality will need to ensure that its economic interventions, where applicable, correspond to these overarching goals. As a key tourism destination and an important agricultural region however, the greater Knysna municipal area can play a pivotal role in achieving the goals set out in Project Khulisa, particularly in areas such as cycling; food and wine; and Halal products.

**2.2.5 WESTERN CAPE INFRASTRUCTURE FRAMEWORK**

The Western Cape Infrastructure Framework (WCIF) is a long-term strategic framework that sets out the required changes and development agendas relating to infrastructure provision in the province. Given the sector-based and institutionally fragmented history of infrastructure planning, the WCIF defines a new approach to co-ordinated and strategic infrastructure planning.

The WCIF quantifies the scale and nature of infrastructure requirements in the province – how and where infrastructure provision needs to adapt and change, and the parties that should be responsible for this change. The framework also sets out high-level transitions required to achieve the Western Cape’s development agenda, and differentiates between sub-infrastructure sectors.

**PLANNING IMPLICATIONS:**
In terms of infrastructure management and financing in the Knysna Local Municipality, the WCIF aims to improve access to water, and deal with issues associated with national roads and the implementation of improved mobility systems.
2.2.6 ONECAPE 2040

The ONECAPE 2040 strategy document seeks to stimulate a transition towards a more inclusive and resilient economic future for the Western Cape. It further seeks to articulate a long-term vision for the province that will guide planning and implementation that promotes both commitment and accountability amongst all stakeholders. This is to be achieved through an agenda that focuses on:

1. Knowledge Transition
2. Economic Access Transition
3. Ecological Transition
4. Cultural Transition
5. Settlement Transition
6. Institutional Transition

PLANNING IMPLICATIONS:
One Cape 2040 sets out the strategic focus of the Western Cape over the long-term and subsequently the focus of the Knysna Municipality. The Knysna EDS needs to take cognisance of its transition areas, especially: economic access, ecological, and cultural; which have particular relevance to the greater Knysna municipal area.

2.3 DISTRICT AND LOCAL POLICIES

2.3.1 EDEN REGIONAL ECONOMIC DEVELOPMENT STRATEGY (REDS)

The Eden REDS is the overarching five-year economic strategy for the region, aimed at promoting and unlocking sustainable economic growth and development potential. Specific objectives of the Eden REDS are:

- Regional business retention and expansion
- Coordinated regional infrastructure
- Increased bilateral trade and investment
- Increased skills and economic development through institutional support
- Enabling an environment for economic growth through procurement

The above objectives are to be achieved through a range of projects and initiatives organised around five functional focus areas (i.e. Agricultural expansion; Agriculture and Beneficiation Development; Transport Development; Tourism; Services and SMME Development).

PLANNING IMPLICATIONS:
The Eden REDS offers guidance in respect of economic developmental issues in the region. The document’s key strategic focus areas need to filter into the Knysna EDS planning process to ensure that conflicting economic objectives are not pursued.
2.3.2 GARDEN ROUTE INTEGRATED DEVELOPMENT PLAN (IDP) 2018 – 2019

The IDP provides a vision, mission, objectives and detailed programmes and projects to be implemented in the district within a five-year planning horizon. The Garden Route IDP seeks to integrate all physical, economic, environmental and social planning activities and programmes that will both promote and lead to the optimal utilisation of the district’s limited resource base, in order to address respective development challenges and potential. The IDP defines the various interventions to be made in order to achieve social, economic, institutional, infrastructure and municipal sustainability. The strategic goals of the IDP include:

1. Creating healthy and socially stable communities;
2. Building a capacitated workforce and communities;
3. Conducting regional bulk infrastructure planning, implementing projects, road maintenance and public transport, managing and developing council fixed assets;
4. Promoting sustainable environmental management and public safety;
5. Promoting good governance;
6. Ensuring financial viability of the Garden Route District Municipality; and
7. Growing the district economy.

PLANNING IMPLICATIONS:
The Garden Route District IDP identifies growing the economy through LED as one of the most important and highest priorities within the region. It also includes a range of regional interventions that aim to facilitate and promote LED across the district. The Knysna EDS should seek to complement these initiatives wherever possible.

2.3.3 GARDEN ROUTE SPATIAL DEVELOPMENT FRAMEWORK (SDF)

This vision and strategic direction of the Garden Route Spatial Development Framework (SDF) identifies four key drivers of spatial change within the district. These drivers, listed below, are in turn linked to a set of spatial development proposals, policies and guidelines that seek to address them:

1. **The Economy is the Environment**
   The Garden Route District Municipality’s economy is highly dependent on its underlying natural resource base. This spatial strategy seeks to create a sustainable economy, that is positioned to grow by protecting, enhancing and developing the areas natural environmental attributes and resources.

2. **Regional Accessibility for Inclusive Growth**
   Access refers to the ability of people to access economic opportunities, social services and recreational amenities. This strategy seeks to enable accessibility by:
   - Establishing a clear primary and secondary regional route hierarchy;
   - Addressing connectivity between the coastal belt and inland areas; and
   - Enabling virtual and physical accessibility through ICT infrastructure to improve access to opportunity and services

3. **Co-ordinated Growth Management is Key to Financial Sustainability**
   This spatial strategy is informed by the realities of global fiscal austerity and the need for responsible growth management that does more with less to secure future social and economic resilience. The strategy further outlines the future role of the district’s various settlements and their potential to
absorb growth. The overarching objective is to achieve balance within settlements, ensuring that they function optimally and within finite resource constraints.

4. **Planning, Budgeting and Managing as One Government**

This strategy highlights that intergovernmental cooperation is essential to achieving the spatial transformation goals of SPLUMA and the three spatial strategies outlined above.

---

**PLANNING IMPLICATIONS:**

It is crucial that the Garden Route District Municipality's SDF be considered for other policies and/or strategies for the greater Knysna municipal area. When formulating the Knysna EDS it is important to consider the way in which the district has spatially developed and how future interventions in the Knysna Local Municipality be integrated with the broader spatial planning.

---

**2.3.4 KNYSNA INTEGRATED DEVELOPMENT PLAN (IDP) REVIEW 2018/2019**

The Knysna IDP serves as the principal legislatively required planning document for the municipality. In line with national, provincial and district polices the IDP seeks to:

- Improve and maintain current basic service delivery through specific infrastructural development projects
- Promote a safe and healthy environment through the protection of our natural resources
- Create an enabling environment for social development and economic growth
- Grow the revenue base of the municipality
- Structure and manage the municipal administration to ensure efficient service delivery
- Encourage the involvement of communities in the matters of local government, through the promotion of open channels of communication.

The above objectives are organised under the following five strategic focus areas:

1. Basic Service Delivery  
2. Local Economic Development  
3. Municipal Transformation and Organisational Development  
4. Financial Viability  
5. Good Governance and Community Participation

---

**PLANNING IMPLICATIONS:**

As the principal legislatively required document, all strategies and polices developed for the Knysna Local Municipality should align with and complement the IDP. As part of the IDP, six strategic pillars for LED are identified namely: 1) increased accessibility; 2) Infrastructure investment; 3) wealth creation; 4) broadening the economic base; 5) attract visitors and investors; 6) conducive LED environment. The Knysna EDS should be developed in such a way that these strategic pillars as well as the other objectives identified in the IDP are reflected and addressed.

---

**2.3.5 DRAFT KNYSNA SPATIAL DEVELOPMENT FRAMEWORK (SDF) (2019)**

The Knysna Local Municipality’s SDF is currently being reviewed and updated to bring it in line with the necessary legislation. The intention of the SDF is to give spatial expression to the Knysna Local Municipality’s service delivery agenda, and direct and guide development and management activities in the greater Knysna...
municipal areas urban and rural environments. The draft SDF embraces the principles set out in the Spatial Planning & Land Use Management Act (SPLUMA) and pursues the policy priorities of the Integrated Urban Development Framework, as well as other sectoral legislative and policy intentions.

To implement the draft vision set out in the Knysna Local Municipality’s SDF, two spatial strategies are articulated. These two strategies aim to frame the Knysna Local Municipality’s approach to spatial planning as well as articulate policies for development and land use management. These strategies are:

1. **Manage risk, safeguard resilience** (i.e. The integrity of the greater Knysna municipal area’s environmental and economic assets must be central to a secure future for all)

   The objective of this strategy is to ensure that land use and settlement growth is directed and managed to protect and rehabilitate the functionality of the greater Knysna municipal area’s environmental services and systems (i.e. its natural assets).

2. **Drive inclusivity for economic and social well-being** (i.e. Access to opportunity for all)

   The two objectives of this strategy are to:
   
   - Promote development that is inclusive, integrated and efficient, located in the right place and of a high urban design quality, to ensure that opportunities, services and amenities are accessible to all in an equitable manner.
   - Recognise limited resources must be shared in a strategic manner, where they are leveraged effectively for the benefit of as many people in need as possible, while basic needs are met.

**PLANNING IMPLICATIONS:**

As of 2019, the current Knysna Local Municipality’s SDF was being revised, and accordingly new strategies and focus areas for LED which complement the new Knysna EDS will be developed. The draft SDF identifies objectives that continue to remain important to the economic development of the greater Knysna municipal area, including: the identification of vacant land for development (i.e. housing) and increasing urban densification.

**2.3.6 KNYSNA ECONOMIC DEVELOPMENT STRATEGY (2016)**

Like the municipal SDF, the Knysna Local Municipality’s Economic Development Strategy was updated in 2016. The strategy sets out the necessary development enablers (e.g. educational attainment, infrastructure) that need be pursued to promote employment creation, reduce unemployment and grow the local economy. Under the strategy, these goals were to be achieved through a range of projects, organised under economic sectors that were key driver of the greater Knysna municipal area’s economy. From these projects, three catalytic interventions were identified:

**PLANNING IMPLICATIONS:**

The 2015 Knysna EDS identifies several key issues (i.e. infrastructure investment, conducive environment for LED, broadening the economic base) that are likely to still be relevant. Accordingly, these issues need to be tested as part of the new EDS to establish whether they should still be considered as part of the EDS revision process.
## 2.4 CONCLUSION

The table below provides a summary of the selected key strategic priorities identified in each of the documents discussed in this chapter. In Table 2.1 a ‘X’ denotes that the respective policy has recognised the importance of the strategic priorities or sector as part of its agenda.

### TABLE 2.1: SUMMARY OF STRATEGIC PRIORITIES AS ARTICULATED IN SELECTED PLANNING DOCUMENTS

<table>
<thead>
<tr>
<th>STRATEGY/POLICY</th>
<th>Strategic Priorities</th>
<th>Strategic Priorities: Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spatial Imbalances</td>
<td>Agriculture &amp; Agroprocessing</td>
</tr>
<tr>
<td></td>
<td>Job creation</td>
<td>Green Economy</td>
</tr>
<tr>
<td></td>
<td>SMMEs</td>
<td>Manufacturing Sectors</td>
</tr>
<tr>
<td></td>
<td>Education and skills</td>
<td>Tourism</td>
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<tr>
<td></td>
<td>Technology &amp; Innovation</td>
<td>ICT</td>
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<tr>
<td></td>
<td>State capacity</td>
<td>Cultural Industries</td>
</tr>
<tr>
<td></td>
<td>Infrastructure</td>
<td>Services</td>
</tr>
<tr>
<td>National Development Plan</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>New Growth Path</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>IPAP</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>BBBEE Act</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Western Cape GDS</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Micro-Economic Development Strategy</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Western Cape SDF</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Project Khulisa</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Western Cape Infrastructure Framework</td>
<td>X</td>
<td>X</td>
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<tr>
<td>One Cape 2040</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Eden REDS</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Garden Route IDP</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>Garden Route SDF</td>
<td>Knysna IDP</td>
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</tbody>
</table>
CHAPTER 3: DEVELOPMENT ENABLERS

The following chapter considers the dynamics and trends of the greater Knysna municipal area’s demographics and social environment so as to inform forward planning. To achieve this, the chapter considers a selection of demographic factors that are likely to enable the economic development of the greater Knysna municipal area as well as each one of the municipality’s settlements over the next 10 years.

The focus of this chapter is on identifying underlying trends, through statistical research and establishing what impact these trends are likely to have on the development trajectory of the greater Knysna municipal area.

3.1 KNYSNA’S DEMOGRAPHIC PROFILE

Table 3.1 illustrates a summary of the key socio-economic characteristics of the greater Knysna municipal area. From Table 3.1 it is evident that the total population of the greater Knysna municipal area was 71 601 in 2017. The overwhelming majority of these individuals live in either Knysna (73.0%) or Sedgefield (12.2%).

<table>
<thead>
<tr>
<th>TABLE 3.1: SUMMARY OF SOCIO-ECONOMIC INFORMATION FOR GREATER KNYSNA MUNICIPAL AREA (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KNYSNA TOWN</td>
</tr>
<tr>
<td>Population (2017)</td>
</tr>
<tr>
<td>Population growth (2011 – 2017)</td>
</tr>
<tr>
<td>Age and gender</td>
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<tr>
<td>0 – 14 years</td>
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<tr>
<td></td>
</tr>
<tr>
<td>15 – 64 years</td>
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<tr>
<td></td>
</tr>
<tr>
<td>65+ years</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Race</td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>Coloured</td>
</tr>
<tr>
<td>Indian or Asian</td>
</tr>
<tr>
<td>White</td>
</tr>
</tbody>
</table>

Approximately two thirds of the population of the greater Knysna municipal area were between the ages of 15 and 64 years old (i.e. the working age population). This working age population in 2017 was split almost evenly between men (49.5%) and women (50.5%).

The various settlements in the greater Knysna municipal area were very close to the municipal average in the selected socio-economic metrics, with household size, age and gender distribution and educational attainment all being very similar. Karatara and Rheenendal lag behind the greater Knysna municipal area in terms of educational attainment levels with only 18.2% and 15.6% of working age populations in these settlements, possessing a matric or higher qualification compared to the 40.7% of the greater Knysna municipal area.

Likewise, the average annual household income in 2011\(^5\) of Rheenendal (R57 749) and Karatara (R81 675) were significantly lower than the figure for the rest of the municipal area (R186 942). This is likely due to the differences in educational attainment in these two settlements.

The subsequent sections will unpack several of these socio-economic indicators in greater detail and consider the impact that these characteristics have on the economic development of the greater Knysna municipal area.

### 3.2 KNYSNA’S CHANGING POPULATION

Population is one of a number of variables that affect the economy and the environment. Understanding the population within a municipality is therefore critical when it comes to long-term urban planning, as population changes impact:

- The need for housing

\(^5\) Values are inflation adjusted to reflect 2017 prices.
The demand for services such as water, sewerage and electricity
The need for more transport infrastructure
The demand for job opportunities

Population, however, is multi-dimensional and is not only about the growth and overall size of the population, but also about:

- Household structure and location
- Age, education and skills level
- The extent to which the population participates in the economy

The following section therefore considers the current population growth trends in the greater Knysna municipal area and uses these, as well as other population forecasting models, to estimate the potential future population of the greater Knysna municipal area subject to no major interventions. The implications of this increase in population are then considered.

### 3.2.1 POPULATION SIZE AND GROWTH RATE

Between 2001 and 2011 the greater Knysna municipal area’s population grew at an average annual rate of 2.9% per annum, taking the area’s total population to approximately 68,657 in 2011. Based on estimates by Quantec (2018), the greater Knysna municipal area’s population increased by an average annual rate of 0.7% between 2011 and 2017, representing an increase of 2,944 people from the 2011 figure.

Although historical context is important when considering population change, in terms of long-term planning, population projections are significantly more important, as they indicate future needs. Therefore, in order to inform planning it is necessary to estimate the future population of the greater Knysna municipal area.

To achieve this, the forecasting model presented in the 2015 EDS was updated to bring it in line with additional and more current models. Table 3.2 indicates the additional forecasting models that were considered for the update of the EDS.

<table>
<thead>
<tr>
<th>FORECASTING MODEL</th>
<th>STATED TIME FRAME</th>
<th>AVERAGE GROWTH RATE OVER STATED PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC Population Growth Projections</td>
<td>2011 – 2040</td>
<td>0.76%</td>
</tr>
<tr>
<td>Western Cape Department of Social Development</td>
<td>2019 – 2023</td>
<td>0.94%</td>
</tr>
<tr>
<td>Quantec Standardised Regional(^6)</td>
<td>Not Applicable</td>
<td>2.03%</td>
</tr>
</tbody>
</table>

Based on these additional models, the total population estimates presented in the 2015 EDS were revisited. A revised median population figure for the greater Knysna municipal area was determined based on the new forecasted values and then the 2011 to 2030 population estimates were updated. The revised projections presented in Figure 3.1 suggest that the greater Knysna municipal area’s population will continue to grow over time, but at slower rates than in the past. Changes in the rate of growth of the greater Knysna municipal

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\(^6\) The Quantec Standardised Regional model is not an actual forecasting model, instead it determines the growth rate between 2011 and 2017 based on the time series data generated by Quantec and applies this growth rate over the 2011 to 2030 period.
area’s population are likely to be as a result of changes in fertility rates, increased life expectancy and net immigration.

When interpreting these population projections, it is important to take note of some of the limitations of forecasting models in general:

1. Population projections are based on a particular set of assumptions and as such are only as robust as the underlying assumptions. Should the assumptions be inadequate or omit certain key variables, the reliability of the estimates would be questionable.
2. The reliability of projections decreases over time, that is the longer the time frame, the less reliable the projections are likely to be.
3. Projections are based on historical trends and will not be able to predict reliable a large structural change (e.g. the boundaries of a municipality being re-demarcated to incorporate a new settlement). Should such a structural change occur over the forecasting time period, the projections would not be accurate.

It is therefore important to note that the population forecasts for the greater Knysna municipal area, are based on historical trends, and do not consider any major interventions over the next 20 years that could significantly increase or decrease the population figures.

SOURCE: Urban-Econ calculations based on Knysna EDS (2015) and Table 3.2
Acknowledging the above limitations, it is estimated that the greater Knysna municipal area’s population is likely to reach 83,679 by 2030, equating to an average annual population growth rate of 1.2% between 2011 and 2030. Table 3.3 provides a breakdown of this projected figure, per settlement, between 2011 and 2030.

**TABLE 3.3: POPULATION PROJECTIONS PER SETTLEMENT**

<table>
<thead>
<tr>
<th>SETTLEMENT</th>
<th>2011</th>
<th>2017</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>PERCENTAGE SHARE OF GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna Town</td>
<td>50,097</td>
<td>52,245</td>
<td>54,160</td>
<td>57,476</td>
<td>61,058</td>
<td>73.0%</td>
</tr>
<tr>
<td>Karatara</td>
<td>879</td>
<td>917</td>
<td>950</td>
<td>1,008</td>
<td>1,071</td>
<td>1.3%</td>
</tr>
<tr>
<td>Knysna Non-Urban</td>
<td>5,338</td>
<td>4,107</td>
<td>4,257</td>
<td>4,518</td>
<td>4,800</td>
<td>7.8%</td>
</tr>
<tr>
<td>Rheenendal</td>
<td>3,938</td>
<td>5,567</td>
<td>5,771</td>
<td>6,124</td>
<td>6,506</td>
<td>5.7%</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>8,405</td>
<td>8,765</td>
<td>9,087</td>
<td>9,643</td>
<td>10,244</td>
<td>12.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>68,657</strong></td>
<td><strong>71,601</strong></td>
<td><strong>74,226</strong></td>
<td><strong>78,769</strong></td>
<td><strong>83,679</strong></td>
<td></td>
</tr>
</tbody>
</table>

Projected population, as illustrated in Table 3.3 above, and the growth and density figures, suggest that the majority (73.0%) of this increase in population will occur in Knysna, chiefly in eastern and north-western parts of the town. Sedgefield is forecasted to account for a further 12.2% of this increase, followed by the non-urban areas of the local municipality (7.8%).

### 3.2.2 POPULATION DENSITIES

As part of assessing future population growth it is beneficial to assess the existing population densities so as to assist in future planning. Figure 3.2 illustrates the population density, per sub-place, in the greater Knysna municipal area.

**FIGURE 3.2: POPULATION DENSITIES IN THE GREATER KNYSNA MUNICIPAL AREA IN 2011**

---

8 The absence of comparable statistics for settlements in Knysna as well as the change in the demarcation of sub-place boundaries (e.g. under the 2006 demarcation Karatara was included under Knysna Non-Urban), means that it is not possible to establish individual settlement growth patterns between 2001 and 2011. The analysis presented in this document therefore focuses on the application of municipal-wide population growth figures and applies these rates to the population per settlement as obtained from the 2011 Census.
Figure 3.2 shows that the highest population densities are in and around the urban areas of the greater Knysna municipal area, particularly the towns of Knysna and Sedgefield. The highest population densities within the town of Knysna has occurred in the eastern and northern portion of the town. Figure 3.2 also suggests an urbanisation trend, with the rural parts of the municipality exhibiting low population densities compared to the high densities exhibited in the greater Knysna municipal area’s urban centres.

### 3.2.3 HOW THIS IMPACTS PLANNING

As indicated in the previous sections, changes in population impact a range of economic and social indicators. The subsequent section will consider what impact the population growth will have on the labour force as well as consumption expenditure.

#### 3.2.3.1 Labour Force

The labour force is defined as the actual number of people available for work and comprises both those that are employed and unemployed. In contrast, the working age population (15 to 64 years old) includes both the labour force and those individuals classified as “Not Economically Active”.

As of 2017 the greater Knysna municipal area had a labour force of 32,569 and a working age population of 47,266. In terms of the official definition, the unemployment rate in the greater Knysna municipal area in 2017 was approximately 20.3%, with a further 31.1% of the working age population being classified as “Not Economically Active”. This 31.1% would include those individuals classified as discouraged work seekers.

**TABLE 3.4: ESTIMATED UNEMPLOYMENT RATES PER SETTLEMENT**

<table>
<thead>
<tr>
<th>SETTLEMENT</th>
<th>UNEMPLOYMENT RATE (2017)</th>
<th>INCREASE IN WORKING AGE POPULATION (2017 – 2030)</th>
<th>ESTIMATED UNEMPLOYMENT RATE (2030)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna Town</td>
<td>21.1%</td>
<td>5,904</td>
<td>13.4%</td>
</tr>
<tr>
<td>Karatara</td>
<td>0.0%</td>
<td>104</td>
<td>0.0%</td>
</tr>
<tr>
<td>Knysna Non-Urban</td>
<td>6.6%</td>
<td>632</td>
<td>2.5%</td>
</tr>
<tr>
<td>Rheenendal</td>
<td>23.6%</td>
<td>452</td>
<td>12.9%</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>12.6%</td>
<td>946</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>20.3%</strong></td>
<td><strong>8,038</strong></td>
<td><strong>10.3%</strong></td>
</tr>
</tbody>
</table>

Based on the population forecasts presented in the previous section and the assumption that the working age population per settlement varies between 62.6% and 65.9% of the total population, the total work force (i.e. 15 to 64 years old) is anticipated to increase to 55,687 by 2030. This means that, at a minimum, over the 2017 to 2030 period the greater Knysna municipal area’s economy will need to create an estimated 8,038 jobs (an average of 574 jobs per year) in order to absorb the natural increase in the working age population. Table 3.4 indicates that approximately 5,904 of these new jobs (73.4%) will have to be created within the town of Knysna, followed by Sedgefield (11.7%) and the non-urban parts of the greater Knysna municipal area (7.8%).

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10 This is based on the assumption that the greater Knysna municipal area’s economy creates sufficient jobs to accommodate the increase in the working age population.
11 This figure is based on the percentage of the total population between the ages of 15 and 64 years of age, as reported in the 2011 Census. The comparable figure was 66.6% for the 2001 Census.
The ability of the greater Knysna municipal area to create these 8 038 jobs between 2017 and 2030 will mean that the rate of unemployment will decline by 10.3% from 20.3% in 2017 to 10.1% in 2030. This target, however, is subject to the fact that no significant structural changes occur in the unemployment or not economically active environment (i.e. the closure of a large business that employs a significant number of people).

Should the greater Knysna municipal area pursue a strategy whereby they seek to ensure that the relative percentages of the employed, unemployed and not economically active population remain unchanged between 2017 and 2030, the local economy will only be required to generate an estimated 1 689 jobs. This equates to approximately 121 jobs per year. It should be noted that under this scenario the municipality and the various settlements’ unemployment rates would remain unchanged at between 0% (in Karatara) and 23.6% (in Rheenedal).

Under both scenarios the current (2017) underlying unemployment and not economically active population is not reduced. Furthermore, the setting of an optimal level for unemployment and the not economically active population is exceptionally difficult. Conventionally, economic theory suggests that the natural rate of unemployment is between 4% and 6% of the labour force. This figure, however, assumes that there are no discouraged workers, or individuals unable to find work within the not economically active population.

### 3.2.3.2 Consumption Expenditure

Consumption expenditure comprises all expenditure incurred by individuals on consumption goods and services, including various kinds of imputed expenditure (i.e. those expenses that do not take place in monetary terms). Consumption expenditure can therefore serve as an indicator of the total amount of money that individuals in a given geographic area can spend on goods and services.

An increase in an area’s population will therefore lead to a corresponding rise in the total consumption expenditure incurred by individuals in this specific area. In turn, businesses in this geographic area have the potential to capture some or all of this new consumption spending brought about by an increase in the population.

As of 2017, total annual consumption expenditure incurred by all individuals within the greater Knysna municipal area was approximately R4.05 billion, equating to approximately R56 678 per person, per year. Based on the population projections presented in the previous sections of this chapter, a breakdown of the total consumption expenditure per settlement is presented in Table 3.5. The table illustrates that total annual consumption expenditure for the greater Knysna municipal area is anticipated to increase to R4.74 billion by 2030 (2017 prices). This equates to an additional R684.6 million (2017 prices) in additional consumption expenditure by individuals over the 2017 to 2030 period or an average R48.8 million in new spending per year, part of which could potentially be injected into the greater Knysna municipal area’s economy.

<table>
<thead>
<tr>
<th>SETTLEMENT</th>
<th>CONSUMPTION EXPENDITURE</th>
<th>CHANGE IN CONSUMPTION EXPENDITURE (2017 TO 2030)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2030</td>
</tr>
<tr>
<td>Knysna Town</td>
<td>R2 961.1</td>
<td>R3 460.6</td>
</tr>
<tr>
<td>Karatara</td>
<td>R52.0</td>
<td>R60.7</td>
</tr>
</tbody>
</table>

12 SOURCE: Urban-Econ calculations based on Quantec Standardised Regional Data (2018)
The above estimate is based on the assumption that current consumption expenditure remains constant over the 2017 to 2030 period. In addition, the R684.6 million reflects the additional consumption expenditure in current prices and does not take into account inflation. Given these two underlying assumptions, it is probable that total consumption expenditure will likely exceed the estimated R684.6 million.

### 3.3 Knysna’s Educational Environment

The level of educational attainment in a particular location is one of the main determinants when it comes to an area’s ability to achieve long-term, positive economic growth. The provision of education alone however, does not ensure that this growth will occur. Equally important is ensuring that this education provision is of sufficient quantity and quality to meet both the community’s and the broader economy’s needs.

Economic research shows that there is a positive relationship between educational attainment and individual income, that is higher educational levels tend to result in higher individual incomes (see Figure 3.3). Higher incomes in turn drive greater consumption spending, which has a positive impact on an area’s overall economic growth. Increased access to education also improves the ability of low-income earners to access economic opportunities and thereby participate in the broader economy.

Based on these observations and in the context of economic development, the level of education within a particular area determines and enables:

- Individual incomes
- Labour productivity
- Skills base and employability

The interplay between population growth and the current provision of education also determines the long-term demand for education services.
3.3.1 EDUCATION STRUCTURE AND GROWTH RATE

3.3.1.1 Extent of education provision

Demand

Utilising the age structure of the greater Knysna municipal area, it is estimated that the school-going population accounts for 20.8% of the total population or 14,867 people in 2017. This was down from 21.3% in 2011. It was estimated that of this figure 805 were individuals aged 6 years old (the entry level age for Grade R pupils) in 2017. These individuals accounted for 1.1% of the total greater Knysna municipal area’s population in similar to the figure recorded in 2011.

The above methodology can be extended to forecast the demand for primary and secondary educational services up to 2030. Using the aforementioned methodology, it is estimated that by 2030 there will be approximately 17,375 eligible for primary and secondary education, of which 941 would be eligible for Grade R.

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13 SOURCE: Hawks, D. and Ugur, M. 2012. EVIDENCE ON THE RELATIONSHIP BETWEEN EDUCATION, SKILLS, AND INCOME GROWTH IN LOW INCOME COUNTRIES: A SYSTEMATIC REVIEW. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London. This document is the source for the quote on the previous page.

14 For the purpose of this study the school going population is defined as all those individuals between the ages of 6 and 18 years old.
### TABLE 3.6: CURRENT AND FUTURE DEMAND FOR PRIMARY AND SECONDARY SCHOOLING

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2030</td>
<td>2017</td>
<td>2030</td>
</tr>
<tr>
<td>Knysna Town</td>
<td>11 013</td>
<td>12 871</td>
<td>611</td>
<td>715</td>
</tr>
<tr>
<td>Karatara</td>
<td>187</td>
<td>219</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Knysna Non-Urban</td>
<td>1 160</td>
<td>1 355</td>
<td>69</td>
<td>80</td>
</tr>
<tr>
<td>Rheenendal</td>
<td>1 103</td>
<td>1 289</td>
<td>54</td>
<td>63</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>1 404</td>
<td>1 641</td>
<td>59</td>
<td>68</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>14 867</strong></td>
<td><strong>17 375</strong></td>
<td><strong>805</strong></td>
<td><strong>941</strong></td>
</tr>
</tbody>
</table>

The total potential population eligible for higher education in 2017 was approximately 26 790, which accounted for 37.4% of the total population of the greater Knysna municipal area. This figure is higher than in 2011, when the number of individuals that could potentially attend higher education accounted for 36.9% of the total population. Of this 37.4% of the total population that could potentially seek higher education, 7 514 (28.0%) could be considered for undergraduate studies while 19 276 (72.0%) could be considered for postgraduate studies.

### TABLE 3.7: CURRENT AND FUTURE DEMAND FOR HIGHER EDUCATION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2030</td>
<td>2017</td>
<td>2030</td>
</tr>
<tr>
<td>Knysna Town</td>
<td>5 650</td>
<td>6 603</td>
<td>14 483</td>
<td>16 926</td>
</tr>
<tr>
<td>Karatara</td>
<td>84</td>
<td>98</td>
<td>14</td>
<td>223</td>
</tr>
<tr>
<td>Knysna Non-Urban</td>
<td>527</td>
<td>616</td>
<td>1 261</td>
<td>1 474</td>
</tr>
<tr>
<td>Rheenendal</td>
<td>474</td>
<td>554</td>
<td>1 040</td>
<td>1 216</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>779</td>
<td>910</td>
<td>2 302</td>
<td>2 690</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>7 514</strong></td>
<td><strong>8 782</strong></td>
<td><strong>19 276</strong></td>
<td><strong>22 528</strong></td>
</tr>
</tbody>
</table>

Using the above figures, it is estimated that by 2030 there will be approximately 31 310 individuals within the greater Knysna municipal area who could potentially seek some form of higher education. Approximately

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16 School going age includes pupils in Grade R.

17 For the purpose of this study the potential population for higher education is defined as all those individuals aged between 19 and 40 years old within the greater Knysna municipal area. These individuals are further divided between those that can potentially undertake undergraduate studies (e.g. all individuals between the ages of 19 and 25 years old) and those who could potentially undertake postgraduate studies (e.g. all individuals between the ages of 26 and 40 years old). This is informed by a study undertaken by the Centre for Research on Science and Technology (Crest, 2006) which indicated that individuals younger than 39 years of age account for 74.0% of all postgraduate qualifications in South Africa. The figures presented in this section do not consider the eligibility of individuals for higher education, undergraduate and post graduate studies. That is, the figures do not consider the fact that such individuals may not obtain the necessary marks (e.g. matric exemption) to enter an institute of higher learning. Furthermore, it also does not consider individuals coming from outside of the greater Knysna municipal area to study at institutions located within the municipality.


19 These figures represent the total potential market size and do not consider whether or not these individuals would be eligible (i.e. achieved a bachelor level pass on their national senior certificate) or have the financial resources to enter a tertiary institution. Based on the 2017 National Senior Certificate (NSC) Results, 39.1% of Western Cape candidates that wrote the NSC achieved a bachelor level pass. The application of this figure to the potential market size suggests that only 12 242 (3 434 undergraduate and 12 242 post graduate) would qualify to enter a tertiary institution. This figure does not consider affordability.
8 782 of these individuals could potentially seek some form of undergraduate degree or diploma, while 22 528 could potentially seek postgraduate education (honours, masters and doctorates).

Supply

In terms of the supply of educational facilities within the greater Knysna municipal area, the Western Cape Department of Education indicates that, as of 2017, the area had approximately 26 learning institutions comprising:

- 15 primary schools
- 2 intermediate schools
- 5 secondary schools
- 4 combined schools (i.e. offering both primary and secondary education)

Collectively, these schools accommodate 13 749 pupils in 492 classrooms equating to an average classroom size of 28 pupils per classroom. There is, however, considerable variation between the average numbers of pupils per class in public schools (31 pupils) compared to independent schools (13 pupils).

3.3.1.2 Educational Attainment and Skill Levels

Educational attainment within the greater Knysna municipal area has shown mixed results between 2011 and 2017. While the proportion of the population classified as having no schooling, some primary education and completed primary education are all declining – indicating an improvement in educational attainment – the proportion of the population with some form of higher education declined by 0.3% (see Figure 3.4). This suggests an absence of suitable economic opportunities for individuals with tertiary qualifications and consequently an outward migration of such individuals from the area to find work opportunities that correspond with their educational attainment.

FIGURE 3.4: CHANGE IN THE PROPORTIONAL COMPOSITION OF EDUCATIONAL ATTAINMENT IN THE GREATER KNYSNA MUNICIPAL AREA BETWEEN 2011 AND 2017

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>2011 Proportion</th>
<th>2017 Proportion</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Schooling</td>
<td>0.8%</td>
<td>0.5%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Some Primary</td>
<td>0.6%</td>
<td>0.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Complete Primary</td>
<td>0.2%</td>
<td>0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Some Secondary</td>
<td>-0.4%</td>
<td>-0.3%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Matric</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Higher</td>
<td>-0.3%</td>
<td>0.4%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>


21 SOURCE: Urban-Econ calculations based on Quantec (2018)
As highlighted in the Knysna Local Municipality’s 2015 EDS, the absence of institutes of higher learning within the municipality is leading to a significant out-migration of high school learners seeking to obtain further qualifications. This suggests that, over the long-term, without the introduction of some form of institute of higher learning, the relative percentage of the population with post-secondary school education will remain low.

The skills profile of those in formal employment has exhibited positive change between 2011 and 2017. The proportion of the formally employed population classified as low-skilled has declined by 0.4% and as of 2017, these individuals accounted for 33.3% of all those who were formally employed. There has been a corresponding increase in the number of formally employed individuals classified as either skilled (see Figure 3.5).

**FIGURE 3.5: CHANGE IN THE PROPORTIONAL COMPOSITION OF FORMAL SECTOR SKILL LEVELS BETWEEN 2011 AND 2017**

![Graph showing change in the proportional composition of formal sector skill levels between 2011 and 2017.](image)

Given the absence of institutes of higher learning in the greater Knysna municipal area, the reduction in the number of formally employed individuals classified as low- and semi-skilled is particularly positive as it suggests that local employers are more than likely up-skilling their workforce through in-house training programmes.

### 3.3.2 HOW THIS IMPACTS PLANNING

As highlighted earlier in this section, the level and quality of education provided within an area impacts individual incomes, worker productivity, the municipality’s skills base and the overall employability of the local labour force. Adequate education provision is therefore a fundamental prerequisite for economic development.

It is acknowledged that the provision of education services is, in terms of the Municipal Systems Act, a national and provincial government competency, with the greater Knysna municipal area only playing a

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22 SOURCE: Urban-Econ calculations based on Quantec Standardised Regional (2018). These statistics are not available at a settlement level.

facilitation role in the process. It is, however, imperative that for long-term planning the Knysna Local Municipality considers the need for educational services for two reasons:

1. A highly skilled and educated population is likely to provide the municipality with a competitive advantage over other areas, which in turn will allow it to better attract external investment, drive economic growth and promote local economic development.
2. Municipal land and services will need to be provided for any future educational institutions that are built over the period.

Given these factors, the following section will assess what effect changes in the educational environment will have on the following economic enablers:

- Provision of primary, secondary and tertiary education facilities
- Individual incomes
- Labour productivity
- Skills base and employability

### 3.3.2.1 Provision of primary, secondary and tertiary education

Utilising the estimated demand for primary and secondary education (14,867 pupils) and the current population enrolled in schools within the greater Knysna municipal area (i.e. education supply), as of 2017 there was an estimated education gap of 1,118 pupils. This gap comprised 387 Grade R pupils and 731 other pupils. Based on the number of pupils per classroom presented in Table 3.8, and the current education gap, it is estimated that the greater Knysna municipal area is short of between 13 and 14 Grade R classrooms and between 18 and 26 other classrooms.

<table>
<thead>
<tr>
<th>Table 3.8: Number of Pupils per Classroom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MAXIMUM NUMBER OF PUPILS PER CLASSROOM</strong></td>
</tr>
<tr>
<td>Grade R</td>
</tr>
<tr>
<td>All other</td>
</tr>
<tr>
<td><strong>GREATER KNYSNA MUNICIPAL AREA (2017)</strong></td>
</tr>
<tr>
<td>AVERAGE PUBLIC</td>
</tr>
<tr>
<td>AVERAGE INDEPENDENT</td>
</tr>
<tr>
<td>OVERALL AVERAGE</td>
</tr>
</tbody>
</table>

By applying the values in Table 3.8 to the forecasted future school going age, it is possible to estimate the total additional classrooms that will be required to accommodate new pupils entering the system. Table 3.9 sets out these estimates based on the maximum number of pupils per classroom as set out in the national norms and standards as well as the 2017 average number of pupils per classroom across both primary and secondary schools in the greater Knysna municipal area.

As of 2017 the average number of classrooms per school was 20. The application of this figure to the forecasted demand for classrooms suggests that by 2030, the greater Knysna municipal area will have to have between 3 (under the national standard) and 5 (under the current greater Knysna municipal area average) new schools that cater for pupils between Grade R and Grade 12.

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24 These are the maximum number of pupils permitted per classroom as set by the REGULATIONS RELATING TO MINIMUM UNIFORM NORMS AND STANDARDS FOR PUBLIC SCHOOL INFRASTRUCTURE published on 23 November 2013 (Notice 932 of 2013; Department of Basic Education; South African Schools Act [Act No. 84 of 1996])
TABLE 3.9: DEMAND FOR CLASSROOMS IN 2030 UNDER VARIOUS PUPIL TO CLASSROOM RATIOS

<table>
<thead>
<tr>
<th></th>
<th>NATIONAL PUPIL TO CLASSROOM RATIO</th>
<th>KNYSNA PUPIL TO CLASSROOM RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade R</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>All other</td>
<td>59</td>
<td>85</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>90</td>
</tr>
</tbody>
</table>

Given the absence of any major tertiary institutions within the greater Knysna municipal area it is likely that there is a strong demand for such an FET facility. Based on the 2030 population estimates, a potential domestic market, that is a student base drawn exclusively from the greater Knysna municipal area, could be between 8 782 (for undergraduate studies) and 22 528 (postgraduate studies). In terms of postgraduate studies, it is likely that such a tertiary institution would attract students from outside of the municipal area.

### 3.3.2.2 Individual Income

Economic theory has shown that there is a positive correlation between the number of years of education and overall lifetime earnings. This means that the more years of education an individual receives the greater their future earnings will be. An increase in an individual’s earnings means that they have more money available to spend on goods and services. A rise in income can thus help drive consumption expenditure within the greater Knysna municipal area, which in turn could fuel higher economic growth.

In 2017 a resident from the greater Knysna municipal area with either a Grade 12 or lower qualification had an average annual income of R39 446 (2017 prices). This was 8.3 times lower than that of a resident from the greater Knysna municipal area who has attained some form of higher education (R328 819). By using these figures, forecasted population, and the trends in educational attainment, it is possible to estimate what impact an increase in the number of individuals with a tertiary qualification will have on total earnings in 2030.

TABLE 3.10: TOTAL INDIVIDUAL EARNINGS AS A RESULT OF IMPROVEMENTS IN THE LEVEL OF EDUCATION (R MILLIONS, 2017 PRICES)

<table>
<thead>
<tr>
<th>HIGHEST QUALIFICATION</th>
<th>TOTAL EARNINGS (2030)25</th>
<th>PERCENTAGE INCREASE IN THE PROPORTION OF THE POPULATION WITH TERTIARY EDUCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>Grade 12 or less</td>
<td>R2 783</td>
<td>R2 727</td>
</tr>
<tr>
<td>Above Grade 12</td>
<td>R3 155</td>
<td>R3 619</td>
</tr>
<tr>
<td>Total</td>
<td>R5 938</td>
<td>R6 347</td>
</tr>
<tr>
<td>Change in earnings</td>
<td>+ R408 (6.9%)</td>
<td>+ R1 021 (17.2%)</td>
</tr>
</tbody>
</table>

Table 3.10 reveals that should the greater Knysna municipal area be able to increase the proportion of the population that has some form of tertiary education by 2%, individual earnings are likely to increase by at least minimum of R408 million. An 8% increase in the proportion of the population with tertiary education will result in a 27.5% increase in total individual earnings to R7.5 billion. It is presumed that, since the greater Knysna municipal area was able to increase the total number of people with higher education by 1.9%

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25 For the purpose of this analysis it is assumed that educational attainment percentages evident in 2017 remain the same in 2030, with only the number of individuals with above Grade 12 qualifications changing.
between 2011 and 2017, it is highly likely that, at a minimum, it should be able to attain the 2% increase in the number of the population with tertiary education by 2030.

### 3.3.2.3 Labour productivity

Productivity is of critical importance to the long-term performance of an economy, due to the fact that higher productivity growth is generally associated with higher economic growth and higher per capita incomes. Sustained productivity growth leads to a higher value of goods produced, more jobs created, an improvement in the standard of living and the alleviation of poverty by means of an improvement in individual incomes. Consequently, productivity, and especially labour productivity, is important for at least four reasons:

1. It is the basic source of improvements in real wages and thus living standards.
2. An improvement in productivity is important to attain a higher economic growth rate and therefore employment over the long term.
3. Productivity is an anti-inflationary force in that it tends to offset or absorb increases in wages.\(^{26}\)
4. Increases in productivity make goods and services more competitive, and thereby more attractive to investors.

Labour productivity refers to how efficiently goods and services are produced by the labour force and is defined as the number of units of output obtained from a unit of labour input (i.e. production divided by the number of workers).

The level of education that the labour force has is considered to increase productivity, as it provides them with specific skills and knowledge, which in turn increases their efficiency and hence the value of their output. There are also several economic studies that suggest that the presence of educated workers within a firm makes other workers within the same firm more productive.

Using the labour productivity definition above, the production statistics provided, and employment levels recorded provided by Quantec (2018), it was possible to estimate the labour productivity of the greater Knysna municipal area’s labour force, as well as whether or not it had improved. The results of this calculation are illustrated in Table 3.11.

### TABLE 3.11: LABOUR PRODUCTIVITY PER WORKER

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2017</td>
</tr>
<tr>
<td>Knysna</td>
<td>R286 822</td>
<td>R276 612</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R337 050</td>
<td>R324 043</td>
</tr>
<tr>
<td>George</td>
<td>R337 780</td>
<td>R339 464</td>
</tr>
<tr>
<td>Bitou</td>
<td>R262 125</td>
<td>R254 940</td>
</tr>
<tr>
<td>Western Cape</td>
<td>R360 356</td>
<td>R352 820</td>
</tr>
</tbody>
</table>

Table 3.11 indicates that the productivity of the greater Knysna municipal area’s labour force declined over the last six years, from R286 822 per worker in 2011 to R276 612 in 2017. This equates to an average annual

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growth rate of -0.6% between 2011 and 2012. From the Table 3.11 it is evident that, in terms of output per worker, the greater Knysna municipal area’s labour force only outperformed the Bitou Local Municipality (R254 940).

It is, however, important to note that over the same period gross fixed capital formation increased by an average annualised rate of 1.2%, suggesting that the greater Knysna municipal area’s economy experienced a sharp increase in capital intensity. This increased capital intensity was not sufficient to offset the reduction in total output and the rise in employment over the period.

Although the analysis presented in Table 3.11 is useful, it suffers from two limitations, namely:

1. The quality of output produced, or the service provided is not captured in the results. Output may therefore have increased, but the overall quality of that output could have declined.
2. Productivity is a function of a number of factors beyond just labour, such as changes in technology, capital investment, utilisation of production capacity, management skills etc.

From these findings, coupled with the educational attainment levels recorded between 2011 and 2017, there is tentative evidence to suggest that the deterioration in educational attainment within the greater Knysna municipal area contributed towards the adverse impact on labour productivity. This in turn would have made the greater Knysna municipal area a less attractive investment destination.

3.3.2.4 Skills base and employability

The skills base of an area and its level of educational attainment are integrally linked, as it is primarily through education that skills are either obtained or improved. Skills, however, are also frequently obtained through on-the-job training.

Empirical studies have shown that there is a strong correlation between the skills base of an individual and their overall employability. Although these studies show the positive linkages between overall skill levels and employability, they also site that in many cases there is a mismatch between the existing skills base and the skills required by employers.

It is important then that long-term skills development policies implemented by the Knysna Local Municipality support employers in making better use of the skills available to them. Mechanisms that help managers, particularly in SMMEs, to identify effective work and organisational practices, should be emphasised. These include promoting innovation and adopting technologies and practices that make the best use of the existing skills base. Ensuring the availability of applicable adult education within the greater Knysna municipal area, as well as promoting the implementation of employer provided training is of critical importance in addressing any skills mismatch.

3.4 CONCLUSION

This chapter has sought to analyse the socio-economic environment within the greater Knysna municipal area, focusing on a selection of variables that are likely to enable economic development up to, and beyond, 2030.

This analysis has considered the underlying trends within each of the variables as well as the future trajectory of these factors, given their historical performance. Utilising these forecasts, it was possible to establish
what impact the improvement or deterioration of these variables would have on the economic development of the greater Knysna municipal area.

Based on the assessment conducted in this chapter, it is forecasted that the greater Knysna municipal area’s population will increase to 83,674 by 2030. Given this forecast it is anticipated that by 2030 the greater Knysna municipal area’s economy will have to have created between 1,689 and 8,038 jobs simply to absorb the increase in the working age population. Utilising a job creation target of 1,689 over the period will see the unemployment rate remaining unchanged at 20.3%. Achieving an 8,038 job creation target, however, will see the unemployment rate declining to 10.3%.

The increase in the population is also likely to impact total consumption expenditure, which is forecasted to increase to R4.7 billion by 2030 (2017 prices). This equates to an additional R684.6 million (2017 prices) in new spending over the 2017 to 2030 period, part of which could potentially be injected into the greater Knysna municipal area’s economy.

The chapter also considered the educational environment within the greater Knysna municipal area, focusing on what improvements have occurred between 2011 and 2017. The population forecasts presented in the earlier part of the chapter were then used to estimate the future local demand for primary, secondary and tertiary education. These forecasts indicate that the greater Knysna municipal area would require between 69 and 90 additional classrooms by 2030. It was also established that, based on the 2030 population estimates, a potential domestic market for tertiary education, could be between 8,782 (for undergraduate studies) and 22,528 (postgraduate studies).

The chapter concluded with an analysis of what impacts improvements in the level of educational attainment could have on individual incomes, labour productivity and the employability of the labour force. The results suggested that should there be a 2% improvement in the total number of individuals with some form of matric or higher qualification by 2030, total individual earnings could increase by an estimated R408 million (2017 prices). The chapter also showed that labour productivity in the greater Knysna municipal area deteriorated between 2011 and 2017, outperforming only the Mossel Bay Local Municipality.
CHAPTER 4: STATE OF THE KNYSNA ECONOMY

Economic development in the greater Knysna municipal area must start with an assessment of the current status of the economy, and how it has changed in recent years. Understanding these dynamics and trends forms the basis for the identification of comparative and competitive advantages as well as the identification of any potential economic opportunities that could be exploited.

The following chapter starts by considering this current reality. This is followed by an assessment of the existing infrastructure within the greater Knysna municipal area and what impact it has on economic development planning. This is followed by a discussion of the broader macro-economic structure of the greater Knysna municipal area in order to identify and profile the economic sectors that currently drive the local economy.

The chapter then explores the cost of doing business within the greater Knysna municipal area. This section considering the areas various service charges relative to surrounding municipalities and comparable locations within the Western Cape.

The chapter will conclude with a high-level economic overview of the various settlements in the greater Knysna municipal area. This assessment is based on the Knysna Local Municipality’s draft SDF and will set out the appropriate economic development activities for each settlement.

4.1 CURRENT REALITIES

In order to better understand the realities that have historically, and currently, driven the greater Knysna municipal area’s economy at a macro-economic level, the following section will consider the average GDP-R growth between 2011 and 2017 as well as the total number of people employed within each respective sector.

The section will also assess the employment trends between 2011 and 2017, total employment per sector relative to other regions through the utilisation of Location Quotients, and employment ratios. These analyses will help to identify those economic sectors that will be profiled in more detail in subsequent sections.

4.1.1 REGIONAL COMPETITION

Figure 4.1 presents an overview of the greater Knysna municipal area’s economy, with each of the bubbles representing one of the ten SIC economic sectors as well as the catering and accommodation subsector. The vertical axis represents average sectoral GDP-R growth between 2011 and 2017. Ideally, each of the bubbles should be situated on the upper part of the graph indicating high average growth rates over the period. The horizontal axis represents the average GDP-R contribution of each sector in 2017. The further the bubble is to the right-hand side of the graph, the greater the contribution that sector has to the municipality’s total GDP-R. Finally, the size of each of the bubbles is based on the employment contribution of the sector relative to total employment levels i.e. the larger the bubble, the more people are employed by that sector.

27 Unless otherwise noted, all GDP-R and employment statistics are obtained from Quantec Standardised Regional Database (2018).
The ideal situation for the local economy would be one in which the bubbles are of a similar size, cluster at the end of the horizontal axis and high up on the vertical axis. This would indicate a highly diversified economy that is characterised by high GDP-R growth, and a balanced distribution of employment creation opportunities.

The dark line indicated in Figure 4.1 represents the average annual GDP-R growth rate for the entire economy between 2011 and 2017 (1.3%). Sectors indicated above this line are those sectors that have exhibited GDP-R growth that exceeds that of the economy as a whole between 2011 and 2017. These are low paying jobs that generally require either unskilled or semi-skilled workers (e.g. agriculture).

Other key findings from Figure 4.11 are:

- **The wholesale and retail trade sector employs the greatest number of people in the greater Knysna municipal area, and is the second largest contributor to the local economy**
  
  As the largest bubble in terms of size, and the second furthest to the right, the trade sector is the largest employer and the second highest single contributor to the GDP-R of the greater Knysna municipal area. This sector includes the catering and accommodation sub-sector (shown separately in the figure) which can be used as a proxy for the general size of the local tourism industry. The catering and accommodation sub-sector accounted for approximately 31.2% of employment (2011: 30.9%), and 14.7% of the GDP-R (2011: 17.9%) of the entire wholesale and retail trade sector in 2017.
The GDP-R and employment figures of the wholesale and retail trade sector does not directly capture the economic output of informal businesses such as hawkers. This means that the relevant importance of the sector could be understated.

- **The government and community services sectors collectively employ over a quarter of the labour force**

  The government and community services sectors’ employ a combined total of 28.6% of all formally employed people in the greater Knysna municipal area, up marginally from the 28.5% of total employment recorded in 2011. It should be noted that these sectors mainly involve public expenditure and are therefore considered non-productive or non-value adding sectors.

- **The construction sector had moved from a high-growth, high-contribution sector in 2011, to a low-growth, high-contribution sector by 2017**

  Although the construction sector has shown strong growth over the last ten years, its performance is highly cyclical and dependent on both the business cycle and the prevailing economic conditions, with the last few years exhibiting sectoral growth rates well below the long run average. The rebuilding efforts following the Knysna fire in June 2017 are anticipated to lead to a temporary boom in the construction sector over the short- to medium-term.

**FIGURE 4.2: GROWTH SHARE MATRIX, 2017**

A similar analysis can be conducted for each sector in which the relative employment growth performance is considered. This growth-share matrix simultaneously indicates a sector’s location quotient (vertical axis), recent job growth (horizontal axis), and total employment (size of the bubble). The results from these three

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28 For the purpose of the above diagram, the mining sector has been omitted. It would appear in the extreme right-hand corner, with an average annual employment growth rate of 4.6% and a location quotient of 0.36. Its omission is due to the fact that, given the small number of people employed by the sector, even a small change will lead to a high growth rate. It should also be noted that the trade sector includes employment in the Catering and Accommodation services sub-sector as part of the calculation.
factors are then displayed in a four-quadrant diagram as seen in Figure 4.2. Each quadrant is defined by a set of descriptive characteristics that help to inform the direction that a sector falling within a particular quadrant should follow. These characteristics are, clockwise from the top left:

- **Low Market Share and High Market Growth**: Sectors falling within this quadrant are unsure on what to do with existing opportunities. The decision on whether to increase investment is consequently highly subjective and serious consideration needs to be given before investment is undertaken. Success, however, is likely to yield high returns.
- **High Market Share and High Market Growth**: Sectors falling within this quadrant are performing well and there are a number of new investment opportunities.
- **High Market Share and Low Market Growth**: Sectors in this quadrant are well established and performing well in a no growth market. There are limited opportunities for further investment.
- **Low Market Share and Low Market Growth**: Sectors falling within this quadrant are weak market players and it is very difficult for such sectors to yield positive returns.

This analysis is beneficial in that it compares the performance of an economic sector to that of the same sector at a regional level (i.e. the benchmark). Ideally, sectors falling within the first and third quadrants should seek to move to the second quadrant where returns and market growth are high. In turn, little focus and/or investment should be directed to sectors that fall within the fourth quadrant. The greater Knysna municipal area's economy's growth-share matrix is illustrated above.

The upper right-hand quadrant of Figure 4.2 includes sectors that have had a positive job growth rate in greater Knysna municipal area from 2011 through to 2017. These are sectors that have been traditional strengths for the greater Knysna municipal area's economy over the period and include sectors such as construction, wholesale and retail trade and tourism (as measured by the performance of the catering and accommodation subsector). Sectors in the lower right-hand quadrant are those that have shown positive employment growth, but which have low growth potential and includes the agricultural, financial and business services, utilities and transport sectors.

Those sectors in the left-hand quadrants (i.e. manufacturing) have shed jobs over the last six years, and are underperforming relative to these sectors at a regional level (Garden Route District Municipality). Given that these sectors all fall within the lower left-hand quadrant, this analysis suggests that they are minor players within the greater Garden Route economy, and will experience considerable difficulty in obtaining high returns on additional increased investments.

Although the Growth Share Matrix is a useful analytical tool, it has several limitations, including:

- The analysis only considers employment dynamics as an indicator for sectoral performance. It also assumes that positive employment growth is the only indicator of a successful sector.
- The fact that a sector is outperforming the same sector at a regional level is not the only indicator of investment potential.
- Declining employment could be an indicator of greater mechanisation, which could in turn be attributed to higher output and consequently a better performing sector.

It is however, possible to address these criticisms, through considering the Growth Share Matrix (Employment Analysis) in the context of the GDP-R performance of each sector. Table 4.1 rates the importance of each sector on a scale (High, Medium, Low) based on the outcomes of both the GDP-R analysis and Growth Share Matrix. The net sectoral importance of the sector is then computed.
TABLE 4.1: IMPORTANCE OF SECTORS TO THE GREATER KNYSNA MUNICIPAL AREA’S ECONOMY

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LEVEL OF IMPORTANCE</th>
<th>NET SECTORAL IMPORTANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP-R Analysis</td>
<td>Employment Analysis</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Mining</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Utilities</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Trade</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Catering and Accommodation Services</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Community Services</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Government Services</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

Combining the results from the GDP-R Analysis and the Growth Share Matrix revealed that the construction; trade; and catering and accommodation services sub-sector were moderately to highly important to the greater Knysna municipal area’s economy, based on their historical performance. In comparison, the mining; utilities; and transport and communication sectors were shown to have played a minor role in the overall economic performance of the greater Knysna municipal area over the last six years.

Determining the net importance of the agricultural and manufacturing sectors is somewhat more complex. Although the Growth Share Matrix indicated that despite the adding jobs and outperforming the Garden Route District Municipality in terms of job growth, the agricultural sector had a -0.5% GDP-R growth rate between 2011 and 2017. Furthermore, the agricultural sector contribution to the greater Knysna municipal area’s total GDP has fallen from 6.4% in 2011 to 5.7% by 2017. This suggests that although the sector is adding jobs, value derived by enterprises operating in the sector is low.

The manufacturing sector is in a somewhat different position, with the Growth Share Matrix indicating that the sector has shed jobs and grown at a slower rate than that of the Garden Route economy. The GDP-R growth rate of the manufacturing sector over the period, while positive, has been poor, averaging 1.4% per annum between 2011 and 2017. The sector however, still contributes 10.7% of the total GDP-R of the economy and employs 9.9% of the local labour force up from 9.5% in 2011, suggesting that it is still an important sector.

4.1.2 LOCATION QUOTIENTS

Location quotients are an economic analysis tool that is used to identify the level of sectoral specialisation in a given geographic region relative to a benchmarked region (in this case the Garden Route District Municipality). In simple terms, it measures the concentration of certain economic sectors in the region relative to the district average. In essence, the location quotient compares the relative contribution in terms of the employment of a particular sector in the local economy, with the contribution of that same sector at a regional level.
Table 4.2 shows the range of possible location quotients that could arise as well as their interpretation. Location quotients are not particularly complex, as they simply measure the output and/or employment concentration in the region. Economic sectors that dominate in an area will have higher location quotients, and ones that are relatively scarce will have lower location quotients.

**TABLE 4.2: INTERPRETATION OF LOCATION QUOTIENTS**

<table>
<thead>
<tr>
<th>LOCATION QUOTIENT</th>
<th>CATEGORY</th>
<th>INTERPRETATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 0.75</td>
<td>Low</td>
<td>Local needs are not being met by this sector. The region is importing goods and services in this sector.</td>
</tr>
<tr>
<td>0.75 to 1.24</td>
<td>Medium</td>
<td>Most local needs are being met by this sector. The region will be both importing and exporting goods and services in this sector.</td>
</tr>
<tr>
<td>1.25 to 5.00</td>
<td>High</td>
<td>The sector is serving the needs beyond the region, exporting goods and services in this sector.</td>
</tr>
<tr>
<td>More than 5.00</td>
<td>Very High</td>
<td>This is indicative of a very high level of local dependence on the sector, typically in a “single industry” economy.</td>
</tr>
</tbody>
</table>

Ideally an economic sector should have a location quotient of between 1.25 and 5.00. This indicates that the sector is meeting the needs of the domestic market, while also having the ability to export goods and services to the wider region. It also indicates that the local economy is not exclusively dependent on this particular sector. An ideal situation would therefore be where a sector’s location quotient increases over a period, ideally to greater than 1.25 (showing that the sector is growing in terms of employment) but remains lower than 5.00.

Much like the Growth Share Matrix Location Quotients have limitations:

- Employment is not necessarily a good indicator of productivity. A local may have relatively high employment but be inefficient compared to its regional counterparts. Similarly, another sector may employ very few people, simply because it uses a highly efficient and capital-intensive production process.
- Employment data is based on the Quarterly Labour Force Survey (administered at a provincial level) and then de-aggregated to a local municipal level. This means that certain local dynamics may not necessarily be captured and that employment figures may not be totally accurate.

The location quotients of the ten SIC economic sectors as well as the catering and accommodation sub-sector in the greater Knysna municipal area were calculated for two periods, namely 2011 and 2017\(^9\). The results are shown in Table 4.3 along with their descriptive category.

**TABLE 4.3: LOCATION QUOTIENTS FOR THE GREATER KNYSNA MUNICIPAL AREA**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LOCATION QUOTIENT</th>
<th>CATEGORY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2017</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.69</td>
<td>0.72</td>
</tr>
<tr>
<td>Mining</td>
<td>0.31</td>
<td>0.36</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.86</td>
<td>0.81</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.79</td>
<td>0.76</td>
</tr>
</tbody>
</table>

\(^9\) Calculations were based on Standardised Regional data available from Quantec (2018)
Not surprisingly, the catering and accommodation services sub-sector has the highest location quotient among the ten SIC economic sectors in the greater Knysna municipal area. While the location quotient for the catering and accommodation services sub-sector is not classified as “very high”, the value still suggests that the greater Knysna municipal area’s economy is heavily dependent on the sector.

A positive sign is the fact that the location quotient has increased from 1.86 in 2011 to 1.91 in 2017. This increasing trend suggests that the catering and accommodation services sub-sector is growing in size and is able to provide goods and services to individuals outside of the greater Knysna municipal area’s economy.

The increase in the location quotient for the catering and accommodation services sub-sector has occurred as a result of a rise in the number of people employed by this sector locally. This indicates that employment in the greater Knysna municipal area’s catering and accommodation services sub-sector has increased at a faster rate than other parts of the Garden Route District Municipality. (Employment in the sub-sector increased by 11.9% from 2011 to 2017 in the district, compared with 13.6% in the greater Knysna municipal area).

The high value for the catering and accommodation services sub-sector’s location quotient suggests that the greater Knysna municipal area’s economy is overly dependent on the trade sector for employment. This is further highlighted by the fact that, in 2017 the sub-sector accounted for 31.2% of total trade sector employment, and 8.4% of all formal employment in the greater Knysna municipal area. Over dependence on a single sector can have a number of negative impacts on a small, regional economy such as the greater Knysna municipal area. Given such a reliance on the catering and accommodation services sub-sector for employment, any changes in the macro-economic environment (i.e. downturn in the business cycle) could seriously impact the area and lead to large scale job losses.

The construction sector had the highest location quotient, increasing from 1.40 in 2011 to 1.49 by 2017. It is likely, that the high location quotient for the sector can be explained in part by the increase in construction employment following the Knysna fire.

### LOCATION QUOTIENT RANKING AMONG MUNICIPALITIES IN THE EDEN DISTRICT

Knysna’s economy is already unique compared to other local municipalities. Knysna’s diverse economic base has an established foothold in traditional tourist activity and anchor institutions.

**AVERAGE 2017**

- Knysna: 0.93
- Mossel Bay: 0.97
- George: 1.32
- Diéou: 1.38

**DISTRICT RANKING**

1. Knysna
2. Mossel Bay
3. George
4. Diéou
In absolute terms and excluding the mining and utilities sectors whose employment growth is occurring off a very low base, the sectors with the strongest increases in employment from 2011 to 2017 were agriculture, driven by employment increases in the agriculture (28.8%) and forestry (26.1%) industries; construction; and the government and community services sectors. The growth in the government and community services sectors is particularly concerning for two reasons:

- An increase in public sector employment results in a higher wage bill, which in turn places increased pressure on municipal finances. This could force funds to be redirected from other critical municipal functions that support economic development, such as infrastructure.
- It is also possible that an expanding public sector labour force could “crowd out” private sector job growth by attracting scarce skilled personnel away from the private sector.

On the low end of the scale, the agricultural sector has a location quotient well within the “low” category. It should be observed that since the location quotient for the agricultural sector has increased, the job growth experienced by the sector was higher than that of the Garden Route District Municipality’s agricultural sector.

### 4.1.3 LEADING/LAGGING ANALYSIS

Another way to assess the competitiveness of different economic sectors is to examine their employment or economic growth relative to growth in the overall economy at either the district or municipal level. Sectors which are “leading” have a growth rate in excess of the rate of growth in the district economy and those that are “lagging” are growing more slowly.

A comparison between the greater Knysna municipal area indicator and the Garden Route District indicator is combined with the location quotient calculated, above to yield an overall assessment of the sector. The classification system is shown in Table 4.4. These classifications are meant to be descriptive. For example, consider an industry which is dominant at the provincial level, i.e. has a high location quotient.

- If the industry is lagging at the provincial level but leading at the local level it is considered as “evolving”
- If the industry is leading at both the provincial and the local level it is “driving”
- If the industry is leading at the provincial level but lagging at the local level, it is classified as “promising”

<table>
<thead>
<tr>
<th>DSRG(^3)</th>
<th>LSRG(^3)</th>
<th>LOCATION QUOTIENT</th>
<th>CLASSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading</td>
<td>Leading</td>
<td>High (&gt; 1.25)</td>
<td>Driving</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium (0.75 to 1.25)</td>
<td>Accelerating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low (&lt; 0.75)</td>
<td>Rising</td>
</tr>
<tr>
<td>Lagging</td>
<td>Leading</td>
<td>High (&gt; 1.25)</td>
<td>Evolving</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium (0.75 to 1.25)</td>
<td>Transitional</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low (&lt; 0.75)</td>
<td>Moderate</td>
</tr>
<tr>
<td>Leading</td>
<td>Lagging</td>
<td>High (&gt; 1.25)</td>
<td>Promising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium (0.75 to 1.25)</td>
<td>Yielding</td>
</tr>
</tbody>
</table>

\(^3\) District Sector Relative Growth rate

\(^\) Local Sector Relative Growth rate
The values for the various economic sectors in the greater Knysna municipal area are shown in Table 4.5.

**TABLE 4.5: COMPETITIVE SECTORAL PERFORMANCE, 2017**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LOCATION QUOTIENT</th>
<th>DISTRICT SRG</th>
<th>LOCAL SRG</th>
<th>CARVALHO CLASSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.72</td>
<td>Leading</td>
<td>Leading</td>
<td>Rising</td>
</tr>
<tr>
<td>Mining</td>
<td>0.36</td>
<td>Leading</td>
<td>Leading</td>
<td>Rising</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.81</td>
<td>Lagging</td>
<td>Lagging</td>
<td>Vulnerable</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.76</td>
<td>Leading</td>
<td>Lagging</td>
<td>Yielding</td>
</tr>
<tr>
<td>Construction</td>
<td>1.49</td>
<td>Lagging</td>
<td>Leading</td>
<td>Evolving</td>
</tr>
<tr>
<td>Trade</td>
<td>1.09</td>
<td>Leading</td>
<td>Lagging</td>
<td>Yielding</td>
</tr>
<tr>
<td>Catering and Accommodation Services</td>
<td>1.91</td>
<td>Lagging</td>
<td>Leading</td>
<td>Evolving</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>0.84</td>
<td>Leading</td>
<td>Lagging</td>
<td>Yielding</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>0.83</td>
<td>Leading</td>
<td>Lagging</td>
<td>Yielding</td>
</tr>
<tr>
<td>Community Services</td>
<td>1.18</td>
<td>Lagging</td>
<td>Leading</td>
<td>Transitional</td>
</tr>
<tr>
<td>Government Services</td>
<td>1.07</td>
<td>Lagging</td>
<td>Leading</td>
<td>Transitional</td>
</tr>
</tbody>
</table>

Two sectors were classified as “rising”, namely agriculture and mining. While the agricultural sector was a relatively small employer in the greater Knysna municipal area’s economy, it added a greater proportion of jobs over the 2011 to 2017 period than the Garden Route District Municipality’s agricultural sector.

The only sector that is classified as lagging at both a local and district level was the manufacturing sector. Based on the location quotient, the manufacturing was is classified as “vulnerable”. This implies that the sector, which employs a relatively large number of people, shed jobs between 2011 and 2017.

The construction sector was lagging at a district level but leading at a local level. This, combined with the location quotient, suggests that the sector has a high degree of local specialisation, and was growing at a faster rate than the district, making it an “evolving” sector.

The trade sector was classified as “yielding”, meaning that the sector had an average level of specialisation. Local sectoral employment growth however was lower than that of the Garden Route District Municipality’s trade sector. The catering and accommodation services sub-sector in comparison was classified as “evolving”. This coupled with the location quotient of 1.91 indicates that the greater Knysna municipal area has a high degree of specialisation in this sub-sector.

The above analysis highlights that the greater Knysna municipal area was neither highly specialised nor under-specialised in the government; and community services sectors, although employment growth in these sectors is exceeding the employment growth in these respective sectors at a district level.
4.1.4 INDUSTRY TARGETING

Similar to the Carvalho Classification, the Industry Targeting Classification seeks to, through the use of descriptive wording, suggest the kinds of prospects for growth that one might expect in the future from a given economic sector. In this sense the Industry Targeting classification scheme is somewhat more forward-looking.

As is the case with the Carvalho Classification Criteria, the Industry Targeting Classification system is based on three indicators – the location quotient, overall employment growth at the local level, and the district sector’s relative growth (DSRG) from the leading/lagging analysis.

The targeting classification scheme makes at least two implicit assumptions that are open to question:

1. The categories implicitly assume that regional growth is a measure of success. If the industry group is leading growth locally and not doing so regionally, for example, then it is assumed that the sector has limited prospects.

2. There is a bias towards large sectors; relatively small industry groups can be classified as an emerging strength, but most are dismissed as having a “weak base”. This is partly as a result of the industry classifications used. One can have, for example, a small manufacturing sector which will be dismissed as having a weak base, whereas a subsector such as food processing may be large in the region and be classified as a high priority retention target.

Table 4.6 shows the industry targeting classification system for the ten economic sectors in the greater Knysna municipal area.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LOCATION QUOTIENT</th>
<th>AVERAGE ANNUAL GROWTH RATE (2011 – 2017)</th>
<th>INDUSTRY CLASSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>DSRG</td>
<td>LSRG</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.72</td>
<td>Low</td>
<td>7.3%</td>
</tr>
<tr>
<td>Mining</td>
<td>0.36</td>
<td>Low</td>
<td>0.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.81</td>
<td>Medium</td>
<td>-8.8%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.76</td>
<td>Medium</td>
<td>1.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>1.49</td>
<td>High</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Trade</td>
<td>1.09</td>
<td>Medium</td>
<td>1.1%</td>
</tr>
<tr>
<td>Accommodation</td>
<td>1.91</td>
<td>High</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>0.84</td>
<td>Medium</td>
<td>6.6%</td>
</tr>
<tr>
<td>Finance</td>
<td>0.83</td>
<td>Medium</td>
<td>11.1%</td>
</tr>
<tr>
<td>Community</td>
<td>1.18</td>
<td>Medium</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Government</td>
<td>1.07</td>
<td>Medium</td>
<td>-15.8%</td>
</tr>
</tbody>
</table>

The agriculture sector was classified as an emerging strength. The agricultural sector has been a historically important sector to the greater Knysna municipal area, but its small size has meant that it has been strongly
affected by external trends such as national trade policy, international subsidies, and low commodity prices, not to mention the climate. While these factors limit conventional commercial production capabilities, potential exists to develop and/or expand existing niche agricultural markets.

The mining and utilities in the greater Knysna municipal area, while classified as emerging strengths and high priority retention target respectively, collectively only accounted for only 1.5% of total GDP-R and 0.3% of total employment in 2017 and will not be major future drivers of economic development. The potential introduction of renewable energy projects such as waste-to-energy into the greater Knysna municipal area’s economy, however, could alter this situation. This however, has not been considered as part of the calculations.

While the trade sector was classified as a high priority retention target, the catering and accommodation services sub-sector prospects where indicated to being limited by external trends. Despite these classifications both the trade and catering and accommodation services sectors are strategically important for the greater Knysna municipal area, as evident by their share of total GDP-R (17.1%) and employment (27.0%).

The government and community services sectors both exhibit positive employment growth, but external factors limit their growth prospects. As highlighted earlier these sectors are unlikely to be able to yield high investment returns and could also potentially crowd-out private sector activity.

Construction is classified as a “prospects limited by external trends”. It is important to remember that the construction sector generally thrives only when other parts of the economy are making capital investments. The fact that the sector was exceeding district growth likely suggest that the rebuilding efforts associated with the Knysna fire are having a positive, albeit temporary, impact on construction-related employment.

The financial and business services sector has been one of the poorer performing sectors over the last six years, underperforming the sector at a district level in terms of both GDP-R and employment growth. The growth that has occurred has been driven by increased activity in the real estate market and in support services provided to the construction sector (i.e. architecture, engineering etc.).

Manufacturing exhibits a declining location quotient as well as an industry classification criterion of “prospects limited by external trends and declining competitiveness”. Although the sector contracted at a slower rate than that of the districts manufacturing sector, its total workforce still declined by just over 1.0%. Manufacturing has also shown a gradual decline in its GDP-R growth rate, further highlighting the constraints being experienced by the sector in the greater Knysna municipal area.

4.1.5 OVERALL IMPORTANCE OF SECTORS

In order to address the various criticisms for each of the analysis methods, the results have been integrated into a single table (see Table 4.7) in order to establish the net importance of the sector based on GDP-R, Growth Share Matrix and Location Quotients. The final interpretation is also informed by the descriptive wording from the Carvalho and Industry Targeting Classification criterion.
TABLE 4.7: OVERALL IMPORTANCE OF ECONOMIC SECTORS TO THE GREATER KNYSNA MUNICIPAL AREA’S ECONOMY IN 2017

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LEVEL OF IMPORTANCE</th>
<th>NET SECTORAL IMPORTANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP-R Analysis</td>
<td>Growth Share Analysis</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Mining</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Utilities</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Trade</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Catering and Accommodation Services</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Community Services</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Government Services</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

The collective results from the various analyses show that the following sectors have been of historical importance to the greater Knysna municipal area’s economy and are likely to continue to be so in the future:

- Catering and accommodation services
- Wholesale and retail trade
- Construction
- Manufacturing

According to the Industry Targeting Classification, the trade sector (including the catering and accommodation services sub-sector) is of particular importance, having been identified as a high priority retention sector. Development programmes and interventions should therefore be targeted at these sectors.

In comparison, the analysis showed that the following sectors historically played a limited role in the greater Knysna municipal area’s economy:

- Agriculture, forestry and fisheries
- Utilities
- Mining
- Transport and communication

The agricultural sector is somewhat unique in that it has historically been an important sector, primarily the forestry sub-sector. This is evident by the fact that the sector still contributes 5.7% to the total GDP-R of the greater Knysna municipal area, and accounts for 9.0% of its employment.
4.2 ECONOMIC INFRASTRUCTURE

Infrastructure is fundamentally important to economic development, as it supports not only a location’s productivity and competitiveness, but also its social and environmental wellbeing.

The Organisation of Economic Cooperation and Development (OECD) suggests that investment in infrastructure, particularly in network infrastructure such as transport and communications, generally tends to boost long-term economic output more than other forms of physical investment. This is because infrastructure investment provides positive benefits to a range of other sectors. For example, high-quality transport systems improve business efficiency, innovation, competition and trade, supports agglomerations of economic activity, and facilitates a mobile and flexible labour force. The National Development Plan has identified inadequate, under maintained infrastructure as a development constraint/inhibiter in South Africa, third only to low levels of employment and the poor quality of education provision.

More generally, micro-economic theory suggests that expenditure on infrastructure contributes to economic development if the benefits of the investment outweigh the costs (these benefits and costs include both positive and negative externalities). In this way, infrastructure spending can generate value for ratepayers.

The following section seeks to briefly outline the infrastructure environment within the greater Knysna municipal area, highlighting selected key assets as well as how these assets can be best utilised to promote job-intensive, economic development.

4.2.1 INFRASTRUCTURE ASSETS

The greater Knysna municipal area’s infrastructure networks are some of its most critical and valuable assets. Currently, the annual budgeted capital expenditure in local infrastructure by the municipality runs into over R114 million. This includes the development of new infrastructure (R24.9 million; 21.8%), renewal of existing infrastructure (R39.6 million; 34.6%) and the upgrading of infrastructure (R49.8 million; 43.5%). A further R27 million has been set aside for the maintenance of roads as part of the municipality’s operating programmes.

Figure 4.3 provides a snapshot of the key infrastructure assets within the greater Knysna municipal area as well as their connectivity to related assets in the greater Garden Route District Municipality.

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33 SOURCE: National Planning Commission. 2010. NATIONAL DEVELOPMENT PLAN 2030; OUR FUTURE-MAKE IT WORK.
4.2.2 TRANSPORT INFRASTRUCTURE

The following section examines the range of transport infrastructure within the greater Knysna municipal area focusing on air transport, road infrastructure, rail, and ports/harbours. How the condition of this transport infrastructure affects economic development and planning is also considered.

4.2.2.1 Air Transport

The greater Knysna municipal area does not have any airports or related air infrastructure located within its borders. The greater Knysna municipal area, however, benefits from being approximately 70 kilometres from the George Airport and 33 kilometres from the Plettenberg Bay Airport.

The George Airport is the largest airport in the Garden Route District Municipality and caters for both passengers and commercial cargo. Currently six passenger airlines operate from the airport (Airlink, Kulula, Mango, South African Express, FlySafair, CemAir), flying between George various national airports including O.R. Tambo International, Cape Town International and Port Elizabeth International.

Although the George Airport does have limited cargo handling capabilities, it is primarily a passenger orientated airport. Table 4.8 shows the total number of passengers arriving and departing from the George Airport between 2013 and 2017.
### TABLE 4.8: NUMBER OF PASSENGERS ARRIVING AND DEPARTING FROM THE GEORGE AIRPORT

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DEPARTING PASSENGERS</th>
<th>ARRIVING PASSENGERS</th>
<th>TOTAL PASSENGERS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Numbers</td>
<td>Percentage change</td>
<td>Numbers</td>
</tr>
<tr>
<td>2013</td>
<td>279908</td>
<td>5.0%</td>
<td>274682</td>
</tr>
<tr>
<td>2014</td>
<td>300276</td>
<td>7.3%</td>
<td>298236</td>
</tr>
<tr>
<td>2015</td>
<td>355521</td>
<td>18.4%</td>
<td>351721</td>
</tr>
<tr>
<td>2016</td>
<td>366934</td>
<td>3.2%</td>
<td>363073</td>
</tr>
<tr>
<td>2017</td>
<td>394545</td>
<td>7.5%</td>
<td>399053</td>
</tr>
</tbody>
</table>

From Table 4.8 it is evident that the total number of passengers that arrived at the George Airport rose by 9.9% between 2016 and 2017. In absolute terms, total passenger arrivals have increased by 45.7% since 2013, equating to an average annual growth rate of 9.8%. The peak in passenger arrivals in 2015 was due to the George area hosting several events (e.g. Provincial Netball Championships). High growth rate in passenger numbers between 2013 and 2016 however, highlights the increasing importance of the George area as a major new and emerging economic growth node.

At present, George Airport accommodates mostly aviation related facilities. These include the terminal buildings, support/maintenance facilities, airside parking (768 bays), car rental, a flying school and aircraft hangars used for commercial aviation activities. The 2007 upgrade of the terminal building improved the passenger handling capabilities of the airport to 900 000 people per annum. A further R7 million was budgeted by Airports Company South Africa (ACSA) in 2017 to enlarge the airport’s departure lounge to expedite the departure process. Additional investment in the upgrading and rehabilitation of the George Airport’s runway in 2012, has resulted in South Africa Civil Aviation Authority (SACCA) upgrading the airport from a CAT 7 aerodrome to a CAT 8 aerodrome. This now permits the George Airport to accept larger aircraft.

In addition to its passenger handling capabilities, the George Airport provides limited cargo handling facilities for goods destined for the export market. Current cargo volumes are low and linked to products produced in the Garden Route District Municipality (specifically the George area), such as flowers, fish, oysters, herbs and ferns.

The support infrastructure for the George Airport’s commercial cargo handling capabilities (i.e. warehouses, cold storage facilities etc.) is currently limited, which is likely to inhibit the expansion of exports from the airport. ACSA owns approximately 85 hectares of developable land within the airport site boundary. Approximately 1.8 hectares has of this developable land been enabled, serviced, zoned and received environmental authorisation for two potential developments – a petrol service (0.5 hectares) and a 70-bed hotel and conference facility (0.6 ha hectares). An additional 6 hectares on the southern side of airport is anticipated to be resealed shortly for development. It is envisaged that this land will accommodate light industrial mixed uses or aviation related commercial activity.

The Plettenberg Bay Airport caters exclusively to passengers by means of charter flights. The airport’s current size and passenger volumes does not permit flights by major commercial airlines between the airport and other destinations in South Africa to be profitable/viable. A small, private passenger airline company

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36 SOURCE: George Local Municipality. 2015. GWAYANG LOCAL SPATIAL DEVELOPMENT FRAMEWORK (GLSDF).
37 SOURCE: Airports Company South Africa (ACSA). No date. DEVELOPMENT OPPORTUNITIES.
based in Johannesburg charters flights between the O.R. Tambo and Cape Town International Airports and the Plettenberg Bay Airport. Flights between O.R. Tambo International and Plettenberg Bay Airport occur daily during the festive period (December to January) and five times a week out of season (Monday, Thursday, Friday, Saturday and Sunday). The fare is between R1 780 and R2 530 per person one way.

Flights between Cape Town International and the Plettenberg Bay Airport occur four times a week (Tuesday, Wednesday, Friday and Sunday). The fare is between R1 430 and R2 160 per person one way. The Plettenberg Bay Airport lacks cargo facilities and is only likely to be a source of tourist arrivals (primarily domestic) for the greater Knysna municipal area.

4.2.2.2 How this impacts economic development and planning

Rapid and reliable air transport affects the performance of an area’s economy, improving the efficiency of other sectors and thereby contributing to and facilitating economic development. One of the most important economic benefits of air transport is its ability to facilitate trade. This is achieved through increasing a company’s ability to access national and international customers, thereby enabling them to get their products to markets more quickly, while at the same time allowing them to be more responsive to customer needs.

Other economic development benefits associated with air transport include:

- **Enhancing tourist access**
  Good air transport linkages allow tourists to easily access a destination. This is particularly important for international tourists given that an estimated 55% of overseas visitors now travel by air, up from 35% in 1990. At the same time, the WTTC estimates that foreign visitors account for just over 27% of overall tourism spending around the world in 2017.

- **Higher productivity**
  Improved transport links expand the market in which companies operate. As a result, companies are better able to exploit economies of scale, thereby reducing costs, and allowing specialisation in areas of comparative advantage. By opening up markets, air services expose businesses to greater competition, thereby encouraging them to become more efficient.

- **Supply chain improvements**
  Air transport improves the efficiency of the supply chain, through shortening delivery times. This enables businesses to deliver products to clients quickly and reliably while at the same time reducing costs.

- **Innovation and R&D**
  Air transport can promote innovation by encouraging effective networking and collaboration between companies located in different parts of the globe. Good transport infrastructure can encourage greater spending on R&D by companies, due to the fact that increasing the size of the market allows for R&D spending to be spread over a larger customer base.

• Facilitating the development of e-commerce
The rise of online retail and e-commerce has led to a greater demand for short delivery times. Air transport serves as a means of addressing this trend, through the rapid transport of online shopping orders. Warehousing services provided in conjunction with air transport also help to reduce retail and distribution costs.

4.2.2.3 Road Network

The importance of the greater Knysna municipal area’s transport network (specifically its road infrastructure) is highlighted in the Garden Route District Integrated Transport Plan40, which indicates that the first priority for economic development should be ensuring the adequate transportation of goods to markets41. In addition to expediting the movement of people and goods in and out of the area, thereby increasing economic opportunities in the greater Knysna municipal area, improved road networks have the capacity to enhance other components of the area’s economic infrastructure, such as telecommunications, energy, water and sewerage.

The following section seeks to build on this status quo information by focusing on selected factors that are likely to enhance the mobility of people and goods in and out of the greater Knysna municipal area.

FIGURE 4.4: TRAFFIC VOLUMES ALONG IMPORTANT ROUTES IN THE GREATER KNYSNA MUNICIPAL AREA42,43

Figure 4.4 indicates the annual average daily traffic (AADT) volumes along the major road networks in the greater Knysna municipal area. As indicated in the figure, the greatest traffic volumes occur along the N2, passing through the towns of Sedgefield and Knysna where the traffic levels range between 13 501 and

40 The 2010 Garden Route Integrated Transport Plan is currently being reviewed and is anticipated to be completed in the early part of 2019.
41 SOURCE: Garden Route District Municipality. 2010. EDEN INTEGRATED TRANSPORT PLAN.
42 The values indicated in the legend represent the average number of vehicles that travel along the route on a daily basis.
40 000 vehicles per day\textsuperscript{44}. The overwhelming majority (88.4\%) of this traffic was classified as light vehicles with the remaining 11.6\% being either heavy vehicles (9.5\%) or taxis (2.1\%). Between 2013 and 2017, daily vehicle traffic volumes along the N2 increased by an estimated 18.9\% in absolute terms, equivalent to an average annual growth rate in traffic volumes of 4.7\%.

The route between Rheenendal and Knysna carries low to moderate traffic volumes. The majority of this route experiences an AADT level of between 501 and 1 500 vehicles per day with certain sections having volumes of between 1501 and 4 500 vehicles per day.

Traffic volumes out of and through Karatara are very low with only between 1 and 500 vehicles per day recorded between Karatara and Rheenendal. Likewise, only 1 to 500 vehicles per day were recorded along the MR351, which runs between Karatara and George. Traffic volumes were slightly higher along both the MR351 and the DR1627/DR1615/MR351 between Karatara and Ruigtevlei just outside Sedgefield. The AADT recorded along both these routes is between 501 and 1 500 vehicles per day.

Included in the above traffic volume figures are the operations of the three taxi associations based in the greater Knysna municipal area. The Knysna Integrated Transport Plan (2012) estimated that two of these associations transport an estimated 6 714 people per day during weekdays and 5 231 people per day over the weekends\textsuperscript{45}. As highlighted in the infrastructure section of the ISDF Status Quo document, there are only taxi services to Rheenendal and not to Karatara\textsuperscript{46}. This means that Karatara does not have access to any form of public transport services.

The quality of the greater Knysna municipal area’s road network plays an important role in how efficiently road freight can be transported from businesses based within the area to end consumers who are potentially located outside of the municipal area. A poor-quality road network tends to increase travel times which results in higher costs, negatively impacting businesses’ profitability. Economic research has indicated that a 10\% increase in travel time has the potential to increase transport costs by up to 7.8\%\textsuperscript{47}. The time taken to transport goods from producers to final consumers is also particularly critical when perishable products are being transported.

\textbf{FIGURE 4.5: DISTANCES AND TRAVEL TIMES BETWEEN MAJOR END CONSUMER MARKETS}

\textsuperscript{44} Actual station counts from the AADT along the Knysna section of the N2 are estimated at 16 768 vehicles per day, up 18.9\% from the 2013 figure of 14 104 vehicles per day recorded in 2013.
\textsuperscript{45} SOURCE: Knysna Local Municipality. 2012. UPDATE TO CHAPTERS 3, 6 AND 8 OF THE INTEGRATED TRANSPORT PLAN FOR KNYSNA LOCAL MUNICIPALITY.
\textsuperscript{46} SOURCE: Knysna Local Municipality. 2015. ISDF – INFRASTRUCTURE STATUS QUO.
Figure 4.5 indicates travel distances and times between settlements in the greater Knysna municipal area and major potential source markets for local products. Table 4.9 indicates the total household consumption expenditure\(^{48}\) of major end consumer markets for products and services produced within the greater Knysna municipal area.

**TABLE 4.9: HOUSEHOLD EXPENDITURE (2017 PRICES) FOR MAJOR TRADING PARTNERS**

<table>
<thead>
<tr>
<th>TRADING PARTNER</th>
<th>CONSUMPTION EXPENDITURE (R’ MILLION)</th>
<th>AVERAGE ANNUAL REAL GROWTH IN CONSUMPTION EXPENDITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2017</td>
</tr>
<tr>
<td>Cape Town</td>
<td>R160 799</td>
<td>R211 811</td>
</tr>
<tr>
<td>Port Elizabeth</td>
<td>R48 094</td>
<td>R58 091</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R4 267</td>
<td>R5 469</td>
</tr>
<tr>
<td>George</td>
<td>R8 076</td>
<td>R10 397</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R3 423</td>
<td>R4 300</td>
</tr>
<tr>
<td>Plettenberg Bay</td>
<td>R2 188</td>
<td>R2 976</td>
</tr>
</tbody>
</table>

From Figure 4.5 and Table 4.9 it is evident that the two largest consumer markets within close proximity to the greater Knysna municipal area are Cape Town and Port Elizabeth. Collectively, the total household consumption expenditure of these two cities was approximately R269.9 billion in 2017 (current prices). Given the total size of the household consumer markets in Cape Town and Port Elizabeth, it is highly probable that these are the two most important end destinations for goods and services produced in the greater Knysna municipal area.

The importance of the N2 road network is further highlighted by the fact that in 2013, an estimated 37 million tons of road freight was transported along the N2 between Cape Town and Port Elizabeth\(^{49}\). A study undertaken in 2013 indicated that the daily freight currently being transported by road on the N2 between Knysna and George includes logs; wood chips; solid waste; green waste and general cargo\(^{50}\).

Based on the above factors it is evident that currently the most important road network for economic development in the greater Knysna municipal area is the N2, particularly the stretch that runs between the municipality and Cape Town.

Although the total household consumption expenditures of both Mossel Bay and George are low (respectively), the export capabilities of these two towns make the road networks connecting them to the greater Knysna municipal area important.

The road network linking Rheenenadel and Karatara with George is currently of limited strategic importance. Future utilisation of this road as a tourist route (i.e. Seven Passes) could increase the road’s strategic importance, as could the development of agro-processing operations in the area.

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\(^{48}\) Total household consumption expenditure is not available for individual towns. The value presented in Table 4.2 therefore represents the total household consumption expenditure for the entire local municipality where the selected town is based.

\(^{49}\) SOURCE: Department of Transport. 2014. NATIONAL TRANSPORT MASTER PLAN (NATMAP) 2050 SYNOPSIS REPORT.

\(^{50}\) SOURCE: Interviews with local stakeholders. 2014.
4.2.2.4 How this impacts economic development and planning

Good quality road infrastructure supports economic growth through lowering the transport costs of road network users. Specific benefits that accrue because of good quality road infrastructure include: reductions in travel times and fuel consumption, greater reliability and increased safety in the movement of people and goods.

Conversely, a deterioration of the road network increases transport costs and subsequently the cost of doing business in an area (see Table 4.10). These higher costs can occur due to damage to transport vehicles, the loss of perishable products (such as vegetables) due to delayed travel times, and products being damaged and destroyed while in transit. It is therefore imperative that strategic road infrastructure be maintained so as to keep travel costs low.

**TABLE 4.10: ESTIMATED POTENTIAL INCREASES DUE TO WORSENING SOUTH AFRICAN ROAD CONDITIONS**

<table>
<thead>
<tr>
<th>ROAD CONDITION</th>
<th>AVERAGE MAINTENANCE AND REPAIR COSTS (R/KM)</th>
<th>AVERAGE % INCREASE IN TRUCK MAINTENANCE AND REPAIR COSTS</th>
<th>AVERAGE % INCREASE IN COMPANY LOGISTICS COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>R 0.96</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair</td>
<td>R 1.24</td>
<td>30.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Bad</td>
<td>R 2.11</td>
<td>120.9%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

As such, the upgrading and maintenance of road infrastructure that is critical to economic development within the greater Knysna municipal area should be prioritised in the planning process. The two most critical road networks within the municipality from an economic development perspective are:

- **N2**
  
  As the principal route connecting the greater Knysna municipal area with major consumer markets (e.g. Cape Town, Port Elizabeth and George), the ongoing maintenance of the N2 is critical to the current and future economic development of the area. The continued importance of the route is highlighted by the fact that total road freight travelling along the N2 between Port Elizabeth and Cape Town is anticipated to increase over the next ten years.

- **MR355**
  
  Although currently not a highly trafficked route, the MR355 serves an important economic function as it connects consumers and employees in Karatara and Rheenendal with the town of Knysna. In addition, the MR355’s connection with the MR351, which permits vehicles from Karatara to access the N2 via Sedgefield, is likely to serve as an important road freight route should agro-processing operations be initiated in the area.

One means by which road maintenance costs, and consequently travel costs, can be reduced is through lower traffic volumes on particular routes. This can be achieved through the introduction of an integrated public transport network. The establishment of an integrated public transport network is necessitated by a range of both economic and non-economic reasons, some of which include: future increases in fuel prices,

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increasing urbanisation, the need for compact cities, greater traffic congestion, increasing maintenance and expansion costs for roads, improvements in road safety, and greater health and environmental concerns\textsuperscript{52}.

Besides the inherent value of increased mobility by means of public transport, individuals can benefit from reduced travel times and increased employment opportunities due to an ability to access new employer markets. At the same time, local businesses’ labour supply increases as more potential employees fall within these businesses’ commuting range. Other potential economic benefits of public transport are\textsuperscript{53}:

- Travel and vehicle ownership cost savings for public transportation passengers and those switching from driving their own vehicles, leading to shifts in consumer spending.
- Reduced traffic congestion for motorists, bus users, pedestrians and cyclists, leading to further direct travel cost savings for businesses and households.
- Business operating cost savings due to lower employee absenteeism as a result of a reduction in congestion.

There are also a number of indirect effects on economic growth associated with a good quality road network. These secondary effects may include the expansion of existing businesses as reduced transport costs result in greater profitability and/or increased market share. This can lead to increased employment and incomes as businesses grow. Furthermore, economic activity may expand as these growing businesses in turn demand more raw materials and components from their suppliers.

The upgrade and ongoing maintenance of the road network can also promote economic development through the creation of opportunities in the construction sector.

4.2.2.5 Rail

The Garden Route District Municipality’s Integrated Transport Plan (2012) indicates that although the district has an extensive rail network, no passenger rail services are provided.

Prior to 2006, the greater Knysna municipal area had a tourist-orientated passenger rail service, the Outeniqua Choo-Tjoe, which ran between George and Knysna. During its period of operation, the Outeniqua Choo-Tjoe carried an estimated 115 000 mostly international, tourists on average annually\textsuperscript{54}. The damage to the railway line in December 2006 resulted in the discontinuation of this passenger service.

Transnet has indicated that the cost of reopening the line would be prescriptively expensive and that it would likely not be financially viable unless the line was also used for rail freight\textsuperscript{55}. Efforts are currently underway to re-establish the line, focusing on both passenger and freight services. This will necessitate an investment of between R800 million and R1 billion in line repairs and upgrades\textsuperscript{56}.

\textsuperscript{52} SOURCE: Litman, T. 2014. EVALUATING PUBLIC TRANSIT BENEFITS AND COSTS: BEST PRACTISES GUIDEBOOK. Victoria Transport Policy Institute: Victoria, British Colombia.
\textsuperscript{53} SOURCE: American Public Transportation Association. 2009. ECONOMIC IMPACT OF PUBLIC TRANSPORTATION INVESTMENT.
\textsuperscript{56} SOURCE: Interviews with local stakeholders. 2018.
4.2.2.6 How rail impacts economic development and planning

Rail transport is generally more fuel efficient than road transport. Consequently, this reduces the costs associated with moving goods over long distances and thereby improves profitability. Next to water transport, rail transport is the most energy efficient means of moving large volumes of goods and passengers.\(^7\)

Beyond energy efficiency, transport by rail can achieve significant economies of scale in that a rail train (locomotives and wagons or carriages) can move large quantities of freight or passengers at once. This makes rail transport highly operationally efficient when there is sufficient volume to use the available capacity.

Since efficiently operated railways can provide an inexpensive means of transporting high volumes of bulk commodities/freight (e.g. solid waste) and passengers, low transport costs improve the competitiveness of local economies. Many commodities are traded at national market prices and high transport costs reduce producers’ profits. Low transport costs can thus help marginal producers be more competitive and give competitive producers an advantage.

The cost advantages of efficient well-run rail transport can therefore boost competitiveness among manufacturers and shippers in domestic and international markets and exert competitive pressure on road transport prices. Similarly, efficient well-run passenger transport can increase labour mobility – expanding the labour pool and economic development outside of urban centres.

Based on the above factors, the reestablishment of passenger rail and freight services within the greater Knysna municipal area is likely to have a positive impact on local businesses through greater access to markets and lower transport costs. Furthermore, the use of the rail network to transport bulk commodities (particularly sawlogs and waste) within and out of the greater Knysna municipal area will significantly reduce the pressure on the road network. This will in turn reduce road maintenance costs for the Knysna Local Municipality, freeing up financial resources for other objectives.

The transport of time sensitive and highly perishable products (e.g. vegetables) out of the greater Knysna municipal area via rail will require investment in cold storage facilities as well as the introduction of refrigerated rail cars. Given the short lead times in the horticultural industry it is unlikely that there will be much scope for such facilities.

The capital costs associated with rehabilitating the regional rail network, as indicated, are likely to be high. A cost/benefit analysis would be informative in determining the exact benefits that could be derived for both the greater Knysna municipal area, relative to the costs. This would be critical if public funds were to be used to partially or wholly fund the planned development.

4.2.2.7 Ports

The greater Knysna municipal area does not have a port capable of handling large commercial vessels. Furthermore, the Knysna lagoon entrance is considered to be too dangerous for commercial ships to enter.

The closest harbour that is capable of handling commercial vessels is situated in Mossel Bay. This harbour is almost entirely dedicated to the support of the off-shore oil industry. The harbour does, however, also cater

\(^7\) SOURCE: The World Bank. 2009. RAILWAY REFORM: TOOLKIT FOR IMPROVING RAIL SECTOR PERFORMANCE.
for fishing vessels and the local recreational boating industry. It also benefits from having direct transport linkages with the main consumer markets and industrial zones in Southern Africa via both road and rail networks. Railway lines link the port with Gauteng (via George) as well as neighbouring countries.

The Mossel Bay harbour has one berth in the port, which is 274 metres in length and two offshore terminal facilities. The port berth has the capacity to handle 110 000 tons per year of break bulk, while the offshore terminal facilities have the capacity to handle almost 8 million kilolitres of liquid bulk a year. During 2017 there was very little break bulk handled by the port (+/- 11 000 tons), although 1.6 million tons of liquid bulk was handled through the harbour’s various terminals. Total vessel calls for the 2017 calendar year amounted to 350 vessels (under one per day). The majority of these calls were Southern African based fishing trawlers in the small and handy size range (+/- 120 metres).

| TABLE 4.11: TOTAL CARGO HANDLED BY THE MOSSEL BAY HARBOUR (METRIC TONS) |
|-----------------|----------|-------------|-------------|
|                  | 2017     | TOTAL (2016)| PERCENTAGE |
|                  | TOTAL  | BREAK BULK  | CARGO | CHANGE | (2016-2017) |
| Landed          |        |              |       |
| Imported        | 944 317| 0            | 944 317| 989 286| -4.5%       |
| Coastwise       | 0       | 3 766       | 3 766 | 8 629  | -56.4%      |
| Total cargo landed | 944 317| 3 766       | 948 083| 997 915| -5.0%       |
| Shipped         |        |              |       |
| Exports         | 47 022 | 0            | 47 022 | 51 894 | -9.4%       |
| Coastwise       | 683 266| 7 819       | 691 085| 720 880| -4.1%       |
| Total cargo shipped | 730 288| 7 819       | 738 107| 772 774| -4.5%       |
| TOTAL CARGO HANDLED | 1 674 605| 11 585     | 1 686 190| 1 770 689| -4.8%       |

The Mossel Bay harbour has exhibited a gradual decline in the total cargo that it handles over the last five years. Despite a peak in 2015, when the harbour handled 2.4 million tons of cargo, cargo handled by the harbour has fallen by an average annual rate of 6.2% since 2013. Factors contributing to this decline, were the gradual scaling back of activities by PetroSA and the poor economic conditions prevailing in the local and national economies.

Transnet’s National Ports Plan notes that the multi-purpose terminal and the liquid bulk capabilities of the Mossel Bay harbour are currently sufficient to meet projected demand until 2046. Over the 2017 to 2023 period Transnet plans to increase the harbours break bulk storage area by one hectare, convert two hectares of the harbour’s fishing area to maritime commercial, expand the maritime commercial by six hectares; and increase the area dedicated to commercial logistics by two hectares.

60 SOURCE: Transnet. 2017. NATIONAL PORTS PLAN 2017 UPDATE.
4.2.2.8 How ports impact economic development and planning

The greater Knysna municipal area is in close proximity (+/- 112 kilometres) to the Mossel Bay harbour, through which local businesses can potentially access international markets. The Mossel Bay harbour export capabilities however suggest that, at present, the scope for such utilisation is limited. Any future use for such purpose will require further development of container facilities and other storage options, including container handling capabilities.

The utilisation of the Mossel Bay harbour for exporting purposes will require greater product volumes than businesses in the greater Knysna municipal area are currently able to provide. Cooperation amongst regional businesses, in conjunction with support from the various municipalities within the Garden Route District Municipality, could justify the establishment of a public-private partnership to develop the Mossel Bay harbour for exporting services. Part of this process could entail the acquisition/rental of vacant Transnet land adjacent to the Mossel Bay harbour, to develop warehousing facilitates for export storage.

Transnet, through its engagements with the Southern Cape Economic Partnership, has indicated that the Mossel Bay harbour has the capability to accommodate a small container vessel (i.e. between 120 to 150 containers). Transnet has further indicated that they would be willing to load such a cargo vessel in Mossel Bay, unload it at either the Port Elizabeth or Coega harbours, and then transfer it to another vessel for international export. This would however be contingent on the broader Garden Route municipal area obtaining sufficient export volumes to necessitate such an activity. A key target industry for such activities would be forestry, given the industry’s current demand for imported timber.

The potential establishment of a Special Economic Zone (SEZ) in and around the Mossel Bay harbour, while improving the overall attractiveness of the broader region to investors and having spill-over effects on the greater Knysna municipal area, would increase the competitive advantage of the Mossel Bay Local Municipality relative to that of Knysna.

4.2.3 TELECOMMUNICATIONS

Telecommunications investment has been identified as having a strong potential to promote economic growth and employment creation. Investment in telecommunication infrastructure not only provides a short-term boost to an area’s economy, but also establishes the fundamentals for future long-term growth and employment creation.

Current research indicates that investment in telecommunication infrastructure has an impact beyond the scope of the industry itself, promoting growth in adjacent sectors and in some cases, creating new industries. Enhancements in telecommunication infrastructure can also assist people in obtaining a better education, learning new skills which permit them to earn a living wage, or starting a business. It can further enable organisations in meeting community needs by broadening access to healthcare, education, micro-banking and other essential services.

One of the most significant advances in recent years in respect of information technology (IT) is the growing connectivity among smart devices – computers, mobile phones and televisions. With the widespread penetration of mobile phones and other handheld devices that connect to the Web, nearly four billion people

---

worldwide now have some level of access to computing\textsuperscript{62}. South Africa, however, lags behind the rest of the world, with only an estimated 20 million active smart phones in the country in 2017\textsuperscript{63}.

Increasingly powerful software applications are being developed to run and manage these mobile computing devices. At the same time, the internet continues to mature as a vehicle for “cloud computing,” in which remote data centres host data and serve applications over the Web for use across a broad spectrum of devices and IT systems.

In the future, the convergence of device connectivity, software innovation and cloud-based services is anticipated to enable a greater number of people and organisations around the world to access information and communicate and collaborate in various new and innovative ways.

4.2.3.1 Telecommunications in the Greater Knysna Municipal Area

The fundamental need for businesses and individuals to communicate and the active marketing of mobile communications (funded by high profit margins accumulated by mobile network operations) has seen a rapid expansion of mobile technologies both in the greater Knysna municipal area and the rest of South Africa since 2007.

The two most prevalent systems of telecommunications access in the greater Knysna municipal area are the internet and mobile systems (such as cell phones). Internet access in the greater Knysna municipal area was 23.6\% in 2016, equating to approximately 5 968 households having access to the internet. Cell phone penetration within the greater Knysna municipal was significantly higher at 89.3\% (2011: 83.8\%) while access to land lines was only 21.7\% (2011: 26.8\%)\textsuperscript{64}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{percentage_of_households}
\caption{Percentage of households that have access to the internet through some means, percentage of households in the Knysna municipality that have at least one cell phone in their home, and percentage of households that make use of a land line.}
\end{figure}

Figure 4.6 indicates that, in 2016, the overwhelming majority of households in the greater Knysna municipal area use internet services on their cell phones (46.1\%) or at their home (18.6\%). This contradiction between the saturation of mobile devices among households in the municipal area and the fact that only two in ten households have internet access suggests both an opportunity and the gap in digital access provision in the greater Knysna municipal area.

\textsuperscript{62} SOURCE: Microsoft. No date. UNLEASHING TECHNOLOGY TO ADVANCE SOCIAL AND ECONOMIC DEVELOPMENT: A PERSPECTIVE FROM MICROSOFT COMMUNITY AFFAIRS.
At present, the South African telecommunications sector is experiencing a broadband evolution. Aside from the country’s two fixed-line providers (Telkom and Neotel), which have been developing their networks for a number of years, all telecommunications operators (e.g. Vodacom, MTN, Cell-C etc.) in the country are currently investing heavily in new infrastructure. The mobile network operators, in particular, are unable to keep up with the demand for their services.

Local loop unbundling, which occurred in 2011, now allows all telecommunications companies the right to access Telkom’s exchange infrastructure and roll out fixed-line services to consumers. Many telecommunications companies are, however, likely to continue to utilise only fibre infrastructure, and offer fibre-to-the-home and fibre-to-the-office services to high-end customers.

The initial cost of fibre is exceptionally high, but once installed, the marginal cost of service is low, and the potential quality of service is high. The typical speed offered by fibre to the customer is 100 Megabits per second (Mbps), compared to ADSL’s current maximum of 10 Mbps. Fibre optic cables therefore provide the backbone for both the present mobile broadband networks and for future connections.

Despite its higher cost, fibre-to-the-home/building Internet subscriptions and other fixed (wired) broadband subscriptions in South Africa increased by 523.9% and 379.2% respectively in 2017, compared to fixed broadband (59.9%) and DSL Internet (36.7%) subscriptions.

There is little broadband connectivity choice in the greater Knysna municipal area and speeds are generally poor, seriously hampering business productivity and investment. Table 4.12 illustrates the various broadband connectivity options available within the municipality.

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67 SOURCE: Independent Communications Authority of South Africa (ICASA). 2018. 3rd REPORT ON THE STATE OF THE ICT SECTOR IN SOUTH AFRICA.
68 SOURCE: Knysna Local Municipality. 2014. KNYSNA MUNICIPALITY BROADBAND STRATEGY.
**TABLE 4.12: BROADBAND CONNECTIVITY OPTIONS IN THE GREATER KNYSNA MUNICIPAL AREA**

<table>
<thead>
<tr>
<th>CONNECTIVITY OPTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADSL</strong></td>
<td>Telkom provides ADSL in most of the greater Knysna municipal area. ADSL speeds are, however, limited to 4Mb/s in most areas, with only the Knysna and Sedgefield CBD’s having access to 10Mb/s ADSL. Some exchanges are severely congested, resulting in below optimal broadband experiences.</td>
</tr>
<tr>
<td><strong>Microwave/Wireless Connections</strong></td>
<td>Several Microwave service providers (WISP) provide connectivity via Microwave to most areas, including those not covered by ADSL. Unfortunately, all the WISP’s use ADSL as their main connectivity source so are also limited in speed by the actual ADSL service.</td>
</tr>
<tr>
<td><strong>Wi-Fi</strong></td>
<td>There are several free Wi-Fi hotspots available in the greater Knysna municipal area. These are located at either popular coffee shops or at municipal buildings such as libraries. As these are all connected to ADSL lines the same limitations apply.</td>
</tr>
<tr>
<td><strong>Fibre</strong></td>
<td>Dark Fibre Africa (DFA) has laid some fibre in greater Knysna municipal area, but this is not yet available for commercial use. Vodacom and MTN use the DFA fibre links to connect their cell towers to their own private backbone network. Neotel plans to provide commercial and retail services in the greater Knysna municipal area once the demand is sufficient to warrant the capital expense required to connect the municipality to George via fibre. Currently there is no planned date for this to occur. Other fibre providers (Telkom, Internet Solutions, etc.) have not shown any interest in providing fibre services in the greater Knysna municipal area. This is most likely related to the limited demand shown in the past.</td>
</tr>
</tbody>
</table>

A privately funded, high-speed fibre network in conjunction with dedicated Microwave links, is currently being rolled out in the greater Knysna municipal area. The full roll-out of the high-speed fibre network is anticipated to take five years and cost in the region of R170 million\(^6\). To date R8 million has been invested on wireless infrastructure and the co-sharing of existing fibre backhauls to major national fibre switching centres. High sites for wireless deployment have also been installed and cover approximately 90% of the Knysna CBD.

Partial funding has been obtained for an initial 20 kilometres of fibre rollout. This process was scheduled to commence in June 2017 but was delayed due to fires and is now anticipated to be completed by October 2018.

The construction of a high-speed fibre network in the greater Knysna municipal area is anticipated to attract new investment, enable business growth, promote job creation and create a new source of revenue for the municipality. It is estimated that up to R6 million in direct income can be generated annually from the fibre network alone. Other benefits anticipated to arise include\(^7\):

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\(^6\) SOURCE: KnysnaON. 2017. Fibre OPTIC NETWORK ROLLOUT IN THE KNYSNA MUNICIPAL AREA.

\(^7\) SOURCE: KnysnaON. 2017. Fibre OPTIC NETWORK ROLLOUT IN THE KNYSNA MUNICIPAL AREA.
- The provision of free internet to up to 6,000 disadvantaged individuals in the Concordia and Hornlee areas. This would be subsidised by richer areas contingent on sufficient uptake levels.
- The provision of community skills development training to disadvantaged individuals who will be able to access free online courses across 2,500 topics.
- The creation of 260 unskilled and semi-skilled temporary jobs during the construction phase and a further 28 permanent jobs once the network is operational.
- The establishment of new SMMEs responsible for the maintenance of the network.

4.2.3.2 How telecommunication impacts economic development and planning

The improvement in the provision of telecommunication infrastructure, particularly broadband, promotes economic development through four different types of effects as illustrated in Figure 4.7.

**FIGURE 4.7: ECONOMIC IMPACT OF TELECOMMUNICATIONS INFRASTRUCTURE**

The first effect results from the construction of the telecommunication network. It functions in a similar manner to that of a conventional infrastructure project, such as building a road, in which the roll out of the telecommunication network creates jobs and economic growth by means of the multiplier effect. The second effect results from the effect that greater telecommunication access has on businesses and individual consumers.

From a business perspective, the adoption of broadband and other telecommunication technologies leads to productivity gains, which in turn contribute to the growth of GDP. On the other hand, greater adoption by residential consumers leads to an increase in a household’s real income through the multiplier effect and the creation of a consumer surplus (i.e., the difference between the price that residents pay for telecommunications and the actual cost).

The following section will consider the economic development potential of telecommunication from its effect on the following areas:

- Economic growth
- Productivity gains
- Employment gains
- Improvements to business efficiency

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71 SOURCE: Katz, R. 2012. THE IMPACT OF BROADBAND ON THE ECONOMY: RESEARCH TO DATE AND POLICY ISSUES.
Economic Growth

Telecommunication infrastructure contributes to economic growth in two ways. Firstly, the deployment of telecommunications infrastructure across businesses improves productivity by facilitating the adoption of more efficient business processes (e.g. marketing, inventory optimisation, and streamlining of supply chains). Secondly, extensive deployment of telecommunications infrastructure, particularly broadband, accelerates innovation by introducing new consumer applications and services (e.g. new forms of commerce).

FIGURE 4.8: ECONOMIC GROWTH EFFECTS OF TELECOMMUNICATIONS INFRASTRUCTURE

The impact of telecommunication infrastructure on economic growth was illustrated in a study undertaken by Colin (2012). The results from this study indicated that broadband investments had the greatest impact on economic growth (i.e. 1.19% increase in economic growth for every 10% increase in the penetrations of broadband services). This growth effect was notably stronger in developing countries than in developed ones, and higher than that of fixed/mobile phones and the internet (see Figure 4.8).

Productivity gains

Figure 4.9 illustrates the causality framework by which telecommunication innovation promotes the growth of a workforce that is more able to manipulate information for purposes of organising the production of goods (i.e. information workers).

At some point however, information-processing workers become a bottleneck in the economic system, as they are no longer able to manually store, transfer and process the growing amounts of information generated by the system. At this point, information and communication technologies are adopted so as to increase the productivity of information workers and thereby address the bottleneck.

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72 SOURCE: Minges, M. 2015. EXPLORING THE RELATIONSHIP BETWEEN BROADBAND AND ECONOMIC GROWTH.
73 SOURCE: Colin, S. 2012. DOES BROADBAND INTERNET ACCESS ACTUALLY SPUR ECONOMIC GROWTH?
The availability of telecommunication infrastructure allows firms (and their workers) to be more productive in their manipulation of information. Broadband is a specific component that is able to perform this productivity enhancement.

**Employment gains**

In respect of employment, telecommunication investments have contrary impacts. From one perspective, telecommunication investments lead to significant productivity improvements which, although beneficial to the economy as a whole, can lead to job losses through greater process optimisation. On the other hand, various direct (e.g. technicians, construction workers, manufacturers of telecommunication equipment) and indirect (e.g. upstream buying and selling between metal and electrical equipment manufacturing sectors) employment effects can be identified that contribute to the creation of new jobs. Existing research suggests that the multiplier for this direct employment effect is between 1.38 and 1.83, while for the indirect impacts it is between 1.92 and 3.60.

Beyond these direct and indirect employment impacts, a number of other effects have been identified as a result of an increase in the availability of telecommunications infrastructure. Some of these effects include:

- New and innovative applications and services, such as telemedicine, e-commerce, online education and social networking
- New forms of commerce and financial intermediation
- Mass customisation of products
- Reduction of excess inventories and optimisation of supply chains
- Business revenue growth
- Growth in service industries

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76 SOURCE: Katz, R. 2012. THE IMPACT OF BROADBAND ON THE ECONOMY: RESEARCH TO DATE AND POLICY ISSUES.

77 SOURCE: Katz, R. 2012. THE IMPACT OF BROADBAND ON THE ECONOMY: RESEARCH TO DATE AND POLICY ISSUES.
Improvements in business efficiency

A number of economic studies have shown the multiple effects that telecommunication infrastructure has on businesses’ performance. Table 4.13 illustrates the estimated productivity increases resulting from increased utilisation of broadband.

**TABLE 4.13: BROADBAND INDUCED PRODUCTIVITY IMPROVEMENTS**

<table>
<thead>
<tr>
<th>INDUSTRIAL SECTOR</th>
<th>E-BUSINESS IMPACT ON FIRM PRODUCTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>5%</td>
</tr>
<tr>
<td>Services</td>
<td>10%</td>
</tr>
<tr>
<td>Information</td>
<td>20%</td>
</tr>
</tbody>
</table>

In addition to the impact on productivity, broadband technology stimulates business expansion, product innovation and new business creation. In terms of business expansion, research has shown that manufacturing sector businesses that export and which have internet access enabled by broadband, generate 6% more foreign sales than other manufacturing firms. In the service sector, broadband enabled businesses generate between 7.5% and 10% more sales.

Greater broadband access and use have been found to have a positive impact on the development of new businesses. This results from the network effects of connectivity. When a large enough number of households are connected to broadband, the incentive to develop new businesses around information, advertising and electronic commerce increases.

**Future areas of broadband potential**

The potential for the utilisation of increased broadband access are illustrated in Table 4.14 below:

**TABLE 4.14: EXAMPLES OF POTENTIAL USES FOR GREATER BROADBAND ACCESS**

<table>
<thead>
<tr>
<th>INTERVENTION AREA</th>
<th>USES OF BROADBAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care</td>
<td>• Electronic health care records</td>
</tr>
<tr>
<td></td>
<td>• Video consultation and/or operating</td>
</tr>
<tr>
<td></td>
<td>• Remote patient monitoring</td>
</tr>
<tr>
<td>Education</td>
<td>• Online learning / e-learning</td>
</tr>
<tr>
<td></td>
<td>• Virtual field trips</td>
</tr>
<tr>
<td></td>
<td>• Increased transparency and communication between parent/teacher/pupil</td>
</tr>
<tr>
<td>Energy and the environment</td>
<td>• Smart grids</td>
</tr>
<tr>
<td></td>
<td>• Smart homes and smart building</td>
</tr>
<tr>
<td></td>
<td>• Transport management</td>
</tr>
<tr>
<td>Government performance</td>
<td>• Online application process and tracking</td>
</tr>
<tr>
<td></td>
<td>• Spatial and housing management (GIS)</td>
</tr>
<tr>
<td></td>
<td>• Virtual meetings (e.g. Skype)</td>
</tr>
</tbody>
</table>

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78 SOURCE: Clarke, G. 2008. HAS THE INTERNET INCREASED EXPORTS FOR FIRMS FROM LOW AND MIDDLE-INCOME COUNTRIES?
79 SOURCE: Katz, R. 2012. THE IMPACT OF BROADBAND ON THE ECONOMY: RESEARCH TO DATE AND POLICY ISSUES.
80 Adapted from Federal Communications Commission. 2010. CONNECTING AMERICA: THE NATIONAL BROADBAND PLAN.
4.2.4 ELECTRICITY

The following section provides a high-level summary of the supply and demand for electricity within the greater Knysna municipal area. The focus of this section however, is on how the supply and demand conditions are likely to impact future economic development within the greater Knysna municipal area.

4.2.4.1 Electricity Supply

The electricity industry in South Africa is dominated by the national power utility Eskom, which owns and operates most of the national electricity generation infrastructure and supplies 90% of the country’s electricity requirements. The balance is supplied by municipalities and redistributors, and increasingly by private energy providers through national government’s renewable energy programme.

Eskom is the sole electricity supplier in the greater Knysna municipal area via six supply points. These supply points provide bulk electricity to the municipality at high (66 kV), medium (11 kV) and low (400/230 volt) voltage. In addition, Eskom also supplies certain pump stations as well as 600 low cost houses in Rheenendal.

Recently Eskom experienced major difficulties in providing extra supply capacity at certain municipal bulk supply points due to capacity constraints in their 132kV overhead line feeding the Knysna 132/66kV substation. In addition to the worsening economic climate, this placed a significant damper on new developments in the area, where the municipality had to place certain restrictions on the supply capacity to new developments, particularly in Knysna.

Eskom has subsequently completed a second 132kV overhead line feeder between their Schaapkop (at George) and Knysna substations. This makes available an extra 80 MVA to the area, which should eliminate any restrictions on new developments that utilise the Eskom network in the greater Knysna municipal area.

4.2.4.2 Energy Demand

In 2016, the total electricity generated in South Africa was 237 006 Gigawatt-hours (GWh), the majority of which came from coal (85.6%). This represented a 1.0% decline from the 244 364 GWH generated in 2013. The major energy consumers in South Africa were the industrial and mining sectors, which collectively accounted for 33.7% of all energy consumption in 2016 (2013: 29.0%).

Figure 4.10 highlights the distribution of electricity sales in South Africa by type of customer. As evident in the figure, after the sale of electricity to redistributors (39.1%), the industrial (21.1%) and mining (12.6%)
sectors account for the largest share of the South Africa’s total electricity sales. Residential and commercial customers share of total electricity sales has declined by 2.2% and 2.5% respectively since 2013. This is likely due to these customers adopting alternatively electricity supply strategies, such as moving off grid, in an effort to offset increasing electricity prices.

FIGURE 4.10: SOUTH AFRICAN ELECTRICITY SALES BY CUSTOMER TYPE IN 2016

Similarly to the rest of South Africa, electricity is the dominant component of the total energy mix in the greater Knysna municipal area. Unlike the rest of South Africa, however, there are no high energy intensive consumers (e.g. deep level mines, non-ferrous smelters etc.) in the municipality. The overwhelming majority (94.6%) of energy consumers within the greater Knysna municipal area are residential, with only 5.4% classified as commercial consumers. Table 4.15 illustrates the principal energy source used by residential households in the greater Knysna municipal area for lighting.

TABLE 4.15: ENERGY SOURCE USED FOR HOUSEHOLD LIGHTING IN 2017

<table>
<thead>
<tr>
<th>SETTLEMENT</th>
<th>Electricity</th>
<th>Gas</th>
<th>Paraffin</th>
<th>Candle</th>
<th>Solar</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>89.8%</td>
<td>0.2%</td>
<td>5.7%</td>
<td>4.0%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Karatara</td>
<td>88.1%</td>
<td>0.4%</td>
<td>6.7%</td>
<td>4.4%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Knysna Non-Urban</td>
<td>92.4%</td>
<td>0.0%</td>
<td>1.5%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Rheenendal</td>
<td>96.5%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.7%</td>
<td>0.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>88.2%</td>
<td>0.4%</td>
<td>0.2%</td>
<td>10.0%</td>
<td>0.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>88.0%</td>
<td>0.3%</td>
<td>6.5%</td>
<td>4.9%</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

From Table 4.15 can be seen the aforementioned dominance of electricity as the primary component of the greater Knysna municipal area’s energy mix. The table also illustrates that certain settlements (e.g. Rheenendal) have lower electricity penetration levels than others (e.g. Karatara, Sedgefield).

84 Other customers include: exports (4.5%), transport (1.5%), and customers not defined (0.8%).
85 SOURCE: Knysna Local Municipality. 2013. ISDF – DRAFT INFRASTRUCTURE STATUS QUO DOCUMENT.
4.2.4.3 Impacts of energy economic development and planning

The relationship between energy usage and economic growth is complex and is affected by a number of different factors. One of these factors is the volume effect, which reflects how changes in energy availability impact economic activity. Another factor is structural change within the energy sector, which can lead to changes in energy technology, and subsequently in demand for electricity. Energy conservation also has a bearing on energy demand, mainly through the substitution of old appliances.

The following section considers some of these factors in greater detail, focusing on how electricity availability can enhance economic development.

Affordability of electricity

Electricity is not only a fundamental requirement for almost all businesses to operate, but also a key factor in improving the overall quality of life of individuals in a particular area. Critical to this however, is ensuring that the overall cost of electricity for both businesses and individuals remains affordable.

The cost and affordability of electricity are critically important factors for most businesses within the greater Knysna municipal area when it comes to deciding on whether or not to invest/reinvest in the area. Certain economic sectors however, have greater exposure to the electricity sector (i.e. spend a greater percentage of their operating costs on electricity) as indicated in Table 4.16, which illustrates the overall vulnerability of specific economic sectors to rising electricity prices.

**TABLE 4.16: OVERALL RANKING OF THE RELATIVE VULNERABILITY OF DIFFERENT SECTORS TO RISING ELECTRICITY PRICES**

<table>
<thead>
<tr>
<th>SECTORS/SUB SECTORS</th>
<th>OVERALL VULNERABILITY RANKING</th>
<th>ELECTRICITY COSTS AS % OF TOTAL OPERATING COSTS</th>
<th>ABLE TO PASS ON COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>6.7%</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-</td>
<td>To a degree</td>
<td></td>
</tr>
<tr>
<td>Paper and pulp</td>
<td>3% to 5%</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Food and beverages</td>
<td>2.3%</td>
<td>To a degree</td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>0.4%</td>
<td>To a degree</td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>1% to 4%</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Catering and accommodation</td>
<td>22%</td>
<td>To a degree</td>
<td></td>
</tr>
<tr>
<td>Transport, storage and telecommunication</td>
<td>0.1% to 1%</td>
<td>To a degree</td>
<td></td>
</tr>
<tr>
<td>Finance and business services</td>
<td>0.8% to 1%</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

87 SOURCE: Interviews with local stakeholders. 2013.
88 SOURCE: Deloitte. 2012. THE ECONOMIC IMPACT OF ELECTRICITY PRICE INCREASES ON VARIOUS SECTORS OF THE SOUTH AFRICAN ECONOMY.
Table 4.16 illustrates that the catering and accommodation sub-sector, which comprises a significant number of the businesses within the greater Knysna municipal area, is moderately vulnerable to increases in electricity prices. Other important economic sectors within the greater Knysna municipal area (e.g. agriculture; manufacturing of food and beverages; trade) exhibit a moderately low vulnerability to increases in electricity prices.

Rising electricity prices, in addition to increasing the costs of doing business, can also negatively impact both output and employment. Figure 4.11 illustrates the potential adverse impact that a 25% increase in electricity prices could have on unskilled employment over the long-run across various sectors, based on economic modelling undertaken by Deloitte.89

**FIGURE 4.11: IMPACT OF ELECTRICITY PRICE INCREASE ON UNSKILLED EMPLOYMENT ACROSS VARIOUS SECTORS**

Figure 4.11 indicates that unskilled employment in the utilities sector is likely to be the most adversely affected by an increase in electricity prices. This however, is unlikely, given that a price increase in the utilities sector would be accompanied by increased investment in the sector. Excluding the utilities sector, manufacturing is the sector that is likely to experience the largest decrease in unskilled employment over the long-run.

An analysis of the electricity pricing based on different consumer (i.e. domestic; commercial; industrial) and electrical usage (i.e. high; low) profiles within the Knysna Local Municipality relative to other local municipalities in the Garden Route District Municipality was undertaken in 2013. For commercial and industrial consumers, high and a low electricity usage scenario were specified as follows:

**Commercial**
- Three phase metered consumer with low consumption, on average 2 000 units per month at 60 Amps circuit breaker.
- Three phase metered consumer with high consumption, on average 6 000 units per month as 60 Amps circuit breaker.

89 SOURCE: Deloitte. 2012. THE ECONOMIC IMPACT OF ELECTRICITY PRICE INCREASES ON VARIOUS SECTORS OF THE SOUTH AFRICAN ECONOMY.
Industrial

- Small industrial metred consumer with low consumption, on average 15 000 units per month as 100 kVA.
- Large industrial metred consumer with high consumption, on average 120 000 units per month as 400 kVA.

Table 4.17 presents an update to this assessment for the 2017/18 municipal financial year under the same conditions.

### Table 4.17: Comparable Monthly Electrical Costs for Selected Municipalities in 2017

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>LOW CONSUMPTION</th>
<th>HIGH CONSUMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VALUE</td>
<td>RANK</td>
</tr>
<tr>
<td>COMMERCIAL USERS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knysna</td>
<td>R4 074</td>
<td>2</td>
</tr>
<tr>
<td>Bitou</td>
<td>R5 438</td>
<td>4</td>
</tr>
<tr>
<td>George</td>
<td>R7 233</td>
<td>5</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R5 227</td>
<td>3</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R3 317</td>
<td>1</td>
</tr>
<tr>
<td>INDUSTRIAL USERS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knysna</td>
<td>R34 848</td>
<td>3</td>
</tr>
<tr>
<td>Bitou</td>
<td>R33 365</td>
<td>2</td>
</tr>
<tr>
<td>George</td>
<td>R37 574</td>
<td>5</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R35 411</td>
<td>4</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R29 964</td>
<td>1</td>
</tr>
</tbody>
</table>

From Table 4.17 the following is evident:

- Under all but the high consumption commercial user scenario, the Knysna Local Municipality has a competitive advantage over the George Local Municipality.
- The Knysna Local Municipality has no particular cost advantage across any user and scenario types.
- While the Knysna Local Municipality has no cost advantage, its electricity prices exceed the average cost across the selected municipalities for all but the low consumption commercial user scenario (i.e. 19.4% below the municipal average).
- For the industrial low and high consumption users, the Knysna Local Municipality’s electricity costs exceed the municipal average by 1.8% and 0.6% respectively.
- Total electricity costs in the Knysna Local Municipality increased by between 9.6% for low consumption commercial users (municipal average: 44.9%) and 23.8% for high consumption commercial users (municipal average: 13.9%) between 2013 and 2017. Electricity costs for low consumption industrial users and high consumption industrial users in the municipality rose by 17.8% (municipal average: 19.4%) and 29.8% (municipal average: 24.9%) respectively between 2013 and 2017.

Note that all values include VAT. Ranking is based on the total cost relative to the other indicated municipalities.

SOURCE: Urban-Econ calculations based on Table 4.10 and Knysna EDS (2015)
In addition to the above tariff costs, the Knysna Local Municipality’s net electrical capital contribution charge for a new development and an upgrade of existing supplies was R16 752 in 2017, a 23.5% increase from the R13 566 charged in 2013. In comparison, the George Local Municipality’s electrical capital contribution rose by 48.6% from R12 255 in 2013 to R18 215 in 2017.

**Electricity Reliability**

Although businesses may have access to electricity, the unreliable provision have considerable negative impacts on the day-to-day operations of the business. It is estimated that manufacturing businesses operating in Africa experience an average of 56 days per year without power. As a result, businesses in the informal sector can lose up to 6% of sales revenues. Where back-up generation is limited, losses can be as high as 20%. Such power outages are particularly detrimental to businesses that manufacture time sensitive products. The estimated cost of this type of load shedding to the economy is equivalent to 2.1% of GDP on average.

**Productivity gains**

Access to reliable, uninterrupted power helps to improve business productivity through permitting firms to start operating earlier and close later. Productivity is also enhanced through electricity’s ability to provide businesses with access to online information and resources. This allows SMME’s in remote areas to engage with the wider business community and learn best practices from other individuals working in the same industry.

### 4.3 SECTOR REALITIES

From the previous statistical analysis, three economic sectors (wholesale and retail trade; construction; manufacturing) as well as the catering and accommodation services subsector were identified as historically being the significant economic drivers of the local economy. As of 2017, these sectors collectively accounted for 34.9% and 44.1% of total GDP-Rand employment respectively.

The agriculture, manufacturing, government services and community services sectors have exhibited low or negative growth over the 2011 to 2017 period but remain critical supporting sectors that play an integral role in the greater Knysna municipal area’s economy.

In comparison, the utilities and mining sectors are minor economic players in terms of their contribution to both employment and GDP-R. The following section will provide an overview of selected economic sectors within the greater Knysna municipal area’s economy. The aim of this process is to create a holistic view of which economic sectors are currently integral to the greater Knysna municipal area’s economy, and which sectors are likely to be the drivers of future economic growth.

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95 Unless otherwise stated all GDP-R figures are indicated in real terms using constant 2010 prices.
The greater Knysna municipal area’s construction sector employed approximately 2,582 in 2017, accounting for 19.9% of total municipal employment. Furthermore, the construction sector’s total GDP-R grew by R22.9 million between 2011 and 2017, increasing to R242.3 million in 2017. It is, however, important to note that, since 2008, there has been a sharp contraction in the local construction sector. Since 2008, average annual GDP-R growth has been 1.0% per year, compared to a historical average between 2007 and 2017 of 1.7% per year. The recorded construction sector GDP-R growth in 2017 was the lowest since the global recession, at -1.7 %year-on-year.

Year-on-year construction sector employment was notably more positive than the sector’s GDP-R growth. Over the 2011 to 2017 period the sector added a total of 544 new jobs, resulting in an average annual sectoral employment growth rate of 2.9% over the period. This is anticipated to continue over the short to medium-term as rebuilding efforts following the fire accelerate.

As highlighted earlier, the performance of the construction sector is strongly correlated to the business cycle. This means that during periods of robust economic growth, businesses tend to expand their enterprises, which in turn leads to an increase in the demand for construction services (see Figure 4.12).

**FIGURE 4.12: GDP-R PERFORMANCE OF THE CONSTRUCTION SECTOR RELATIVE TO THE OVERALL GREATER KNYSNA MUNICIPAL AREA’S ECONOMY**
The moderate recovery in the South African economy following the global economic recession has not translated into an improvement in the performance of the construction sector, with the sector remaining in a protracted slump since 2009. The sector’s recovery has been further hampered by a decrease in public expenditure on infrastructure in real terms between 2010 and 2017.

The driver of the greater Knysna municipal area’s construction sector is the residential property market (mainly the construction of secondary holiday homes) and to a lesser extent the infrastructure expenditure driven by the public sector. Over the 2011 to 2017 period, the total number of residential building plans passed by the Knysna Local Municipality increased at an average annual rate of 12.9%. This however, hides several variations. For example, the number of residential building plans passed declined year-on-year in 2011, 2012 and 2014, while in 2017, the number of such plans rose by 42.5% to 255. The lag in between building plans being passed, and construction commencing suggests that the GDP-R and employment growth in the greater Knysna municipal area’s construction sector will increase in 2018.

4.3.2 WHOLESALE AND RETAIL TRADE

The critical importance of the trade sector to the greater Knysna municipal area’s economy cannot be understated. This sector is the largest single employer within the municipality, employing 27.0% of the total labour force (2011: 27.3%) and contributing R579.9 million to the overall GDP-R of the economy in 2017 (2011: R553.5 million). This contribution makes it the second largest sector in term of overall GDP-R. In addition, it is within the trade sector (i.e. catering and accommodation) that the majority of tourism-related enterprises operate. For the purpose of this analysis, as indicated earlier, the catering and accommodation sub-sector will be used as a proxy indicator for the performance of the overall tourism industry.

The performance of the wholesale and retail trade sector, in addition to being collated to the business cycle, is linked to overall household consumption expenditure. Given the poor economic conditions that characterised the broader South African economy between 2015 and 2017, and the resulting downturn in consumption expenditure, it was unsurprising that over this period the GDP-R of the greater Knysna municipal area’s trade sector declined by an average 0.4% year-on-year. This reduction in consumption

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96 SOURCE: Stats SA. 2018. SELECTED BUILDING STATISTICS OF THE PRIVATE SECTOR AS REPORTED BY LOCAL GOVERNMENT INSTITUTIONS. The results of these annual reports for considered for the 2007 to 2017 period.


98 Although the following analysis will use the Accommodation and Catering sub-sector as a proxy for the tourism industry, it is acknowledged that this sub-sector does not fully capture all tourism products and related activities. For example, transport services provided to tourists such as shuttles, organised tours etc. would be captured in the transport and communication, sector while domestic tourists could stay with friends and family rather than using formal accommodation. It is, however, still felt that an analysis of this sub-sector can provide helpful insights into foreign tourists who, according to the latest Annual Tourism Report (2017), spending almost 15% of their overall spend on accommodation services.
spending because of this downturn was estimated to have cost the greater Knysna municipal area’s trade sector R16.9 million in lost GDP-R between 2015 and 2017.

The performance of the accommodation and catering sub-sector adversely impacted the GD-R growth rate of the broader trade sector in the greater Knysna municipal area between 2011 and 2017. Given that this sub-sector is dependent on both domestic and foreign travel, which is generally considered a luxury and which consumers tend to cut down on during periods of economic hardship, it is unsurprising that GD-R growth was lower than that of the greater trade sector. Over the 2011 and 2017 period, the accommodation and catering sub-sector only registered two years of positive GD-R growth namely between 2011 and 2012. Despite growing over this period, the scale of the growth was marginal, with the sub-sector only growth at a rate of 0.3% year-on-year during this period. In absolute real terms, the accommodation and catering sub-sectors GD-R declined by R14.1 million over the full period.

Despite the low and negative GD-R growth rates of the trade sector and the accommodation and catering sub-sector between 2011 and 2017, both exhibited positive employment growth for the period. The broader trade sector added 776 jobs between 2011 and 2017, growing at an average annual rate of 2.0%. In comparison, the accommodation and catering sub-sector added 261 jobs – accounting for a third of all trade employment growth – and grew at an average annual rate of 2.1% for the period.

4.3.3 FINANCIAL AND BUSINESS SERVICES

The financial and business services sector was the third largest employer in the greater Knysna municipal area, accounting for 14.4% of the total labour force and employing approximately 3,714 people in 2017 (2011: 14.4%; 3,278 people). This sector also has one of the fastest employment growth rates in the greater Knysna municipal area, adding an estimated 468 additional jobs between 2011 and 2017.

Disaggregating the employment figures reveals that the overwhelming majority (89.2%) of employment in 2017 was in the business services sub-sector. This sector comprises those businesses involved in real estate, legal activities, accounting services and engineering and other technical activities. It was also this sub-sector that drove the majority of employment growth over the review period.

Sectoral employment growth remained strong throughout the 2011 to 2017 period, growing by an average annual rate of 2.2%. There were however two periods when year-on-year employment growth dipped below

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99 This figure is calculated by applying the historical growth rate between 2011 and 2015 to the 2015 to 2017 GDP figures in order to establish what GDP-R would have been had this downturn not occurred. This new figure is then subtracted from actual GDP-R figures to estimate the potential loss in GDP-R.
this historical average – 2012/2013 and 2016. The latter period was more severe, when year-on-year employment growth was only 0.6%. Despite these periods, the sector was still able to add 463 jobs between 2011 and 2017.

In terms of GDP-R, the financial and business services sector accounted for 30.8% of total greater Knysna municipal area’s GDP-R in 2017 (2011: 30.6%), equating to approximately R1.0 billion (2011: R959.2 million). This made it the largest single economic sector in terms of GDP-R contribution within the greater Knysna municipal area during 2017.

4.3.4 AGRICULTURE, FORESTRY AND FISHERIES

The agricultural sector, which focuses on primary production and not down-stream value adding activities and which includes forestry and fishery operations, has historically been an important sector for the greater Knysna municipal area, driven primarily by the timber industry. Collectively this sector only accounts for 5.7% of overall GDP-R (2011: 6.4%) and 9.0% of total formal sector employment (2011: 8.1%). An assessment of the GDP-R contribution and employment in the agricultural sector between 2011 and 2017 reveals two distinct trends.

Firstly, the total real GDP-R of the greater Knysna municipal area’s agricultural sector has declined by 3.2% in real terms between 2011 and 2017, decreasing by R5.6 million to R194.5 million in 2017. Secondly, although the sector’s GDP-R has decreased, it has added 495 jobs since 2011. While the sector was a net creator of jobs over the period, employment in the greater Knysna municipal area’s agricultural sector increased by only 0.7% in 2014 and declined by 2.8% year-on-year in 2016 and by a further 2.2% in 2017. Although it was difficult to isolate the exact cause of this decline in employment, it was most likely attributable to a combination of the following factors:

- An increase in the minimum wage of agricultural sector workers from R1503.90 per month in 2012 to R2274.82 per month in 2013, equivalent to a 51.2% year-on-year increase. It is probable that, due to this, many farmers in the area chose to either reduce their staff complement or delay hiring of new workers resulting in a low sectoral employment growth rate in 2014.
- The protracted drought that characterised with Western Cape and the greater Knysna municipal area between 2016 and 2017, adversely impacting grazing areas and leading to low crop yields.

It is however acknowledged that the agricultural sector can play a critical role in future economic development, particularly in the sense that:

1. Certain types of agricultural activity have a high labour intensity
2. Generally, agricultural has the ability to absorb low or unskilled workers
4.3.5 MANUFACTURING

The greater Knysna municipal area’s manufacturing sector generated approximately R360.9 million in GDP-R in 2017, up 8.9% from the 2011 figure. This made the manufacturing sector the fourth largest contributor to the overall GDP-R of the greater Knysna municipal area. In addition to the greater Knysna municipal area’s manufacturing sector exhibited positive GDP-R growth between 2011 and 2017 (average annual rate: 1.4%), it outperformed the broader of the greater Knysna municipal area’s economy, which over the same period only grew by an average annual rate of 1.3%. Equally encouraging was the fact that the average annual GDP-R growth rate of the greater Knysna municipal area’s manufacturing sector remained largely positive throughout the 2011 to 2017 period, only exhibiting negative growth between 2016 and 2017. This slowdown was on the back of three consecutive years of increasing manufacturing GDP-R growth rates.

Unlike manufacturing GDP-R, sectoral employment declined almost consistently between 2011 and 2017, with approximately 119 jobs being lost during this time. The wood, paper, publishing and printing sub-sector as well as the furniture and other manufacturing sub-sectors, which collectively accounted for 46.4% of total manufacturing employment in 2017, accounted for 60.7% of these job losses. Somewhat positively, the manufacturing sector in the greater Knysna municipal area created 99 jobs between 2011 and 2017, the majority of which were in the food, beverages and tobacco sub-sector (39.4%). The net result was that the sector only shed an effective 20 jobs over the period under review.

4.3.6 GOVERNMENT AND COMMUNITY SERVICES SECTORS

In terms of the SIC classification system, the government and community services are not indicated as separate sectors. There is, however, a clear distinction between the two. Government services focuses on those activities that are carried out by the public administration and includes:

- The passing, administration and enforcement of laws (including by-laws) and their associated programmes
- Taxation
- National defence, public order and safety
- Foreign affairs and immigration services

In the greater Knysna municipal area context, the government services sector represents all those activities undertaken by the Knysna Local Municipality, the local judicial services and the South African Police Service.
Community services, on the other hand, includes the provision of educational services at all levels (primary, secondary and tertiary), library services and the provision of all levels of healthcare.

It is important to note that the majority of activities in the government and community services sector are undertaken by the public sector rather than the private sector. Notable exceptions include private education and healthcare provision.

Collectively, the government and community services sectors account for 28.6% (2011: 28.5%) of the total employment in the greater Knysna municipal area (7 424 jobs). The community services component has also exhibited the highest average annual employment growth rate (3.1%) of all but the mining sector between 2011 and 2017. When employment numbers from the government services component are factored in, the employment growth rate for the two sectors declines to 2.2%, in line with that of the finance and business services sector.

The government and community services sector’s contribution to total greater Knysna municipal area’s GDP—R amounted to R658.0 million in 2017, an increase of R84.8 million since 2011. The government services component of this sector was responsible for 61.6% of this increase in GDP—R. Collectively these sectors GDP—R grew at an average annual rate of 2.3% per year between 2011 and 2017.

4.4 COST OF DOING BUSINESS

According to Section 4 of the Municipal Systems Act (No. 32 of 2000) every municipality has the right to finance its operations by, amongst others, charging fees for services, imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties.

The affordability of these fees however, has a direct bearing on how attractive such a municipality is for direct investment, be it from existing businesses already operating in the area; new local start-ups; or businesses seeking to relocate to the municipality. As such, a municipality wishing to attract additional investment can potentially restructure its tariffs, fees, and surcharges to make it more competitive, relative

to other municipalities. There is however a trade-off, with the municipality being forced to forgo the potential revenue that could be generated from these businesses.

The following section seeks to explore a selection of these fees, tariffs and surcharges levied on commercial/retail and industrial properties by the Knysna Local Municipality, and benchmark them against other municipalities in the Garden Route District Municipality. The section also undertakes a direct comparison of the Knysna Local Municipality to the Overstrand Local Municipality – a municipality similar in size and structure to itself. Furthermore, the section compares these results over two municipal financial years – 2017/2018 and 2018/2019.

In order to create a common basis on which these various fees and tariffs could be compared, a few general assumptions were made. These are indicated prior to each assessment. Two salient points also need be acknowledged when considering these results. Firstly, over the review period, the value-added tax (VAT) rate increased by 1.0%. This impacted all town and building planning charges as well as consumption charges, but not municipal rates which are zero-rated. To make comparisons meaningful, applicable 2017/2018 values were recalculated applying a VAT rate of 15.0%.

Secondly, the basis on which certain charges were levied varied across municipalities. For example, while most municipalities sanitation charges are based on the number of toilet-pans per business, the Overstrand Local Municipality charges are based on the volume of water used by each business. This makes direct comparison problematic.

Specific fees and tariffs considered in the remainder of this section are organised under the following four headings:

5. Town planning
6. Building plan submissions
7. Consumption charges (i.e. electricity, water, sanitation and refuse)
8. Property rates

4.4.1 TOWN PLANNING

Each property in a municipality is regulated by its zoning, with these regulations contained in the municipality’s respective town planning schemes. These respective town planning schemes regulate aspects such as possible land use, floor area, coverage, building lines, parking provisions etc. Developments within the built environment are also regulated by conditions of title; set out in the title deed of each property. The function of these conditions is to restrict and inhibit certain development possibilities on relevant properties.

An application fee is payable to the council or municipality whenever a town planning-related application is submitted. Such an application could be to change the properties zoning, amend, or remove the restrictive conditions within the title deed, or to obtain the council’s consent to proceed with a development.

Should the application be approved, there might be fees related to the approval. Such fees, however, will not be analysed below as the focus is only on fees payable upon submission.

To compare the various application fees, three general assumptions have been made for all applications:

1. All applications are standard; that is, they do not require amendment of conditions, and they do not trigger changes in development rights or require readvertising.
2. All application fees exclude advertising costs unless otherwise indicated.
3. All fees include VAT, except where stated otherwise.

### 4.4.1.1 Rezoning Application Fees

A property’s zoning stipulates the purpose for which the land may be used. It also stipulates restrictions on the buildings erected on the property in terms of floor area ratio, coverage, density, etc. In order to change the purpose for which the property can be used, an application for rezoning has to be submitted to the municipality or council for consideration. The following assumptions have been made in terms of rezoning applications:

- Values exclude the cost of a zoning certificate;
- For municipalities where the application fee was dependent on the size of the property, a standard size of 300 m² has been applied; and
- All rezoning fees are for properties inside the urban edge and not for a sub-division application.

#### FIGURE 4.13: REZONING APPLICATION FEES BY LOCAL MUNICIPALITY

It is evident in Figure 4.13 that the Overstrand Local Municipality charges the highest rezoning fees on average, followed by the Oudtshoorn and Knysna Local Municipalities. The Mossel Bay Local Municipality, in comparison, charges the least for the submission of a rezoning application on average. While a property based in the George Local Municipality was the fourth most expensive to rezone, it was the only municipality whose fee decreased (-3.5%) between 2017/2018 and 2018/2019. The Knysna Local Municipality’s rezoning fee rose by 5.3% between the two periods, higher than the average increase of 4.3%.

### 4.4.1.2 Consent Use Application Fees

If approved, an application for consent use allows for additional land use rights on a property. It differs from a rezoning application in that the zoning of the property will not be changed, but instead will simply allow for additional uses. An example would be permitting an applicant to run a home office from their residential property. It should be noted that a municipality’s consent is not permanent and will lapse if it is not exercised. The following assumptions have been made in respect of consent use applications:
- All applications were made in terms of the relevant section of the local municipality’s land use planning by-law;
- All applications were for non-indigent households; and
- Where applicable applications were made for the principle urban settlement within the respective local municipality.

**FIGURE 4.14: CONSENT USE APPLICATION FEES BY LOCAL MUNICIPALITY**

The Bitou Local Municipality charges, by far, the most for consent use applications, 24.8% above the next highest local Municipality – Oudtshoorn; and 74.2% above the average across the six local municipalities assessed. The lowest consent use application fee in the 2018/2019 financial year was charged by the Mossel Bay Local Municipality. The consent use application fee across the various local municipalities rose by an average 5.0% between 2017/2018 and 2018/2019. The Knysna Local Municipality’s increase of 5.3% was higher than this average.

### 4.4.1.3 Removal of Restrictive Title Application Fees

Each property’s title deed contains a list of conditions that limit the use of the property. These restrictions to the use of the property are beneficial as they help to ensure that complementing land uses are clustered together; thereby contributing to suitable spatial development. An application for the removal of restrictive conditions will effectively remove certain conditions stipulated in the title deed; rendering them invalid. Example of restrictive conditions include specific parking requirements, specific height requirements for buildings, etc.

The following assumptions have been made in respect of removal of restrictive title applications:

- Only the rates charged on properties zoned as mixed-use, business and/or industrial were considered.
- Fees charged by the Overstrand Local Municipality vary based on the size of the erven. For this calculation, a standard erven size of 300 m² is used. Erven over 400 m² in size, incur a significantly higher fee – R4 177 in 2018/2019.
FIGURE 4.15: REMOVAL OF RESTRICTIVE TITLE APPLICATION FEES BY LOCAL MUNICIPALITY

The average fee charged for the removal of restrictive title was R2 498 in 2018/2019 (2017/2018: R2 356). Excluding the Overstrand Local Municipality, this figure increased to R2 889 (2017/2018: R2 726). In addition to charging the highest rate (R4 819), the Bitou Local Municipality’s fee also increased the most (6.1%) over the period. The Knysna Local Municipality, which had the third highest fee in 2018/2019, increased between 2017/2018 and 2018/2019 was higher (5.3%) than the average across the selected municipalities (5.1%).

4.4.1.4 Subdivision Application Fees

A subdivision entails dividing a single erf into two or more erven. This is generally done when an erf is large enough to permit multiple properties to be developed on it. It also occurs when erven close to the edge of a town are redeveloped. The following assumptions have been made in respect of subdivision applications:

- A proposed erf would be subdivided to create a maximum of 10 new erven.

FIGURE 4.16: SUBDIVISION APPLICATION FEES PER LOCAL MUNICIPALITY

The Bitou Local Municipality had by far the highest subdivision fee at R10 316, followed by the Overstrand Local Municipality at R6 688. This represented a 6.0% increase from the fee levied in 2017/2018 for both
municipalities. In contrast, the Knysna Local Municipality had the lowest subdivision fee at R1 071, 5.3% higher than in 2017/2018. The municipality’s increase was also below the average fee increase (7.6%) across the selected municipalities between the two financial years.

4.4.1.5 Consolidation Application Fees

Consolidation is effectively the opposite of a subdivision. It results from the merging of two or more erven into a single erf. Erven are consolidated to allow a developer to erect a structure over both (or more) properties. A structure cannot be erected across the boundaries of two or more separate erven. The following assumptions have been made in respect of consolidation applications:

- Consolidation applications in the Overstrand Local Municipality were dependent on the size of the erven being consolidated. For the assessment in Figure 4.17, erven of 400 m$^2$ was used.
- Application fees for all other local municipalities was dependent on the number of properties being consolidated. The fee presented in Figure 4.17 is based on the consolidated of two properties.

**FIGURE 4.17: CONSOLIDATION APPLICATION FEES PER LOCAL MUNICIPALITY**

<table>
<thead>
<tr>
<th>Local Municipality</th>
<th>2018/2019 Fees</th>
<th>2017/2018 Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>R1 041 R995</td>
<td></td>
</tr>
<tr>
<td>Bitou</td>
<td>R644 R420</td>
<td>R1 345 R450</td>
</tr>
<tr>
<td>George</td>
<td>R1 463 R1 279</td>
<td>R1 348</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R1 438</td>
<td>R1 523</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R1 368</td>
<td>R1 463</td>
</tr>
<tr>
<td>Overstrand</td>
<td>R2 719 R2 908</td>
<td>R1 041 R1 050</td>
</tr>
</tbody>
</table>

All six local municipalities charge a consolidation fee, with the Bitou Local Municipality’s being the highest fee (R3 450) and the George Local Municipality (R644) the lowest. The consolidation fee levied by the George Local Municipality has also decreased by 13.0% since the 2017/2018 financial year. The average fee levied for a consolidation application in 2018/2019 was R1 838, representing a 2.4% increase from 2017/2018. The Knysna Local Municipality consolidation application fee fares well relative to the other municipalities, having the second lowest such fee after the George Local Municipality, and one of the lowest increases (3.7%) form 2017/2018.

4.4.1.6 Comparison of Town Planning Related Fees

For each of the town planning related fees presented above, Table 4.18 ranks the selected municipalities from most affordable (indicated in green) to the most expensive (indicated in red). Based on a given municipalities town planning fees relative to the most affordable, an overall ranking of how cost-effective a municipality was from a town planning perspective was developed.
TABLE 4.18: MUNICIPAL COMPARISON OF TOWN PLANNING RELATED FEES IN 2018/2019

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>REZONING</th>
<th>CONSENT USE APPLICATION</th>
<th>REMOVAL OF TITLE DEED CONDITIONS</th>
<th>SUBDIVISION</th>
<th>CONSOLIDATION APPLICATION</th>
<th>OVERALL RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>R2 818</td>
<td>R2 254</td>
<td>R2 141</td>
<td>R1 071</td>
<td>R1 041</td>
<td>3</td>
</tr>
<tr>
<td>Bitou</td>
<td>R2 760</td>
<td>R4 715</td>
<td>R4 819</td>
<td>R10 316</td>
<td>R3 450</td>
<td>6</td>
</tr>
<tr>
<td>George</td>
<td>R2 760</td>
<td>R1 380</td>
<td>R1 610</td>
<td>R1 656</td>
<td>R644</td>
<td>1</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R2 097</td>
<td>R1 200</td>
<td>R2 097</td>
<td>R1 523</td>
<td>R1 523</td>
<td>2</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R3 779</td>
<td>R3 779</td>
<td>R3 779</td>
<td>R1 463</td>
<td>R1 463</td>
<td>4</td>
</tr>
<tr>
<td>Overstrand</td>
<td>R4 798</td>
<td>R2 908</td>
<td>R5 41</td>
<td>R6 688</td>
<td>R2 908</td>
<td>5</td>
</tr>
</tbody>
</table>

From Table 4.18 the following can be observed:

- The George Local Municipality was the most affordable municipality from a town planning perspective in 2018/2019, having the lowest consolidation application fee and the second lowest consent use, and removal of title deed conditions fees.
- The fees charged for consent use, removal of title deed conditions, sub-division, and consolidation applications were the highest in the Bitou Local Municipality. This made it the most expensive local municipality from a town planning perspective in 2018/2019.
- The Knysna Local Municipality had the lowest subdivision fee and the second lowest consolidation application fee. This made it the third most attractive municipality from a town planning perspective.

When comparing the fees presented in Table 4.18 with those levied in 2017/2018, the following additional information was noted:

- On average, the selected municipalities have become 6.1% more expensive from a town planning fee perspective than they were in the preceding year.
- Relative to the municipality with the lowest town planning-related fees, the Knysna Local Municipality overall ranking increased by 2.6% making it relatively less affordable than it was in 2017/2018.
- The George Local Municipality has improved its overall ranking by 0.2%, making it relatively more attractive from a town planning fee perspective than it was in 2017/2018.

4.4.2 BUILDING PLAN SUBMISSION

According to the National Building Regulations and Building Standards Act (No. 103 of 1977), a building may not be erected, altered, or converted without the prior approval of the local authority. Building plan fees are payable upon submission of any building plans to the local authority; the charges of which may differ depending on the size of the proposed development. The following section considers both a commercial and industrial-type development

The general assumption for this section is that the building plans are being submitted for a new development, and not an existing one. To aid in interpretation, the section considers only the per metre building plan fee charged, rather the actual total cost (i.e. the per metre fee multiplied by proposed area).

It is worth noting that there was a high degree of variance amongst local municipalities in how the building plan submission fee was determined. Some municipalities specify separate commercial and industrial rates
(e.g. Bitou, Overstrand), while others simply distinguish between residential and non-residential developments (e.g. Mossel Bay).

### 4.4.2.1 Commercial Development

The scenario for the commercial development entails the development of a single storey structure with a total floor space of 300 m². This could be used either as office space or for a retail establishment.

**FIGURE 4.18: BUILDING PLAN SUBMISSION FEE (RAND PER M²) FOR A COMMERCIAL DEVELOPMENT PER LOCAL MUNICIPALITY**

The Overstrand and Bitou Local Municipalities were on par in terms of the per square metre fee they charged for commercially-orientated building plans (R46). The Overstrand Local Municipality however, had the greater increase in this fee over the two financial years (9.5%). In contrast, the Oudtshoorn Local Municipality charged the lowest building plan submission fee for a commercial development at R21 per m². This fee also remained unchanged over the 2017/2018 and 2018/2019 periods. The 6.7% increase in the building plan fee charged by the Knysna Local Municipality, was higher than the average increase across the selected municipalities (5.6%). Despite this, the municipality still had the third lowest fee after the Oudtshoorn and George Local Municipalities.

### 4.4.2.2 Industrial Development

The assumption applied for this analysis is that the proposed industrial development comprises a large, single storey factory with a total floor space of 2 500 m².

The Oudtshoorn Local Municipality had the lowest building plan fee for an industrial development (R21 per m²) for the selected municipalities. As was the case with a commercial development, this fee remained unchanged over the two financial years. While the Overstrand Local Municipality charged the highest building plan fee for a commercial development, it had the second lowest rate for an industrial development, only slightly higher (4.8%) than the fee charged by the Oudtshoorn Local Municipality. The fee variance between the four most expensive local municipalities (Mossel Bay, George, Bitou and Knysna) was only R8 per m², with the Knysna and Bitou Local Municipalities tied as the third lowest building plan fee for an industrial development.
4.4.2.3 Comparison of Building Plan Application Fees

Table 4.19 ranks the building plan fees charged by the various municipalities for either a commercial or industrial development. Municipalities indicated in green were the most affordable, while those indicated in red were the most expensive. Utilising these values, an overall ranking for building plan submission fees was developed to identify the most cost-effective municipality.

From Table 4.19 the following can be observed:

- The most affordable municipality in terms of building plan submission fees for both a commercial and industrial-type development was the Oudtshoorn Local Municipality.
- While not the most expensive municipality in terms of the building plan fee charged for a commercial development, the high per square metre rate charged for an industrial-type development made the Mossel Bay Local Municipality the most expensive area from a building plan perspective.
- The Knysna Local Municipality’s comparably low building plan fee charged for both commercial and industrial type developments, made it the second most affordable municipality in 2018/2019.
When comparing the fees presented in Table 4.19 with those levied in 2017/2018, the following additional information was noted:

- On average, the selected municipalities have become 6.2% more expensive from a building plan submission fee perspective than they were in the preceding year.
- Relative to the municipality with the lowest building plan-related fees, the Knysna Local Municipality overall ranking increased by 4.4% making it relatively less affordable than it was in 2017/2018.
- The Oudtshoorn Local Municipality has improved its overall ranking by 2.1%, making it relatively more attractive from a building plan fee perspective than it was in 2017/2018.

4.4.3 CONSUMPTION CHARGES

The basic services provided by and charged for by a local municipality such as electricity, water, sanitation, and refuse removal are collectively referred to as consumption charges. Each of these services have been analysed individually, as they are charged separately and managed by different departments within a municipality. The focus of the assessment was on both commercial and industrial users, and as such does not reflect residential property rates.

4.4.3.1 Electricity

A multitude of factors are involved in calculating a business’s electricity usage. Each local municipality uses an energy charge fee per kWh (kilowatt hour) amongst other factors to compile a user’s monthly electricity bill. Given that these factors, which include aspects such as connection sizes, service charges, network charges, demand charges, voltage categories, etc. vary amongst municipalities, it was decided to use only the basic energy charge to determine the relative affordability of electricity as this was the best standard measure for comparison across all municipalities.\(^\text{101}\)

The following additional assumptions were made in respect of electricity usage:

- A conventional, non-prepaid meter was used; and
- Consumers utilised three phase electricity with circuit breakers with a maximum design capacity of 60 ampere.

The fees illustrated in Figure 4.20 below represent the basic energy charge, in cents per kilowatt hour, for each local municipality.

At 198 cents per kWh, the Overstrand Local Municipality had the highest energy charge across the various municipalities, followed closely by the Knysna Local municipality at 194 cents per kWh. In addition to having the second highest electricity tariff, the Knysna Local Municipality had the highest year-on-year increase in electricity prices (8.0%) across the selected municipalities, outpacing the average increase of 7.3%. While the George Local Municipality had the lowest electricity tariff (96 cents per kWh), it increased by 7.8% over the period. This increase was higher than both the average increase for the various local municipalities as well as the higher than the second lowest priced local municipality, Mossel Bay, which only increased by 6.7%.

\(^\text{101}\) Section 4.1.4.3 provides a broader cost assessment of electricity, per local municipality, based on different consumer usage profiles.
4.4.3.2 Water

Most municipal water tariffs are structured in such a way that the fee is directly proportionate to the usage, i.e. the more water the consumer uses, the higher the tariff they are charged. For example, in the George Local Municipality, industrial and business consumers were charged R9.96 per kilolitre if their consumption was between 30 and 50 kilolitres a month. This tariff increased to R10.92 if the consumer used more than 50 kilolitres in a month.

To assess water tariffs across the selected municipalities in a uniform manner, the following assumptions were made:

- Consumers only made use of a metred water connection;
- A typical commercial consumer used 40 kilolitres over a 30-day period; accordingly, industrial usage was not considered;
- Only non-drought water tariffs were considered; and
- Since water availability charges were only levied by some municipalities, this value was not considered; instead Figure 4.21 only illustrates the per kilolitre rate levied by the municipality based on the above consumption.

The Bitou Local Municipality had the most affordable water tariff per kilolitre (R12.55) in both 2017/2018 and 2018/2019. This tariff was 22.6% less than the next most affordable municipality – Mossel Bay (R16.21), and 39.6% lower than the average rate charged across all the municipalities in 2018/2019. The per kilolitre water tariff charged by the Overstrand Local Municipality, which had the highest tariff, was almost two and half times that of the most affordable municipality. While the Knysna Local Municipality had the third most expensive water tariff in the 2018/2019, it had the second lowest year-on-year increase (6.7%) after the Mossel Bay Local Municipality (6.5%).
4.4.3.3 Refuse

Municipalities provide retail facilities, offices, and industrial properties with various sized refuse bins. These bins are collected on a regular basis; mostly weekly, but in some cases twice a week, based on the size of the bins provided. The assumptions below set out the factors that were assumed to compile Figure 4.22:

- Refuse is removed by the local authority once a week;
- Commercial and industrial users generate the equivalent of one wheelie bin’s worth of refuse each month, equating to a 240-litre container; and
- Fees were calculated based on one removal per week per bin collected. Were an annual figure was charged, it was converted to a monthly rate.

At approximately R170 per month, the Knysna Local Municipality had the lowest monthly refuse charge across the six assessed municipalities in 2018/19. Both the Oudtshoorn and Overstrand Local Municipalities...
however, had refuse tariffs in the same range, with their rates only exceeding that of the Knysna Local Municipality by between R12 and R19 per month respectively. The Bitou Local Municipality in comparison had the highest monthly refuse charge (R380), representing an 8.4% increase from the 2017/2018 period. The George Local Municipality had the highest year-on-year increase in their refuse charge (16.0%), compared to only 6.2% for the Knysna Local Municipality.

### 4.4.3.4 Sanitation

The manner in which the sanitation tariff is calculated, varies widely across South African municipalities. The most common practice amongst municipalities is to determine the sanitation charge based on the amount of water that a consumer uses, and then designate a portion of this water as being used exclusively for sanitation purposes. A separate tariff is then applied to this sanitation deemed water. Of the six municipalities reviewed, only the Overstrand Local Municipality adopted this approach. Local municipalities within the Garden Route District Municipality however, generally applied a flat sanitation rate per property or a variable rate based on the number of toilet-pans the property had. To make comparisons possible the following assumptions were made:

- Where the sanitation tariff was not a flat rate per unit/property/dwelling, it was assumed that a typical commercial or industrial development required a minimum of three toilet pans and one urinal.
- The Overstrand Local Municipality deems 90.0% of the water consumed by a commercial or industrial user as sewerage. In addition, the Municipality levies a basic availability charge per erf per month. The total sanitation charge for the Overstrand Local Municipality was therefore based on 36 kilolitres of sewerage designated water, and the basic charge.
- Where an annual figure for sanitation was indicated this was converted to a monthly value.

**FIGURE 4.23: MONTHLY SANITATION CHARGE BY LOCAL MUNICIPALITY**

From a sanitation perspective, the three most expensive local municipalities (Bitou, Overstrand, Oudtshoorn) were between R206 and R480 per month more expensive than the three most affordable local municipalities (George, Mossel Bay, Knysna). On average, the sanitation charge across all municipalities rose

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102 Toilet-pans and urinal requirements were based on the South African National Building Regulations for the provision of sanitary fixtures as published by the South African Bureau of Standards.
by 7.4% between the two financial years. The Knysna and Mossel Bay Local Municipalities had the lowest year-on-year increase at 6.0%.

4.4.3.5 Comparison of Consumption charges

Table 4.20 ranks the consumption charges levied by the various municipalities by type of service provided. Municipalities indicated in green were the most affordable, while those indicated in red were the most expensive. Utilising these values, an overall ranking for consumption charges was developed to identify the most cost-effective municipality.

TABLE 4.20: MUNICIPAL COMPARISON OF CONSUMPTION CHARGES IN 2018/2019

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>ELECTRICITY</th>
<th>WATER</th>
<th>REFUSE</th>
<th>SANITATION</th>
<th>OVERALL RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>R1.94</td>
<td>R23.74</td>
<td>R170.49</td>
<td>R353.67</td>
<td>3</td>
</tr>
<tr>
<td>Bitou</td>
<td>R1.65</td>
<td>R12.55</td>
<td>R379.50</td>
<td>R734.47</td>
<td>5</td>
</tr>
<tr>
<td>George</td>
<td>R1.03</td>
<td>R25.84</td>
<td>R358.74</td>
<td>R254.10</td>
<td>4</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>R1.19</td>
<td>R16.21</td>
<td>R250.00</td>
<td>R280.33</td>
<td>1</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>R1.55</td>
<td>R15.21</td>
<td>R181.95</td>
<td>R559.77</td>
<td>2</td>
</tr>
<tr>
<td>Overstrand</td>
<td>R1.98</td>
<td>R31.17</td>
<td>R189.00</td>
<td>R668.75</td>
<td>6</td>
</tr>
</tbody>
</table>

From Table 4.20 the following can be observed:

- The Mossel Bay Local Municipality was ranked as the most affordable destination from a consumption charges perspective, for either a commercial or industrial-type development. Key drivers of this affordability were its low electricity, water and sanitation charges relative to the best performing municipalities in these categories.
- The high electricity, water and sanitation charges levied by the Overstrand Local Municipality made it the least attractive investment destination from a consumption charges perspective.
- From a consumption charge perspective, the Knysna Local Municipality was ranked as the third most attractive destination for a commercial or industrial-type development. While the municipality had the lowest refuse charge, and the third lowest sanitation charge, it had the second highest electricity tariff as well as the third highest water tariff. It is worth noting, that commercial and industrial-type developments are likely to place greater emphasis on the affordability of electricity and water tariffs than on refuse and sanitation charges.

When comparing the fees presented in Table 4.20 with those levied in 2017/2018, the following additional information was noted:

- On average, the selected municipalities have become 8.0% more expensive from a consumption charges perspective than they were in the preceding year.
- Relative to the municipality with the lowest consumption charges, the Knysna Local Municipality overall ranking decreased by 0.7% making it relatively more affordable than it was in 2017/2018.
- The 3.6% increase in the George Local Municipality’s score made it relatively more expensive from a consumption charges perspective, than it was in 2017/2018.
- The Mossel Bay Local Municipality saw the greatest improvement in its overall ranking from 2017/2018 which made it more attractive from a consumption charges perspective than it was in 2017/2018.
4.4.4 PROPERTY RATES

Property rates are essentially a tax on property ownership and are imposed by local municipalities as one of the means of funding their operations. These rates are levied on all types of property, including vacant land, but generally vary based on the properties use or zoning. These property rates are calculated by the application of a ratings factor to the market value of the property. The ratings factor is set out in the local municipality’s rates policy and can be amended annually. The property’s market value is based on the local municipality’s general valuation roll, which is updated at least every four years.

The subsequent section compares the ratings factors imposed for three different types of property uses (business/commercial; industrial; vacant stands) across the selected municipalities, rather than on the total rates value charged. Some municipalities (e.g. Mossel Bay) offer discounts on property rates for certain types of business/commercial properties (e.g. accommodation establishments, farm businesses etc). Such discounts are not considered as part of the assessment.

4.4.4.1 Business/commercial and Industrial Properties

Although the Municipal Property Rates Act (No. 6 of 2004) permits municipalities to charge different rates for different categories of rateable properties, none of the selected municipalities specified a different rate for both industrial and business/commercial properties. Figure 4.24 therefore shows the ratings factor, per local municipality, that applies to both business/commercial and industrial zoned properties.

FIGURE 4.24: PROPERTY RATINGS FACTOR FOR BUSINESS/COMMERCIAL AND INDUSTRIAL PROPERTIES BY LOCAL MUNICIPALITY

The Oudtshoorn Local Municipality had the highest property ratings factor for business/commercial and industrially zoned properties in 2018/2019, only 3.9% more than that of the Knysna Local Municipality. The Mossel Bay Local Municipality imposed the lowest rating’s factor (R0.00596) on business/commercial and industrially zoned property, 37.2% lower than the next highest municipality (Overstrand). In addition, the Mossel Bay Local Municipality offers a 15.0% to 30.0% rates discount on accommodation establishments, depending on the number of rental units that it has, as well as a 30.0% discount on farm businesses. Even though the Knysna Local Municipality had the second highest rating’s factor, this value had decreased by
8.0% from the previous financial year. Excluding the George Local Municipality, whose ratings factor declined by 3.0%, the average rating’s factor increase across the remaining municipalities was 6.8%.

4.4.4.2 Vacant Stands

Property rates are payable even when a stand is vacant (i.e. does not have a property on it). These rates are typically higher than that of a developed stand to encourage owners to develop vacant land and to enable municipalities to recover part of the initial costs required to provide bulk services to these vacant stands. These rating factors are illustrated in Figure 4.25.

**FIGURE 4.25: PROPERTY RATINGS FACTOR FOR VACANT STANDS BY LOCAL MUNICIPALITY**

As in the case for business/commercial and industrially zoned land, the Oudtshoorn Local Municipality had the highest rating’s factor for vacant stands (R0.01701), followed by the Knysna Local Municipality (0.01424). While most of the municipalities charged a different ratings factor for developed and vacant stands, the Knysna and George Local Municipalities drew no distinction, charging the same rating’s factor irrespective of whether the property was developed or not. The Mossel Bay and Overstrand Local Municipalities continued to be the most affordable, although the Mossel Bay Local Municipality’s rating factor increased by 13.0% between 2017/2018 and 2018/2019. This coupled with the discounts offered to certain property types, suggests a clear strategy to attract investment by the municipality.

4.4.4.3 Comparison of Property Rates

The property ratings factor, per local municipality, and by type of rateable property is illustrated in Table 4.21. Municipalities indicated in green were the most affordable, while those indicated in red were the most expensive. Utilising these values, an overall ranking for property rates was developed to identify the most cost-effective municipality. From Table 4.21 the following can be observed:

- The relatively low property ratings factors charged for business/commercial and industrially zoned land, as well as for vacant stands, made the Mossel Bay Local Municipality the most affordable destination from a property rates perspective in 2018/2019.
The ratings factor charged by the Oudtshoorn Local Municipality for business/commercial and industrially zoned land; as well as vacant stands was 46.2% and 58.4% higher respectively than the average rate charged. This made it the least affordable destination in terms of property rates.

The Knysna Local Municipality had the second highest property rates for both business/commercial and industrially zoned land; and for vacant stands. This made it the second least attractive investment destination.

### TABLE 4.21: MUNICIPAL COMPARISON OF PROPERTY RATINGS FACTOR IN 2018/2019

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>COMMERCIAL AND INDUSTRIAL</th>
<th>VACANT STAND</th>
<th>OVERALL RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>0.01424</td>
<td>0.01424</td>
<td>5</td>
</tr>
<tr>
<td>Bitou</td>
<td>0.00867</td>
<td>0.01038</td>
<td>4</td>
</tr>
<tr>
<td>George</td>
<td>0.00889</td>
<td>0.00889</td>
<td>3</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>0.00596</td>
<td>0.00655</td>
<td>1</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>0.01479</td>
<td>0.01701</td>
<td>6</td>
</tr>
<tr>
<td>Overstrand</td>
<td>0.00817</td>
<td>0.00739</td>
<td>2</td>
</tr>
</tbody>
</table>

When comparing the rates presented in Table 4.21 with those levied in 2017/2018, the following additional information was noted:

- On average, the selected municipalities have become 1.8% more expensive from a property rates perspective than they were in the preceding year.
- Relative to the municipality with the lowest property rates, the Knysna Local Municipality overall ranking decreased by 8.0% making it relatively more affordable than it was in 2017/2018. This was the greatest improvement across any of the local municipalities, and 4.9% better than the next best performing local municipality, George.
- Despite being ranked the most attractive destination from a property rates perspective, the Mossel Bay Local Municipality’s service offering increased by 10.5%, making it relatively more expensive than it was in 2017/2018.

### 4.4.5 OVERALL COST OF DOING BUSINESS RANKINGS

To establish how affordable it was to do business in the Knysna Local Municipality in 2018/2019, relative to other local municipalities, a composite ranking was developed based on the results of Tables 4.19 to 4.22. This is illustrated in Table 4.22.

### TABLE 4.22: OVERALL RANKING FOR COST OF DOING BUSINESS IN 2018/2019

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>TOWN PLANNING</th>
<th>BUILDING PLANS</th>
<th>CONSUMPTION CHARGES</th>
<th>PROPERTY RATES</th>
<th>OVERALL RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Bitou</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>George</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Overstrand</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

From Table 4.22 the following can be observed:
The Mossel Bay Local Municipality was the most affordable destination to conduct business. It had the lowest relative consumption charges and property rates; and the second lowest town planning related fees. It was however had the highest building plan submission fees, relative to the other local municipalities particularly for industrial-type developments.

With the highest town planning related fees, and the second highest consumption charges, and building plan submission fees, the Bitou Local Municipality was the least affordable destination from a cost of doing business perspective.

The Knysna Local Municipality was ranked as the third most attractive destination for doing business. Key drivers of this were the affordability of its building plan fees (ranked 2nd), town planning costs (ranked 3rd) and consumption charges (3rd third). Its high property rates relative to other local municipalities however, adversely impacted its overall attractiveness.

When comparing the rates presented in Table 4.22 with those levied in 2017/2018, the following additional information was noted:

- The Knysna Local Municipality’s overall ranking for cost of doing business, remained unchanged between the two financial years. While its overall ranking remained unchanged, its consumption charges ranking improved from 4th to 3rd and its property rates ranking improved from 6th to 5th.
- These improvements resulted in the Knysna Local Municipality’s overall ranking score relative to the other local municipalities decreasing by 2.4%. This meant that that the Knysna Local Municipality become relatively more affordable and accordingly a more attractive destination for investment in 2018/2019 than it was in 2017/2018.
- The only other local municipality that showed a marginal improvement was George. This 0.4% decrease in its overall ranking however, resulted in it surpassing the Mossel Bay Local Municipality as the most affordable destination from a cost of doing business perspective.
- For the Knysna Local Municipality to improve its relative ranking by one place (i.e. move from third to second), it would need to improve its relative attractiveness by 13.1%. This increases to 14.6% if it wishes to move from third to first.

4.5 ECONOMIC OVERVIEW OF SETTLEMENTS

The following section provides a summary of the regional economy within each of the settlements (defined to include a residential component) situated within the greater Knysna municipal area. The economic activities within each of these settlements is based on the Knysna Local Municipality’s 2019 draft Spatial Development Framework. Table 4.23 indicates the various settlement types, their function/roles, and which settlements within the greater Knysna municipal area fall into these various types, while Figure 4.26 sets out the Knysna Local Municipality’s settlement and economy framework.

<table>
<thead>
<tr>
<th>SETTLEMENT TYPE</th>
<th>FUNCTION / ROLE</th>
<th>SETTLEMENT(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Services Centre (Town)</td>
<td>This main urban centre is the location of new housing, jobs, services and facilities with a focus on development and densification. It hosts the main health, education, cultural facilities as well</td>
<td>Knysna</td>
</tr>
</tbody>
</table>

as government services. As an economic hub it contains industry, services and other business.

- **Specialised Coastal Centres**: Small urban centres with a special function (largely tourism, recreation and retirement related) as well as a role in terms of servicing the surrounding areas and containing a mix of economic activities and services. Examples include Sedgefield; Buffalo Bay; Brenton on Sea.

- **Villages**: Meeting the local convenience needs with basic social facilities for their own population and the surrounding rural communities. Examples include Rheenendal; Karatara.

- **Rural Hamlets**: Small residential clusters without commercial or business uses. Populations range from 30 to 200 people and up to 40 erven. Examples include Bergvallei; Bibby’s Hoek; Kraalbosch; Noetzie; Springfield; Middelver; Brackenhill; Farleigh; Goudveld; Windheuwels; Vrystaat; Swaneberg.

**FIGURE 4.26: KNYSNA LOCAL MUNICIPALITY’S SETTLEMENT AND ECONOMY FRAMEWORK**

Land uses within the greater Knysna municipal area’s settlements should be managed with due respect for their role in the broader municipal wide settlement system as well as their local economies. Appropriate economic development for each of the aforementioned settlements is outlined in Table 4.24, and based on the outcomes of the Knysna Local Municipality’s 2019 draft Spatial Development Framework.
<table>
<thead>
<tr>
<th>SETTLEMENT(S)</th>
<th>SETTLEMENT(S) PURPOSE</th>
<th>APPROPRIATE ECONOMIC ACTIVITY DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna (including Northern Areas and Industrial Area)</td>
<td>Commercial, service and administrative centre, industrial node, transport and logistics hub. Focus for the location of new housing, jobs, services and facilities with a focus on development and densification. Accommodates main health, education, cultural facilities as well as government services.</td>
<td>Low density development and/or “eco-estates” are not ideal. Developable land is scarce and must be optimally utilised to meet the demand for housing (across all income groups) and economic development. More detail on appropriate economic activity development in Knysna is presented in Section 4.5.1.</td>
</tr>
<tr>
<td>Sedgefield; Buffalo Bay; Brenton on Sea</td>
<td>Urban settlements with a residential, tourism and recreational function with supporting local business services and a strong seasonal shift in residential population.</td>
<td>Within the urban edge, focus on activities that support the local tourism and surrounding rural economy.</td>
</tr>
<tr>
<td>Rheenendal; Karatara</td>
<td>Dormitory residential settlements with local services and conveniences serving the local and surrounding rural communities.</td>
<td>Attracting economic investment that creates job opportunities for existing residents should be the focus of public sector attention in these villages. Potential for tourism attractions linked to agricultural activity and surrounding natural landscape should be explored. Agro-processing and cottage industries should be supported. Suitable remaining land within the urban edge should be prioritised for these uses.</td>
</tr>
<tr>
<td>Bergvallei; Bibby’s Hoek; Kraalbosch; Noetzie; Springfield; Middelerf; Brackenhill; Farleigh; Goudveld; Windheuwels; Vrystaat; Swaneberg</td>
<td>Small remote residential clusters without commercial or business uses embedded in forestry or agricultural areas.</td>
<td>If it supports/diversifies agriculture, supports tourism or broadens the value chain</td>
</tr>
</tbody>
</table>

4.5.1 INTEGRATED CENTRES AND ACCESSIBILITY NETWORK IN KNYSNA

Table 4.25 sets out the existing and proposed mixed use centres in Knysna, expanding on the information presented in Table 4.25. The centres identified in the table are strategically located, serving as points of high accessibility and opportunity for local communities. These centres, and the activity corridors that connect them, are the points of investment priority, where higher order facilities and business activities should be concentrated and supported by public spaces. A public transport network should seek to connect these centres along the accessibility routes that support them.

These are the locations where the condition of public space should be of a high-quality. A well-structured, and safe built environment in central locations where people meet and where all are welcome, is a product of both the public environment and the buildings that define it, as well as their management. The urban quality in these locations must build an identity for Knysna that links it to its environment and heritage but in a progressive, distinctive, and democratic way - generating opportunity at the scale of people and not, in particular, cars\textsuperscript{105}. The transformation of the urban landscape will itself serve to attract economic investment. Therefore, a defined, designed and managed centre with activity corridors and a high-quality urban environment would act as an explicit economic development strategy. This is because the quality of the urban public space and associated amenities are important factors for the services sector.

<table>
<thead>
<tr>
<th>CENTRE &amp; ACCESSIBILITY NETWORK TYPE</th>
<th>NAME / LOCATION</th>
<th>FUNCTION / ROLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>Knysna CBD</td>
<td>Core centre of Knysna to be maintained and improved to accommodate a vibrant mix of residential, commercial, office and public facilities knitted together by a high-quality public realm of complete streets and public spaces connecting with and pulling through the blue and green natural assets.</td>
</tr>
<tr>
<td>Secondary: Neighbourhood Centres (Transit interchanges)</td>
<td>Masifunde</td>
<td>Centrally located to serve the Northern Areas. Higher order public facilities and a high-quality public transport interchange should be located here supported by well-designed public space and the further clustering of urban activities.</td>
</tr>
<tr>
<td></td>
<td>Hornlee</td>
<td>A civic precinct serving the Hornlee area and surrounds. Higher order public facilities and a high-quality public transport interchange should be located here supported by well-designed public space and the further clustering of urban activities.</td>
</tr>
<tr>
<td>Activity Streets</td>
<td>Main Road, Northern Corridors (Concordia Road to Chungwa Street)</td>
<td>The Business Plan for the Neighbourhood Partnership Development Grant developed for this area should be implemented. Walkability is a priority along this route.</td>
</tr>
<tr>
<td></td>
<td>Grey Street</td>
<td>A primary activity street in the CBD hosting a mix of land uses. The Urban Design Framework for Gray Street should be</td>
</tr>
</tbody>
</table>


implemented. This should be transformed into a complete street. Walkability is a key priority along this street. The Gray Street transformation should be the pilot for the improvement of other activity streets in the Knysna CBD.

<table>
<thead>
<tr>
<th>Activity Corridors</th>
<th>Long Street</th>
<th>A primary activity street in the CBD. Walkability is a priority along this route</th>
</tr>
</thead>
<tbody>
<tr>
<td>N2 through Knysna town between the Waterfront Drive intersections</td>
<td>Nekkies</td>
<td>The eastern gateway into both Knysna and the Northern Areas. This should be upgraded and maintained to give dignity and pride to this gateway into Knysna. This should include improved services, facilities and a range of mixed uses that serves several surrounding communities in an integrated manner and which is of a high design and maintenance standard.</td>
</tr>
<tr>
<td>N2/ Heidevallei/ Industrial Area</td>
<td>Intersection of George Rex Drive and Vigilance Drive</td>
<td>The precinct where the African Craft market is currently located. At present there is no public infrastructure in place. The property should be treated as a strategic municipal investment property. The centre should be developed around low impact economic opportunities that draw benefits from being located in a natural, highly visible and aesthetically pleasing location. This precinct should cater for economic possibilities such as a multi-purpose events/business tourism facility with low environmental impact, a more formalised micro-enterprise space/facility but allow for balance with regard to community/green/public open space system. A public slipway has been identified as a key need by the boat building industry and this location has been identified as ideal. This should be explored further as potential economic infrastructure.</td>
</tr>
<tr>
<td>Old Cape Road (Salt River node)</td>
<td>Various</td>
<td>The location of this centre should be considered alongside the possible location of an N2 bypass/old N2 intersection and what impact that might have on land uses, as well as providing convenience for current and future residents of this area stretching to Blaricum Heights.</td>
</tr>
<tr>
<td>Tertiary: Crossroads (Transit points)</td>
<td>Points at which commuters need to change direction and change modes of transport to access areas separated from the Knysna. Small scale convenience related land uses should be permitted at these intersections as well as dignified public space and transport infrastructure.</td>
<td></td>
</tr>
</tbody>
</table>
4.6 CONCLUSION

This chapter has sought to analyse the greater Knysna municipal area’s economic environment. The aim of this process was to identify economic sectors that have both historically driven the greater Knysna municipal area’s economy and sectors which have the capacity to drive the economy into the future. In order to achieve this, a number of statistical analyses were undertaken, including:

- GDP-R Analysis
- Growth Share Matrix
- Location Quotients
- Leading/Lagging Analysis
- Industry Targeting
- Employment Ratios

Based on these analyses the following economic sectors were statistically identified as being historically important to the greater Knysna municipal area:

- Wholesale and retail trade
- Catering and accommodation services sub-sector (used as proxy for the tourism industry)
- Construction
- Manufacturing

According to the Industry Targeting Classification, the trade sector, and by association the catering and accommodation services sub-sector, was identified as being important, as it was classified as being a high priority retention sector. In comparison, the analysis showed that the following sectors historically played a limited role in the greater Knysna municipal area’s economy:

- Agriculture, forestry and fisheries
- Utilities
- Mining
- Transport and communication

Statistical analysis however, can only provide a single dimension of a sector’s performance. The subsequent sections of this chapter focused on undertaking a more detailed analysis of a selection of critically important sectors, informed by those identified in the statistical analysis. These sector profiles sought to contrast the outcomes of the statistical analysis with both primary and secondary research. From these sector profiles the following key factors were identified:

- Construction
  The greater Knysna municipal area’s construction sector showed muted growth between 2011 and 2017, with the sectors GDP-R growth rate in 2017 being the lowest since the global recession at -1.7% year-on-year. While the performance of the sector has been poor, the rebuilding efforts following the Knysna fire are anticipated to lead to a short to medium term boost for the sector. This is already evident in the 588 residential building plans already approved in 2018, exceeding the total number of business plans passed in 2016 (179) by 228.5%.
• **Wholesale and Retail Trade**
The performance of the wholesale and retail sector is strongly correlated with consumer consumption expenditure, which has been adversely impacted by negative market sentiment since 2015. This reduction in consumption spending over the period is estimated to have cost the trade sector R16.9 million in lost GDP-R since 2015. Many retailers in the greater Knysna municipal area have been struggling and vacancy rates remain high.

• **Financial and Business Services**
This sector is closely linked to the construction sector through its architectural, engineering and town planning services. An important component of this sector is also the real-estate industry. Given this close link, the upturn in the construction sector as a result of the Knysna fire is likely to positively affect this sector over the short to medium term.

• **Agriculture, Forestry and Fisheries**
The agricultural sector within the greater Knysna municipal area is comparatively small and has historically been driven by the forestry sub-sector. The collapse of the local forestry sector has led to the development of a timber cluster, which will seek to address this decline. Other opportunities in high-value niche crops are also being explored across the municipality.

• **Manufacturing**
Traditionally manufacturing in the greater Knysna municipal area has been driven by the timber industry (i.e. sawmilling, furniture production etc.). The decline in the forestry sub-sector has resulted in the closure of a number of timber-related businesses. This led to a temporary increase in the amount of vacant industrial space, a large percentage of which has subsequently been filled by a range of niche manufacturing businesses.

• **Government and Community Services Sector**
Government and community services, although an important sector within the greater Knysna municipal area, is not considered a vehicle for future growth. Budgetary expenditure by entities within this sector, however, has the potential to inject significant funds into the local economy as well as facilitate future development.
CHAPTER 5: POTENTIAL IDENTIFICATION

In order to identify specific projects and interventions that possess sufficient development potential, and which are likely to have a significant impact on the economy, it is necessary to identify the current and future potential economic development opportunities within the greater Knysna municipal area. This potential identification will be based on the outcomes of the preceding two chapters as well as a set of criteria that will allow for the identification of interventions that are sustainable and which are likely to ensure future economic upliftment and growth.

As part of this process, a SWOT analysis and a sectoral potential analysis will be undertaken. These two analysis techniques will help to obtain an insight into what competitive advantages the identified economic sectors have and what developmental potential exists within each of these sectors that could be exploited. These two analysis techniques seek to identify supply and demand factors and thereby assess market opportunities, based on the gap between existing and potential levels of development. This is complimented by a review of the potential resource base exploitation or beneficiation.

In addition, constraints to development such as international market fluctuations, environmental degradation, lack of entrepreneurial skills and poverty are identified.

The following chapter will seek to undertake the above activities under the following two major headings:

- SWOT Analysis
- Sector Potential Analysis

5.1 SWOT ANALYSIS

A SWOT analysis is a frequently used analytical tool for strategic assessments that assists in identifying strengths, weaknesses, opportunities and threats within a given environment. Strengths and weaknesses are internal factors within the control of an economic agent while opportunities and threats are those factors that are external to the economic agent, and therefore beyond their control. These are essentially macro-environment factors that an economic agent has little or no control over and is unable to influence.

The focus of the SWOT analysis is not on identifying what should be done, but rather on providing a framework for the identification of strategic opportunities; a means of avoiding weaknesses inherent in an economy; and as a mechanism for identifying threats that could limit future economic expansion and growth. The SWOT analysis presented in this section will identify and assess the strengths, weaknesses, opportunities and threats in the greater Knysna municipal area, in terms of regional economic development.

The identification of strengths, weaknesses, opportunities and threats within the municipal and regional areas provides the basis upon which the strategic focus areas for the Knysna EDS will be established.

The SWOT analysis is the culmination of an investigation into the greater Knysna municipal area and is based on both the outcomes of the preceding two chapters (Development Enablers; State of the Knysna Economy) as well as a review of key planning documents.

As part of the review process, the strengths, weaknesses, opportunities and threats identified in the 2015 EDS were re-examined. This process was informed by targeted interviews with a selection of critical stakeholders (e.g. Knysna Local Municipality, Knysna Tourism, private representatives from the forestry
industry, ICT, transport etc.) within the greater Knysna municipal area. The results of these processes are illustrated below.

**Strengths**
- Natural environment and biodiversity assets (lagoon, forests, parks and reserves etc.)
- Strong logistic linkages for Knysna and Sedgefield (N2 passes through both settlements)
- Range of established seasonal events and festivals that attract both domestic and international tourists
- Well established and growing services sector (particularly retail trade and tourism)
- Strong municipal commitment to LED
- Large working age population that is projected to increase by 2030
- Improvement in educational attainment amongst residents
- Significant number of high-income earners located in the area that have positive impacts on goods and services expenditure
- Strong human capital linked to retired population – “Grey Power”
- Established niche manufacturing sector (i.e. yacht building, drones, classic vehicle restoration)
- Well-developed and recognised tourism assets (e.g. accommodation, butterfly reserve, cycle routes, etc.)
- Unique local hand crafts linked to timber products
- High degree of urbanisation
- Committed timber industry that is seeking to re-establish the local industry
- Local knowledge of indigenous plants and medicines

**Weaknesses**
- High transport costs linked to spatial fragmentation (population far from economic opportunities)
- Poorly established public transport network
- Insufficient suitable land for development (residential, agricultural, commercial and industrial)
- Over supply of high-income developments
- Insufficient affordable housing for low- and middle-income households
- Inadequate supply of low-income/GAP housing
- Absence of tertiary learning facilities
- Mismatch between available skills and those required by the private sector
- Decrease in agricultural sector’s GDP-R contribution
- Cost of doing business is perceived to be high (electricity, land cost)
- Physical constraints that restrict development space (i.e. slopes, wetlands, forests)
- Absence of a unified tourism marketing brand
- Attraction and retention of critical and technical skills
- Widely varying levels of service amongst local tourism and hospitality industry
- Poor condition and maintenance of infrastructure (roads, ICT, sewerage)
- Inadequate water supply, poor water quality and interruptions of supply
- Limited protection of flora and fauna
Opportunities

- Enhancing tourism product offerings and assets (e.g. camp sites in forest, archaeological findings in Southern Cape, linkage to nearby festivals such as KKNK, township tourism, home visits, town beautification, etc.)
- Linking tourism product activities with tour operators, packages and airlines
- Potential for greater cooperation between Knysna Local Municipality, tourism and business
- Potential for broadening niche manufacturing industry (e.g. bicycle assembly, bio-plastics etc.) through attraction and incentivisation
- Potential for transit-oriented development (development driven by accessibility) as well as public transport
- CBD regeneration, densification and repopulation
- Waterfront/main street remodelling
- Railway line re-establishment for waste management and cargo purposes
- Establishment of educational services, particularly at a tertiary level
- Investment in skills training and development (artisans apprentice)
- Wi-Fi rollout for Knysna CBD and rest of municipality for business attraction
- Potential for non-motorised circulation/pedestrianisation in the Knysna CBD and other key locations
- Potential for growing niche high-value crops (e.g. herbs, nuts, berries, honeybush etc.)
- Promotion and development of the timber and furniture industry
- Forestry biomass collection (linked to and including alien vegetation eradication) and associated waste-energy production
- Capitalisation on Green Economy initiatives (green construction, urban agriculture, etc.)
- Promotion of self-employment and entrepreneurship
- Promotion of the greater Knysna municipal area as a destination for new and establish businesses, thereby diversifying the economic base
- Development of indigenous plant/natural medicine knowledge
- Potential for new businesses linked to waste management

Threats

- Greater climatic variation leading to flooding, water level rises etc.
- Limited water resources, water scarcity and future droughts
- High incidence of poverty and unemployment
- Increasing income and prosperity gap (Gini coefficient)
- In-migration from other provinces
- High unemployment rate and increased skills gap
- High property prices restricting scope of development opportunities and rising costs
- Infrastructure backlog
- HIV/AIDS
- Weak education system providing mismatched or inadequate skills
- Civil unrest as a result of inadequate service provision (i.e. protests)
- Hazardous situation at various dune fields
- Pollution of estuary and lagoon
- Alien vegetation
5.2 SECTOR POTENTIAL ANALYSIS

The following section seeks to provide insight into the principal economic sectors within the greater Knysna municipal area as identified in the preceding status quo analysis. This section will be divided into two parts. The first section will provide detail on the key criteria used when determining the development potential of a sector, while the second part will detail the sector opportunities identified for each selected sector.

5.2.1 CRITERIA FOR DETERMINING DEVELOPMENT POTENTIAL

Local economic development can be defined as being an effort or undertaking that aids in the growth of an economy, be it local, provincial or national. Potential, on the other hand, points to the resources and capacity that is needed to facilitate this development.

When identifying and determining development potential and/or opportunities within an economy, a set of criteria is required against which to evaluate whether or not the effort being undertaken possesses development potential or not. The set of criteria serves as an evaluation tool to identify areas with potential for development and opportunities within each of the local economic sectors.

These criteria are set out below.

<table>
<thead>
<tr>
<th>RAW MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials/local resources are critical to the production process, as without these inputs no products could be manufactured, nor could any services be provided. The presence of raw materials/other resources within an area makes the promotion of local development in such an area significantly more feasible, viable and sustainable. Should the resources/materials be suitable, they could also potentially serve as a major tourist attraction. Alternatively, these raw materials/resources could be used for beneficiation and value adding through local processing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ECONOMIC LINKAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generally, an economy is unable to meet all the needs of its members and accordingly needs to interact/trade with other economies. The interaction of various economies with one another or the interaction between various sectors and the broader economy is referred to as economic linkages. These linkages, which can vary in terms of their magnitude and type, are critical to ensuring a sustainable economy. Economic linkages can take one of two forms, namely: backward linkages (up the value chain) and forward linkages (down the value chain).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKET TRENDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market trends refer to the consumption patterns and preferences of the general market. These trends can indicate that there is either potential for an increase in the production of a product/service, or that there is a need for a new product/service. For instance, market trends suggest that people are consuming more organically farmed products than traditional products. This suggests that the agricultural sector should start focusing more on the production of organic products than traditional products.</td>
</tr>
</tbody>
</table>

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107 It should be noted that in certain cases the listed criteria may not be applicable to a given sector that is being assessed. In such a case the criteria were omitted.
AGGLOMERATION ADVANTAGE

This criterion refers to the identification of a gap within the local economy or the potential for several industries to group together to develop a competitive advantage over their competitors. An example of an agglomeration advantage is the development of a mining logistical hub or cluster. Such a cluster permits a range of manufacturing and related businesses to group together in delivering services, goods and information to the rest of the manufacturing sector.

LOGISTICS

To determine if an area has potential for delivering a logistics or nodal point function, it is necessary to establish whether the area can serve as a distribution point for a specific product/service.

REGIONAL SERVICE DELIVERY

Currently, the local economy is not strongly linked with the regional economy. This criterion seeks to determine the economic comparative advantages of an area and whether these advantages can be exploited successfully to make the location a regional service provider in its competitive advantages.

LABOUR

Labour, as one of the principal factors of production, is an important indicator of the development potential of an economy. The determining factors when considering the potential of the local labour force are their quantity and quality. Quantity refers to the size of the labour force while quality refers to the educational and skills level of the labour. If the educational and skills level of the local labour force meets the requirements of the economy, the development potential is high.

TECHNOLOGY

Technological change refers to changes in production methods as a result of innovation (i.e. genetic modification of food, the internet, etc.). These changes in technology increase production levels and lower operating costs. Technological change therefore can increase the production potential of an economic sector, lower its relative cost structure and make it more competitive relative to other economies.

POLICY ENVIRONMENT

Potential for development can also be identified when considering the policy environment. Various policies stimulate, support and encourage development, whereas others inhibit development.

5.2.2 SECTOR OPPORTUNITIES

This section aims to provide an assessment of the economic activities within the leading economic sectors, to determine their potential for economic development. Table 5.1 illustrates the leading sectors according to their contribution to GDP-R and employment as well as their location quotient.
<table>
<thead>
<tr>
<th>SECTOR</th>
<th>CONTRIBUTION TO GDP-R</th>
<th>CONTRIBUTION TO EMPLOYMENT</th>
<th>LOCATION QUOTIENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fisheries</td>
<td>5.7%</td>
<td>9.0%</td>
<td>0.72</td>
</tr>
<tr>
<td>Mining</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.36</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.7%</td>
<td>7.2%</td>
<td>0.81</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.3%</td>
<td>0.3%</td>
<td>0.76</td>
</tr>
<tr>
<td>Construction</td>
<td>7.2%</td>
<td>9.9%</td>
<td>1.49</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>17.1%</td>
<td>27.0%</td>
<td>1.09</td>
</tr>
<tr>
<td>Transport</td>
<td>7.6%</td>
<td>3.5%</td>
<td>0.84</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>30.8%</td>
<td>14.4%</td>
<td>0.83</td>
</tr>
<tr>
<td>Community Services</td>
<td>8.4%</td>
<td>18.2%</td>
<td>1.18</td>
</tr>
<tr>
<td>Government Services</td>
<td>11.0%</td>
<td>10.4%</td>
<td>1.07</td>
</tr>
</tbody>
</table>

From Table 5.1 the following principal economic and supporting sectors were identified:

1. Construction
2. Wholesale retail trade
3. Tourism
4. Agriculture, Forestry and Fisheries
5. Manufacturing
6. Community and Government Services
7. Finance and Business Services

The economic potential for each of the above driving and supporting economic sectors will be analysed in the subsequent section. It is important to note that the 2015 EDS undertook a similar sector analysis for the municipality. This section therefore aims to assess whether the observations made in the previous strategy are still applicable and to update statistical information where applicable.

### 5.2.3 CONSTRUCTION

The construction sector includes the site preparation, building of complete constructions or parts thereof, civil engineering, building installation, building completion and the renting of construction or demolition equipment with operators.

The high-level analysis of the greater Knysna municipal area’s economic infrastructure presented in Chapter 4 indicates that there are certain deficiencies in terms of the provision of key infrastructure. The absence or inadequate supply of this economic infrastructure inhibits the ability of the greater Knysna municipal area to attract and retain business investment.
The national government recognises that the construction sector is the vehicle through which infrastructure investment will occur. It has accordingly established the Presidential Infrastructure Planning Committee (PICC), which will be responsible for implementing the National Infrastructure Plan. According to the most recent National Treasury estimates, approximately R834.1 billion is anticipated to be invested in the construction and upgrading of new and existing infrastructure across all spheres of government between 2017/2018 and 2020/21. This will help to stimulate the constrained consultation sector.

These infrastructure investments will be focused on improving access to healthcare facilities, schools, water, sanitation, housing and electrification. Although investment in social infrastructure (i.e. healthcare facilities, schools etc.) is important, national government has placed a special focus on economic infrastructure (ports, roads, railway systems, power stations, dams etc.) due to their ability to improve the country’s competitiveness and promote economic growth. Infrastructure funding in this regard is anticipated to be allocated to provincial and local governments through the municipal and provincial infrastructure grant programmes.

Although the greater Knysna municipal area's construction sector is primarily positioned to meet the construction needs of the local residential and commercial property markets, there is potential to capitalise on this infrastructure investment. The ability of the greater Knysna municipal area's construction sector to capitalise on these and other trends is explored in through assessing the following sections in greater detail:

- Raw material availability
- Economic linkages
- Dominant market trends
- Labour supply
- Technological change and innovation

5.2.3.1 Raw Materials

Construction companies have access to all the necessary raw materials either from within the greater Knysna municipal area or from adjacent municipalities. Certain raw materials, such as sand and timber, can be sourced from businesses operating within the greater Knysna municipal area.

Construction timber is available from local sawmills, while sand is provided by two quarries located just outside of the town of Knysna. In addition to supplying crusher sand, limited quantities of decorative stone,

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building and plaster sand, dry-mix and washed river sand can also be sourced from these quarries. Neither of these two quarries provides track ballast (used as track bed for railway lines) or road stone.

Other raw material, such as cement, concrete and bricks have to be transported into the greater Knysna municipal area from other municipalities (i.e. George, Mossel Bay). There are no local brick manufacturers within the greater Knysna municipal area however, there are several supplies that can provide sufficient quantities to meet domestic household construction needs. Large developments require bricks to be imported into the greater Knysna municipal area from either George or Mossel Bay.

5.2.3.2 Economic Linkages

The greater Knysna municipal area’s construction sector value chain (see Figure 5.1) is inextricably linked with the value chains of other industries, with many of the value chain components being produced by other sectors. In general, backward and forward linkages between the construction sector value chain and other sectors in the greater Knysna municipal area exist but have limited possibilities for expanding.

**FIGURE 5.1: CONSTRUCTION SECTOR VALUE CHAIN**

Input-Output modelling and economic research indicates that the construction industry has strong backward linkages due to its dependence on other sectors for raw material inputs. These backward linkages include the supply of major inputs such as building materials, machinery and labour. As indicated above, most building materials and machinery required for large-scale construction projects (i.e. in excess of CIBD Grade 6) are sourced from suppliers in other municipalities. Local building material suppliers within the greater Knysna municipal area (i.e. Builders Express) however, have enough capacity to meet the demand for small-scale residential and commercial construction work.

The greater Knysna municipal area is well serviced by engineering and design service businesses such as town planners, architects and engineers. Approximately 11 such businesses were identified in the Knysna business database in 2015, mainly situated in the town of Knysna.

Forward linkages, which refers to downstream value chain products in the construction sector, such as roofing, painting and fencing services, are well developed in the greater Knysna municipal area. A local business database developed by the Knysna Local Municipality identifies 20 businesses that have forward linkages with the construction sector. These businesses include painters, electricians, hardware specialists, and building maintenance services.

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5.2.3.3 Market Structure and Trends

Private businesses operating in the construction sector are generally divided into construction companies and consulting companies. Construction companies (contractors) provide construction-related assembly services (in fields such as building and civil, electrical and mechanical engineering). These businesses are contracted by private or public sector clients to provide a service. Consulting companies provide professional services including feasibility studies, design and costing, procurement (compiling of tender documentation, and management of the process of procuring the services of construction companies), project management and contract management. There is however, a growing trend for both major public and private sector clients to appoint firms to provide a turnkey "all-in" design and build service, for which construction companies are usually the prime contractor.

Construction companies exhibit a high level of vertical differentiation, with up to 70% of building and 30% of civil construction projects subcontracted out\textsuperscript{110}. This level of subcontracting is anticipated to increase as the Preferential Procurement Regulations published by the Minister of Finance in 2017 begin to take effect. Under these regulations all spheres of government are encouraged to procure from SMMEs. Furthermore, for contracts valued at over R30 million and where feasible, to require successful tenderers to subcontract a minimum of 30% of the contract’s value to designated groups\textsuperscript{111}.

In recent years, there has also been a marked shift away from permanent employment in the sector, and a corresponding increase in the use of labour-only subcontractors. This trend has been attributed to several factors, such as the need for companies to be able to increase or decrease the size of their workforce rapidly, given the boom or bust nature of the industry.

Construction consulting companies are usually more vertically integrated, although these firms often form consortia or joint ventures to undertake larger projects. There is a certain amount of subcontracting within the consulting field, often for specialist advice, but much less than amongst construction companies.

Those manufacturing businesses that supply components such as bricks, precast concrete building units and fabricated steel to the construction sector are dominated by a number of established, large- and medium-sized companies. Due to economies of scale within the manufacturing sector, it is difficult for small companies to enter this market and compete with the established companies in terms of price.

In addition, quality standards specified by client bodies (such as meeting the required SABS standards) can create barriers to entry for new manufacturing businesses linked to the construction sector. This has meant that new manufacturers linked to the construction sector are making more progress in breaking into the less highly specified types of work, such as informal building work.

Stats SA’s construction industry assessment indicates that large enterprises (i.e. those with a turnover greater than R117 million) account for 55.9% (R219.1 billion) of the total income reported by the sector in 2014, down from 58.2% recorded in 2011\textsuperscript{112}. This indicates that more than 40% (or R173.1 billion) of sector income accrued to small- and medium-sized enterprises in 2014 (2011: 112.1 billion). The construction sector therefore plays an import role in the development of South African SMMEs. Expenditure in the construction sector in 2014 was primarily made up of purchases (R172.9 billion or 45.6%), payments to construction subcontractors,

\textsuperscript{110} SOURCE: Construction Industry Development Board (CIDB). 2013. SUBCONTRACTING IN THE SOUTH AFRICAN CONSTRUCTION INDUSTRY - OPPORTUNITIES FOR DEVELOPMENT.


which includes SMMEs (R85.6 billion or 22.6%) and salaries and wages (R61.3 billion or 16.2%). The industry is highly competitive, as illustrated by its relatively low profit margins. According to StatsSA, the profit margin for the South African construction sector remained consistent between 2011 and 2014 at 2.9%. ‘Construction of other structures’ had the highest profit margin at 10.0% (2011: 1.2%), followed by ‘shopfitting’ at 8.7% (2011: 2.6%), and ‘site preparation’ at 8.1% (2011: 5.9%). At 0.4% ‘construction by specialist trade contractors’ had the lowest profit margin in 2014 (2011: 2.6%).

As highlighted earlier, the economic performance of the construction sector is strongly correlated to the business cycle. This means that during periods of robust economic growth, businesses tend to expand their enterprises, which in turn leads to an increase in the demand for construction services.

The South African construction sector has started to show a modest improvement with the number of all building plans approved by local municipalities increasing in the first half of 2018. Between January and June 2018, the total square metres of building plans (residential and non-residential) approved by local municipalities increased by 3.5% when compared to the same period in 2017. This suggests that the construction sectors performance will not deteriorate significantly over the short to medium term. Despite these moderate improvements, major construction and engineering firms operating in South Africa remain under pressure as evident by Murray and Roberts disposal of its infrastructure and building platform in 2017, the operating difficulties experienced by Aveng during the 2016 to 2017 period, and Basil Read entering business rescue 2018.

Accordingly, Timetric’s assessment of the South African construction sector projects that it will only grow at an average annual rate of 1.5% over the 2017 to 2021 period, down from an average 2.6% per annum between 2012 and 2016.

The effects of these national trends could potentially be offset in the greater Knysna municipal area by three potential developments/trends namely:

- Rebuilding programme following the Knysna Fire
- Public sector driven investment in road and transport infrastructure
- Housing and human settlement development within the greater Knysna municipal area

**Knysna Fire Rebuild**

The 2017 Knysna fire caused an estimated R5.0 billion worth of damage to private housing, destroying an estimated 1,058 houses and damaging a further 576. Of this figure, 195 were classified as either BNG (45) or informal houses (150). In addition to the damage to residential property, an estimated 134 businesses in the greater Knysna municipal were affected by the fire – either destroyed (35.1%), damaged (32.1%), or experienced some form of secondary impact (32.8%). The damage caused by the Knysna fire also exposed many homes that contained asbestos materials. The removal of an approximately 902.1 tons of rubble contaminated with asbestos was estimated to cost a further R50 million.

Infrastructure damage in the aftermath of the Knysna fire has also been extensive, with the effect municipal areas requiring approximately R88.1 million for repairs the majority of which will be required in the greater

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115 Source: Garden Route Rebuild Initiative. 2018. GARDEN ROUTE REBUILD INITIATIVE: LANDSCAPE ASSESSMENT WORKSHOP.
116 Source: Knysna Local Municipality. 2017. KNYSNA MUNICIPALITY BUSINESS DAMAGE DISASTER ASSESSMENT.
Knysna municipal area. Of this figure R57.7 million with be required to repair water and power infrastructure, R16.4 million for public building repairs, and R14.0 million for road infrastructure repairs.

While the Knysna fire had an unprecedented on the greater Knysna municipal area community, it does present an opportunity for the construction sector. Based on the above information, it is estimated that over the next three years (2018 to 2020), R1.9 billion will be spent on the rebuilding efforts – R1.8 billion of which will be from the rebuilding of residential properties and R79.3 million from the repair of infrastructure. These rebuilding efforts could potentially boost GDP-R by R5.6 billion and create 9 585 employment opportunities as a result of the direct, indirect and induced effects over a three-year period. A significant percentage of this GDP-R will be captured by the construction sector.

**Road and Transport Infrastructure**

As indicated in the economic infrastructure assessment, there are major shortcomings with the provision of certain types of transport related infrastructure, particularly roads within the greater Knysna municipal area. Improving the road network, through upgrading and maintenance of strategic routes, will have several economic benefits, including increasing the areas competitiveness, creating jobs, allowing for the faster movement of goods and services etc.

The Knysna Local Municipality’s 2018 budget indicated that approximately R147.4 million was budgeted to be spent on roads and transport infrastructure between the 2018/2019 and 2020/2021 financial years. Based on the multiplier effect, this R147.4 million investment in roads and transport infrastructure, is estimated to increase GDP-R by R427.5 million and create approximately 722 employment opportunities as a result of the direct, indirect and induced effects. A significant portion of this increase is likely to accrue to the local construction sector.

**Housing and Human Settlement Development**

**Private Sector Provision**

Figure 5.2 indicates the trend in building plans approved by the Knysna Local Municipality and accordingly, the future provision of private sector driven housing. It is evident from the figure that the private sector residential developments have fallen sharply from their historical highs in 2007. In the three years prior to the fire, a clear upward trend in building plan approvals is evident. This increase was driven exclusively by the residential dwellings greater than 80 m².

Between June 2017 and June 2018, the Knysna Local Municipality approved 723 building plans representing a total 316 538 m². Of these building plans 68.3% were for major alterations, while only 27.2% were for minor changes. The sharp increase in building plan approvals and major alterations was as a direct result of the rebuilding efforts following the Knysna Fire. The estimated value of these building plans was R2.4 billion.

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117 Calculations are based on a rebuild rate of 30% (see Mockrin, M. et al. ADAPTING TO WILDFIRE: REBUILDING AFTER HOME LOSS); an average residential rebuild size of 307 m² and 282 m² for destroyed and damaged properties respectively (based on building plans approved by Knysna Local Municipality between June 2017 and June 2018); a rebuild cost of R7213 per m² (see ABSA RESIDENTIAL BUILDING STATISTICS MARCH 2018); and 90% of estimated infrastructure damage being in the greater Knysna municipal area. All figures are shown in 2017 prices.

118 Note that these figures represent the economy wide impact of the rebuilding efforts and therefore not all the GDP-R and employment will occur within the greater Knysna municipal area.


120 National multiplier figures were used for the construction sector as published by National Treasury in the 2016 Budget Review.

121 Based on a construction cost of R7213 per m² as indicated in ABSA. 2018. RESIDENTIAL BUILDING STATISTICS MARCH 2018.
By applying the construction sector multipliers to this figure, it was estimated that this investment would increase GDP-R by R7.0 billion and create 11,999 employment opportunities over the course of the build period.

It should be noted that it was not possible to isolate which of these 723 building plans related to the rebuilding efforts following the fire. As such there is likely to be double counting with the economic impact outlined under the Knysna Fire section above.

**FIGURE 5.2: RESIDENTIAL BUILDING PLANS APPROVED BY THE KNYSNA LOCAL MUNICIPALITY**

![Graph showing residential building plans approved by the Knysna Local Municipality from 2007 to 2017-2018]

**Public Sector Provision**

To establish the future demand for residential and ancillary developments, the Knysna Local Municipality commissioned a market research study in 2018. This study estimated that, over the next 10 years (2018 to 2028), the demand for housing would increase by approximately 11,272 units. Approximately 82.6% or 9,315 units of this demand would be in the market segment typically provided by the public sector (i.e. BNG, CRU, Social, FLISP and GAP housing). Assuming these will all be new top structures and not serviced sites, the total cost of this increased demand over 10 years would be R1.2 billion in 2017 prices. Through the multiplier effect of this investment, 5,927 job opportunities are likely to be created, the majority of which will be in the construction sector. Over the 10-year period GDP-R could be boosted by up to R3.5 billion.

Although there are no local contractors within the greater Knysna municipal area that are likely to be able to handle many of these large-scale housing and transport infrastructure projects (i.e. in excess of Grade 6), there are still likely to be benefits for the local construction industry. These benefits could accrue through

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123 Note that 2017 to 2018 figures represent the period between June 2017 and June 2018 as provided by the Knysna Local Municipality.

124 SOURCE: Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.

125 This figure is based on the revised Norms and Standards for the Construction of Stand Alone Residential Dwellings and Engineering Services issued by the Minister of Human Settlements and taking effect as of 1 April 2014. In terms of these standards, the total cost of a new dwelling amounts to R110,947. Note that the above figures relate to single, standalone dwellings and are not based on a densified housing development. Higher-density units are likely to increase this figure.

126 This includes both direct, indirect and induced effects and is reflected in 2017 prices.
ensuring that, as part of the contract, contractors are compelled to use the maximum allowable level of general, unskilled workers from the greater Knysna municipal area.

5.2.3.4 Labour and Skills

A skills audit was undertaken in 2018 by the Garden Route Rebuild Initiative (GRRI) as part of the Garden Route District’s Skills Summit. This audit identified the need to focus on bricklaying, carpentry and general building construction skills as well as skills associated with green building installation and repairs\(^\text{127}\). This supports the findings of the Garden Route District LED Strategy which indicated that the most common skills amongst workers in the district were associated with the construction sector (i.e. painting, bricklaying and tiling).

Although the greater Knysna municipal area has a number of workers that have the prerequisite construction experience, most of this experience relates to low-skilled jobs in the construction sector. As a result, large-scale construction projects undertaken in the municipality frequently require labour, particularly highly skilled individuals, to be sourced from outside of the greater Knysna municipal area (George and to a lesser extent Mossel Bay). The converse of this is true for small-scale construction projects, which source almost all of their semi-skilled and unskilled labour locally\(^\text{128}\).

The skills profile of the greater Knysna municipal area, which indicates a largely unskilled and semi-skilled labour force, means that future construction projects will likely have to import highly skilled staff from other areas. All unskilled and some semi-skilled construction work will be able to be met by the local labour force.

5.2.3.5 Technology change and innovation

Technology is increasingly being utilised by the firms in the construction sector to reduce costs, increase efficiency and improve completion times. The following section briefly discusses some technological changes that are being utilised by the construction sector.

Drones\(^\text{129}\)

Global and domestic construction companies have rapidly begun adopting unmanned aerial vehicles (UAVs) or drones to assist them with all aspects of their business. Drones are currently being used for several functions in the construction sector including:

- Inspecting inaccessible structures and/or locations such as rooves and below bridges as well as undertake site or maintenance inspections in high-risk areas.
- Conducting land surveys and, when equipped with the right technology, permit contractors to build 3-D structural models or undertake topographical assessments to determine the correct amount of materials required for a project.
- Assisting with managing site logistics in real-time by tracking on-site movements vehicles, machinery or cranes.
- Undertaking aerial thermal imaging to assess potential cold spots in buildings or heat spots in areas holding electrical components. This can give engineers and surveyors essential information when trying to identify and rectify building defects.

\(^{127}\) SOURCE: Garden Route Rebuild Initiative. 2018. EDEN SKILLS SUMMIT AND CONSTRUCTION, ENERGY INCLUDING WATER POSTER.

\(^{128}\) SOURCE: Interviews with local stakeholders. 2013.

\(^{129}\) SOURCE: Ayemba, D. 2018. UTILIZING DRONE TECHNOLOGY IN CONSTRUCTION.
New Materials\(^{130}\)

Construction materials that mimic nature (i.e. biomimics) are areas of current international research. Advances in biotechnology and materials science have made it possible to develop self-healing bio-concrete that grows back over its cracks, using encapsulated bacteria, as well as mortar-less self-fusing 'bio-manufactured' bricks made out of bacteria, sand, calcium chloride and urea.

The new generation photovoltaic roof glazing is able to deliver both shade as well as the capacity to generate up to 3,000 kWh of electricity each year. Transparent photovoltaic window glazing based on innovative, organic polymers is also being developed. These materials and technology aim to provide a low-cost replacement for standard window glass that will be able to generate electricity as well as offer solar control.

Additive manufacturing or concrete printing is making it possible to deposit layers of concrete very precisely. This greater precision will help to reduced waste. Such concrete production will also have lower gross CO\(_2\) emissions compared to a conventional concrete-form building, due to its ability to be undertaken on site.

Modular and Prefabrication\(^{131}\)

Modular refers to a finished product or “module” that is built off-site in a factory setting, and delivered to the construction site finished and ready to be installed. Modular pieces are then assembled in a specific order to create the end product.

Prefabrication, on the other hand, refers to the process of fabricating assemblies of building systems to a nearly complete state off-site also in a factory environment, and then delivering the elements to the project site for installation.

Prefabrication and modularisation are growing construction trends due, in large part, to an increased focus on sustainability and safety and the use of building information modelling (BIM). Prefabrication and modularisation are also particularly attractive to the construction sector as they help to improve productivity, provide individual construction businesses with a competitive advantage over competitors and are capable of meeting specific client demands.

5.2.3.6 Development Criteria

Table 5.3 below provides a summary of the key issues assessed in the construction sector potential analysis.

<table>
<thead>
<tr>
<th>TABLE 5.3: SUMMARY OF SECTOR POTENTIAL CRITERIA FOR THE CONSTRUCTION SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RAW MATERIALS</strong></td>
</tr>
<tr>
<td>The greater Knysna municipal area has an abundance of certain construction materials such as sand and timber. Other raw material such as cement, concrete and bricks, have to be transported into the greater Knysna municipal area from other locations (i.e. George). Local brick suppliers are situated in the greater Knysna municipal area but lack the necessary volumes required for large developments.</td>
</tr>
</tbody>
</table>


The construction sector is an important component of a growing local economy. Input-Output modelling as well as economic research indicates that the sector has strong backward linkages due to its high dependence on other sectors for construction inputs. Forward linkages are less significant due to the fact that the majority of construction outputs cater to the final demand.

The construction sector has started to exhibit a moderate upward trend, with the number of building plans approved increasing by 3.5% during the first half of 2018. Current projects are that the national construction sector will grow at 1.5% year-on-year over the 2017 to 2021 period.

The rebuilding efforts following the 2017 Knysna fire are expected to inject R5.6 billion into the local and national economy over the next three years, a significant portion of which will accrue to the local construction sector. The transport infrastructure investment by the Knysna Local Municipality has the potential to create 772 construction-related job opportunities, while the public sector driven housing programme has the potential to create a further 5,927 job opportunities over the next 10 years.

The volume of construction activity within the greater Knysna municipal area, even at its peak in 2005, was unable to sustain clustering and agglomeration advantages. Given future economic prospects for the greater Knysna municipal area, this is likely to continue to hold true.

The absence of major raw material suppliers and the future forecasted demand suggests that the greater Knysna municipal area will be unable to act as a nodal point for the construction sector.

The labour intense nature of construction projects, coupled with the sector’s ability to temporarily absorb unskilled and semi-skilled workers, presents considerable opportunities for the greater Knysna municipal area when it comes to addressing the area’s high number of low-skilled, unemployed people. On-the-job training, which frequently accompanies construction work, can also help to equip the unemployed with basic construction-related skills.

The introduction of new construction materials such as bio-concrete, photovoltaic roof glazing, and waste and other reused products is likely to promote the development of the Knysna construction sector, particularly given the absence of other, more traditional, resources. Increased use of drone technology will help to reduce overall construction costs, while also creating opportunities for drone manufacturers in the greater Knysna municipal area.
Green Building regulations (i.e. Green Star Rating System) as well as new laws governing the building of habitable structures are likely to create opportunities for developing new types of structures.

5.2.3.7 Sector Potential

Based on the outcomes of the detailed sector potential analysis, Table 5.4 highlights several opportunities for the construction sector in the greater Knysna municipal area.

**TABLE 5.4: CONSTRUCTION SECTOR POTENTIAL AND OPPORTUNITIES**

<table>
<thead>
<tr>
<th>GREEN CONSTRUCTION</th>
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<tbody>
<tr>
<td>The growth of the green economy could be accelerated through the “green” reconstruction of the more than 1 600 houses damaged by the Knysna Fire. This could be linked to the national Green Building Regulations and use the greater Knysna municipal area’s recognised green credentials, as a means of encouraging rebuilt structures to become more energy efficient, sustainable while at the same time making use of locally sourced construction materials. This could include the construction of new timber frame homes utilising locally sourced timber. Local construction firms could obtain expertise in green construction, and the retrofitting of existing structures with green technology, enabling them to capture a share of the global green building materials market which is forecasted to reach $364.6 billion by 2022.</td>
</tr>
</tbody>
</table>

Irrespective of whether green construction principles are adopted, the rebuilding efforts following the Knysna Fire will create an opportunity to expand the construction sector, albeit temporarily.

<table>
<thead>
<tr>
<th>SPORTS AND RECREATIONAL FACILITIES</th>
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</thead>
<tbody>
<tr>
<td>The development of sports facilities in strategic locations within the greater Knysna municipal area not only positions the area as a sporting destination, but also creates opportunities for SMMEs to participate in their construction. Targeted areas for such facilities should be in the Northern Urban Areas of Knysna.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MUNICIPAL INFRASTRUCTURE UPGRADING/DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a significant backlog in terms of water, sewerage and transport infrastructure which requires considerable investment on the part of the Knysna Local Municipality. Municipal infrastructure development creates potential for the municipality to encourage the use of local labour. The establishment of mandatory training programmes as part of construction tenders will help facilitate both basic and advanced skills training for the local labour force.</td>
</tr>
</tbody>
</table>

The proposed R147.4 million investment in transport infrastructure alone has the ability to create an estimated 722 jobs.

<table>
<thead>
<tr>
<th>TRANSPORT FRAMEWORK PLAN</th>
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<tbody>
<tr>
<td>The development of a transport framework plan will create construction opportunities associated with the redevelopment of existing transport network facilities, the creation of new taxi shelters, the upgrading of transport infrastructure along key routes, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KNYSNA CBD RENEWAL PROGRAMME</th>
</tr>
</thead>
<tbody>
<tr>
<td>This programme entails repairing, upgrading, beautifying, and adding to the functionality and form of Grey Street, the Taxi Rank Precinct (including portions of Nelson and St George’s Streets), Long Street,</td>
</tr>
</tbody>
</table>
Main Road and Waterford Drive in the Knysna CBD. The expenditure incurred on this programme will create opportunities for local construction firms to act as subcontractors, and create work opportunities for construction-linked SMMEs.

**PUBLIC/PRIVATE HOUSING BUILD PROGRAMME**

There is a notable demand for low-income, public sector provided housing within the greater Knysna municipal area. The Knysna Local Municipality is legislatively required to assist in facilitating the establishment of such housing. This presents an opportunity for ensuring greater participation by local construction companies, suppliers and SMMEs. The over 700 residential building plans approved in 2017, coupled with the projected increase in demand for low- and middle-income housing, is also likely to stimulate the local construction sector, create jobs and increase household income.

### 5.2.4 WHOLESALE AND RETAIL TRADE

The trade sector entails wholesale and commission trade; retail trade; repair of personal household goods; sale, maintenance and repair of motor vehicles and motor cycles; hotels, restaurants, bars, canteens, camping sites and other provision of short-stay accommodation.

Table 5.5 indicates how large and pervasive the trade sector is in the greater Knysna municipal area. The sector is also highly diverse in terms of size and structure of businesses; what is sold (and to whom); and where and how they operate.

As the sector that connects production and consumption, the trade sector is also closely linked to a number of other sectors in the economy. These include various manufacturing industries, construction, transport and the wider logistics sector (including freight transport and cargo handling) as well as warehousing and storage.

The trade sector’s strong cross-sectoral linkages mean that it has a multiplier effect on the rest of the economy, enhancing trade for other consumer-based enterprises, such as tourism, food and drink, sports and leisure, personal services (e.g. hairdressing) and supporting the evening and night-time economy.

**TABLE 5.5: ECONOMIC SNAPSHOT OF THE WHOLESALE AND RETAIL TRADE SECTOR IN 2017**

<table>
<thead>
<tr>
<th></th>
<th>KNYSNA</th>
<th>GARDEN ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector GDP-R (R, millions)</td>
<td>R194.5</td>
<td>R1 852.4</td>
</tr>
<tr>
<td>Sector contribution to total GDP-R</td>
<td>17.1%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Average annual GDP-R growth rate (2011 – 2017)</td>
<td>0.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Sector employment</td>
<td>6 999</td>
<td>55 901</td>
</tr>
<tr>
<td>Sector contribution total employment</td>
<td>27.0%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Average annual employment growth rate (2011 – 2017)</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

The following section provides a profile of both the formal and informal trade sector in the greater Knysna municipal area. It includes an assessment of the characteristics of businesses operating within the municipality, labour and skills levels, as well as the location and economic linkages within the sector.
5.2.4.1 Business Characteristics\textsuperscript{132, 133}

The following section looks at the characteristics of businesses operating within the greater Knysna municipal area, focusing on which sectors they operate in, the number of years they have been operating and trends in their business turnover.

Figure 5.3 illustrates the various economic sectors in which businesses in the greater Knysna municipal area are classified. As evident from the diagram, the majority of businesses surveyed were active in the trade sector. This can be linked to Section 4.4.2, where it is illustrated that the trade sector is one of the most important economic sectors in the greater Knysna municipal area in terms of both employment and GDP-R contribution. The greater Knysna municipal area’s popularity as a tourist destination means that most of these trade sector businesses are in the accommodation and restaurant sub-sector (18.1%).

\textbf{FIGURE 5.3: SECTORAL CLASSIFICATION OF THE GREATER KNYSNA MUNICIPAL AREA’S BUSINESSES IN 2015}

![Sectoral Classification Diagram]

These findings are comparable to a similar study undertaken in 2012, which indicated that the trade sector accounted for 55.5% of all businesses in the greater Knysna municipal area during that year, slightly lower than the 62.3% recorded in 2015\textsuperscript{134}. While the 2012 Business Climate Survey did not indicate the sectoral composition of businesses operating in the greater Knysna municipal area, a 2007 study put the catering accommodation services sub-sectors share of total businesses in the area at 22.6%\textsuperscript{135}, higher than the 18.1% recorded in 2015.

The breakdown of how long businesses in the greater Knysna municipal area have been operating for is shown in Table 5.6. The table indicates that the majority of businesses in both 2012 (43.0%) and 2015 (37.5%) have been in operation for more than 10 years. This suggests that the greater Knysna municipal area has a well-established trade sector.

\textsuperscript{132} SOURCE: Interviews with local stakeholders. 2018.
\textsuperscript{133} SOURCE: Knysna Local Municipality. 2015. KNYSNA BUSINESS UNIT STUDY.
\textsuperscript{134} SOURCE: Knysna Local Municipality. 2012. BUSINESS CLIMATE SURVEY.
\textsuperscript{135} SOURCE: Knysna Local Municipality. 2008. KNYSNA LOCAL MUNICIPALITY LED STRATEGY.
The well-established nature of the business sector in the greater Knysna municipal area was evident in the weighted average number of years that a typical business has been operating which was 8.4 years in 2015 (2012: 8.9)\(^{136}\). This was still lower than the 10.9 years recorded in 2007. The lower values recorded in 2012 and 2015 can be attributed to the closure of several established business, particularly in the furniture manufacturing industry.

**TABLE 5.6: NUMBER OF YEARS IN OPERATION\(^{137}\)**

<table>
<thead>
<tr>
<th>NUMBER OF YEARS IN OPERATION</th>
<th>2007</th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>-</td>
<td>8.5%</td>
<td>10.8%</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>23.0%</td>
<td>29.7%</td>
<td>28.6%</td>
</tr>
<tr>
<td>6 - 10 years</td>
<td>19.0%</td>
<td>18.8%</td>
<td>23.2%</td>
</tr>
<tr>
<td>10+ years</td>
<td>58.0%</td>
<td>43.0%</td>
<td>37.5%</td>
</tr>
</tbody>
</table>

New business development in the greater Knysna municipal area improved marginally between 2012 and 2015. Over this period start-ups, defined as business operating for less than one year, share of total businesses within the greater Knysna municipal area increased from 8.5% in 2012, to 10.8% in 2015. This increase in start-ups suggested an improvement in overall confidence by businesses operating in the greater Knysna municipal area between 2012 and 2015.

This improvement in business confidence was further borne out by the increase in the number of local businesses that indicated that they planned to expand their operations and the low percentage (6.0%) of businesses that considered closing their business as a future possibility. In terms of future growth prospects, 43.0% of businesses indicated that they planned to expand in the near future compared to only 28.0% in 2012.

**FIGURE 5.4: ANNUAL BUSINESS TURNOVER IN 2012**

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\(^{137}\) It should be noted that the surveys undertaken in 2007 and 2012 did not use the same ranges for “Number of years in operation” as the 2015 survey. The 2007 and 2012 figures have therefore been adjusted to bring them in line with the ranges used in the 2015 business survey.
A survey undertaken with almost 800 businesses located in the town of Knysna in 2012 indicated that approximately 65.0% of these businesses had a turnover of less than R1 million (see Figure 5.4). A further 30% of surveyed businesses had an annual turnover of between R1 million and R14 million. Given that the town of Knysna accounts for an estimated 78.3% of all businesses within the municipality, it is probable that the turnover spread of this sample is sufficiently representative of other settlements.

When asked about the trend in their turnover over the last two years, 66.0% of businesses surveyed in 2015 indicated that it had increased. As seen in Figure 5.5 the primary driver of this increase in turnover was higher sales (30.1%), the adoption of a new marketing strategy (21.0%), and increased productivity (19.8%). Of the 34.0% of businesses that experienced a decline in turnover over the last years, the principle cause cited was a reduction in sales (48.0%) and industry shifts in the market (16.7%).

![Figure 5.5: Reasons for Change in Business Turnover](chart)

Engagements with local retailers and businesses operating in the trade sector indicated that, on average, nearly 90% of all their inputs were sourced from suppliers based outside of the greater Knysna municipal area. The most frequently cited sources of retail businesses’ inputs were Cape Town (34.6%), Johannesburg (19.2%), and Port Elizabeth (11.5%). Only 7.7% of businesses indicated that they sourced business inputs from within the greater Knysna municipal area (2014: 4.5%). The principal market for retail businesses sales was the greater Knysna municipal area (75.0%) which included both locals and tourists; followed by consumers in the Garden Route District Municipality (25.0%).

### 5.2.4.2 Labour and Skill Levels

The following section briefly presents the employment and skill level trends applicable to the trade sector. As evident from Figure 5.6, 65.0% of businesses in the town of Knysna employed fewer than five people and only 10.0% employed more than 20 employees in 2012. On average, businesses based in the town of Knysna

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139 SOURCE: Knysna Local Municipality. 2012. KNYSNA BUSINESS CLIMATE SURVEY.

140 SOURCE: Knysna Local Municipality. 2015. KNYSNA BUSINESS UNIT STUDY.

141 SOURCE: Interviews with local stakeholders. 2018. Note that interviewees were permitted to indicate multiple locations from where they source their business inputs.
each employed 9.2 people\(^{142}\). Average employment for businesses based in the Knysna industrial area was higher than this figure, with these businesses employing on average 11.0 people.

**FIGURE 5.6: NUMBER OF STAFF EMPLOYED BY BUSINESSES IN THE TOWN OF KNYSNA IN 2012**

As part of the 2015 Knysna Business Unit Survey businesses were asked to list the types of skills they find most lacking in the greater Knysna municipal area and which they require to effectively conduct their business. From Figure 5.7 it was evident that the major gaps were in communication skills (40.0%); the adequacy of formal training (18.0%); and technical skills (17.0%). All of these skills were critical to the success of the trade sector.

**FIGURE 5.7: SKILL GAPS THAT IMPACT BUSINESSES**

Based on these survey results, there is a clear need for the Department of Basic Education, the Department of Higher Learning and Training and the various SETAs to improve their provision of services in closing the

\(^{142}\) SOURCE: Urban-Econ calculations based on THE KNYSNA BUSINESS SURVEY 2012 – FINAL DRAFT REPORT.
skills gap amongst employed and unemployed persons within the greater Knysna municipal area. Focus areas for this skills training should be:

- Advertising and marketing
- Computer literacy
- Business management
- Hospitality
- Financial Management and accounting

**Informal Economy**

Whilst there are several formal businesses operating within the greater Knysna municipal area informal settlements, most of the enterprises located in these areas are considered to be operating in the second economy\(^\text{143}\). The second economy in the greater Knysna municipal area is a versatile and dynamic sector and includes a variety of economic activities, such as liquor retailers/shebeens, spaza shops, house shops, hair salons, etc.

A manual audit of informal traders operating in the town of Knysna identified an estimated 75 operational enterprises in 2013. From Table 5.7 it is evident that the majority of these businesses fall within the trade sector. The most prevalent types of informal traders were spaza shops (38.7%), hair salons/barbers (12.0%) and vehicle repair and/or panel beaters (10.7%).

**TABLE 5.7: NUMBER AND TYPE OF INFORMAL BUSINESSES**\(^\text{144}\)

<table>
<thead>
<tr>
<th>TYPE OF BUSINESS</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car washing</td>
<td>6.7%</td>
</tr>
<tr>
<td>Fruit and vegetables</td>
<td>6.7%</td>
</tr>
<tr>
<td>Hair Salons/Barbers</td>
<td>12.0%</td>
</tr>
<tr>
<td>Spaza shops</td>
<td>38.7%</td>
</tr>
<tr>
<td>Taverns, bottle store and shebeens</td>
<td>8.0%</td>
</tr>
<tr>
<td>Vehicle repairs and panel beaters</td>
<td>10.7%</td>
</tr>
<tr>
<td>Other(^\text{145})</td>
<td>17.3%</td>
</tr>
</tbody>
</table>

The 2012 Knysna Business Survey, which included informal traders operating in the town of Knysna, suggests that these traders employ approximately 2.4 people each\(^\text{146}\). Based on this figure, it was estimated that informal traders in the town of Knysna directly employed 173 people and supported a further 536 people in 2013.

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\(^{143}\) The South African Department of Economic Development defines the second economy as a range of activities/businesses that are often marginal, outside the regulatory net and survivalist in character.

\(^{144}\) SOURCE: Knysna Local Municipality, 2013. AUDIT OF INFORMAL TRADERS IN THE TOWN OF KNYSNA.

\(^{145}\) Other includes tailors; shoe repairs; cell phone shops; radio and television repairs; and internet providers.

\(^{146}\) SOURCE: Urban-Econ calculations based on THE KNYSNA BUSINESS SURVEY 2012 – FINAL DRAFT REPORT.
5.2.4.3 Location and Economic Linkages

Most of the formal businesses in the greater Knysna municipal area are concentrated in its two main urban centres – Knysna and Sedgefield. This is evident from Figure 5.8, which shows that in 2015 97.7% of surveyed businesses were located within these two settlements (2012: 93.7%). Although these two settlements account for the majority of formal businesses, 82.5% of these businesses were situated in the town of Knysna, which included the CBD, Industrial area and the residential areas, up from 78.4% in 2012.

**FIGURE 5.8: SPATIAL LOCATION OF BUSINESSES IN THE GREATER KNYSNA MUNICIPAL AREA**

The concentration of businesses and trade activities in the Knysna CBD is partly attributable to the availability of shopping centre space in this area. As of 2017, the total gross lettable area (GLA) in shopping centres within the Knysna CBD was estimated at 57,837 m². This was split across six main centres as seen in Table 5.8.

**TABLE 5.8: TOTAL RETAIL SUPPLY IN THE KNYSNA CBD IN 2017**

<table>
<thead>
<tr>
<th>TYPE OF BUSINESS</th>
<th>SIZE (m² GLA)</th>
<th>ANCHOR TENANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garden Route Shopping Centre</td>
<td>5 184</td>
<td>Shoprite; ABSA; Nedbank; Ellerines</td>
</tr>
<tr>
<td>Knysna Square</td>
<td>5 592</td>
<td>Checkers</td>
</tr>
<tr>
<td>Knysna Mall</td>
<td>28 435</td>
<td>Foschini Group; Woolworths; @Home</td>
</tr>
<tr>
<td>The Waterfront Knysna Quays</td>
<td>3 560</td>
<td>Restaurants and small chops</td>
</tr>
<tr>
<td>Woodmill Lane Leisure Shopping</td>
<td>10 666</td>
<td>Pick n Pay Super/Liquors/Clothing; Clicks</td>
</tr>
<tr>
<td>Woodmill Walk</td>
<td>4 400</td>
<td>Truworths</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57 837</strong></td>
<td></td>
</tr>
</tbody>
</table>

From an informal business perspective, Figure 5.9 indicates the spatial of location of informal trades in the town of Knysna based on the manual audit undertaken in 2013. Based on this audit, informal traders were found to be distributed almost equally between the Northern Areas (38.2%), Hornlee (34.2%) and Nekkies (27.6%).

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147 Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.
Using the spatial distribution of businesses as outlined in the 2015 Business Unit Survey, it was estimated that the number of informal businesses within the town of Knysna had increased to 177 by 2015. This represents a 133.2% increase in absolute terms since 2013. The Northern Areas, which for the purpose of this estimate included Nekkies, accounted for 87.1% of this growth, with Hornlee only accounting for 12.9%. The Northern Areas, including Nekkies, exhibited the fastest growth in informal trader numbers increasing by an estimated 176.0% in absolute terms between 2013 and 2015. Hornlee informal trades in contrast, only grew by 50.0% over the period.

**FIGURE 5.9: LOCATION OF INFORMAL TRADERS IN THE TOWN OF KNYSNA**

5.2.4.4 Market Structure and Trends

**International**

Total international retail sales showed positive growth in the last year, increasing by 5.8% from 2016 to reach $22.6 trillion by the end of 2017.\(^{148}\) The emphasis for many traditional retailers continues to be away from large-scale expansion efforts to strategies that improve profitability and achieving greater business efficiency, through a focus on the information technology and supply chain optimisation. This has been driven by businesses such as Amazon, which are frequently foregoing short-term profits, to capture a greater number of customers and increase their market share.\(^{149}\)

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\(^{149}\) **SOURCE:** Deloitte. 2018. GLOBAL POWERS OF RETAILING 2018.
E-commerce continues to be a driving force in the retail industry, requiring retailers to connect with users on multiple shopping channels (i.e. physical stores, smartphones, tablets). Retailers across the globe are rapidly adapting to the fact however that, from a consumer perspective, shopping is not about choosing between brick-and-mortar stores or online retailers or between one channel or another. Instead, consumers are channel-agnostic. The shopping experience and pre-shopping research is a fluid process with consumers switching between online and offline along the path to purchase.

The extent to which digital interaction are influencing consumer spending is also rising rapidly. In 2016, it was estimated such digital interactions influence 56 cents of every dollar spent in brick-and-mortar stores, up from 36 cents from 2013. Furthermore, people who shop using different methods – including online, mobile and visits to a physical store – spend more than double those that only shop at bricks-and-mortar stores.

This means retailers must adequately and holistically plan, strategize, and execute across all channels, necessitating a “total retail” approach. This approach ensures a unified brand strategy across all channels that provides customers with an experience that is consistent, of a high-quality and which integrates back-office operating models with agile and innovative technologies. Total retail will entail ensuring a seamless shopping experience for a customer whether the ultimate sale happens online or in-store.

FIGURE 5.10: INTERNATIONAL TRENDS IN RETAIL SECTOR

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150 SOURCE: Deloitte. 2016. THE NEW DIGITAL DIVIDE.
151 SOURCE: Deloitte. 2014. DIGITAL INFLUENCES MORE THAN $1 TRILLION IN RETAIL STORE SALE.
154 SOURCE: Adapted from PricewaterhouseCoopers. 2014. ACHIEVING TOTAL RETAIL CONSUMER EXPECTATIONS DRIVING THE NEXT RETAIL BUSINESS MODEL. Updated based on data from Figure 5.13.
Other major global retail trends are illustrated in Table 5.9 below.\(^{155}\)

**TABLE 5.9: MAJOR TRENDS IN THE GLOBAL TRADE SECTOR**

<table>
<thead>
<tr>
<th>TREND</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased importance of the mobile transactions</td>
<td>While cash and credit cards will still be important methods of transacting, an increased number of retailers are anticipated to start utilising mobile payment methods such as PayPal, Google Wallet and South African equivalents such as SnapScan, PayGate and the Payment Pebble. Such technology is ideal for new start-ups, non-traditional businesses, and informal traders. According to the World Payments Report(^{156}), the volume of non-cash transaction will grow at an average annual rate of 10.9% between 2015 and 2020, reaching 725.9 billion by 2020.</td>
</tr>
<tr>
<td>Conscious Consumer(^{157})</td>
<td>Today's customers have a well-developed sense of what is authentic and what is deployed by businesses simply as a means of sales. This has led to a rise in consumers who make values-based judgements about what they buy and where they shop. These consumers believe their purchase habits have an impact on the world and includes the purchase of products that are ‘free from’ or ‘made with.’ To retain and grow their customer base, businesses increasingly need to stand for something and reflect that message consistently throughout the entire business from senior leadership through to front line staff. This conscious consumer movement is also growing rapidly. For example, one third of UK consumers, claim to be very concerned about issues regarding the origin their products. Another study by YouGov and the Global Poverty Project found that 74.0% of respondents would be willing to pay a higher price for their clothes if there was a guarantee that workers were being paid fairly and working in safe conditions. This trend is particularly prevalent among Millennials, with 73.0% indicating that they would be willing to spend more on a product if it came from a sustainable brand.</td>
</tr>
<tr>
<td>The number of mobile businesses will increase</td>
<td>As a result of Point of Sale (POS) systems, cloud application and mobile applications, retailers will be able to do business anywhere, particularly in informal areas. This is likely to promote the creation of new on-the-go stores such as food trucks and pop-up stores.</td>
</tr>
<tr>
<td>Real-time response to queries</td>
<td>Retail customers are increasingly going to expect immediate answers to specific product queries. A number of businesses have already begun offering these services via live chat, SMS alerts, 24-7 hotlines, and social media; however, it is anticipated that brick-and-mortar retailer stores will also begin offering these services through enabling sales staff to access real-time customer information. This area is likely to face stiff competition in the future from Artificial Intelligence (AI) such as chatbots, with Gartner predicting that by 2020,</td>
</tr>
</tbody>
</table>


\(^{157}\) SOURCE: KPMG. 2018. GLOBAL RETAIL TRENDS.
85.0% of all customer interactions will be managed without human involvement\textsuperscript{158}. The prevalence of AI will also be able to provide retailers with significant amounts of data which will enable them to deliver personalised, customised and localized experiences to customers.

**National**

The development of the retail industry in South Africa is influenced by both global economic conditions and domestic macroeconomic factors. Key to retail growth is also the availability of consumers with sufficient disposable income. Residential growth in an area results in new retail developments, which in turn increase retail sales.

The demand for retail is driven by a number of factors. These factors include customer related aspects such as population size, population growth and existing quality of retail space, household income, household expenditure patterns, consumer preferences and seasonal aspects. The supply of retail space is dependent on retail demand, competition, current useable land, rental rates, infrastructure availability, construction costs, surrounding land uses, speculative climate and vacant retail space.

Since the performance of the retail sector is largely dependent on the consumer, it is important to consider their confidence in the economy, as this provides an indication of consumer’s propensity to spend.

**FIGURE 5.11: FNB/BER CONSUMER CONFIDENCE INDEX FOR SOUTH AFRICA BETWEEN 2011 AND 2018\textsuperscript{159}**

According to the FNB/BER Consumer Confidence Index (CCI)\textsuperscript{160} (see Figure 5.11), consumer confidence has remained muted throughout the 2012 to 2017 period, increasing into positive territory only four times in 24

\textsuperscript{158} SOURCE: KPMG. 2018. GLOBAL RETAIL TRENDS.

\textsuperscript{159} SOURCE: Bureau of Economic Research (BER). 2018. FNB/BER CONSUMER CONFIDENCE INDEX.

\textsuperscript{160} The FNB/BER Consumer Confidence Index (CCI) combines the results of three questions posed to a representative sample of 2500 adults living in predominantly urban areas in South Africa. These questions relate to respondent’s expectations about the economic performance over the country over the next 12 months, the expected financial position of the household in the next 12 months, and the appropriateness of the present time to buy durable goods, such as furniture, appliances and electronic equipment. Consumer confidence is then expressed as a net balance of these questions, which is calculated as the percentage of respondents expecting an improvement/good time to buy durable goods less the percentage expecting a deterioration/bad time to buy durable goods. Theoretically, the FNB/BER CCI can vary between -100 and +100, but the index has fluctuated between –33 (indicating an extreme lack
straight quarters. Western Cape consumer confidence, in addition to being lower than South Africa’s, remained negative throughout the 2011 to 2017 period. After hovering below zero for most of 2017, the FNB/BER CCI increased to +26 in the first quarter of 2018, an all-time high, on the back of the election of a new ANC president in December 2017. This jump in the first quarter of 2018 breaks the trend of below-zero readings on the index and indicates that most consumers are now optimistic about the outlook for the South African economy and their household finances.

After increasing to an all-time high during the first quarter of 2018, the FNB/BER CCI dipped marginally in the second quarter of 2018. Since negative corrections have typically followed large spikes in the FNB/BER CCI in the past, it is unusual that consumer confidence levels have continued to remain so high. Furthermore, there have been several adverse developments in the early part of the third quarter of 2018 that had the potential to reduce consumer confidence.

Although the elevated consumer confidence level suggested that consumers remained mostly willing to spend money, this did not necessarily imply that actual consumer spending was robust. Household income levels and/or access to credit would have had to improve in conjunction with the positive sentiment to see strong household expenditure growth during the second quarter. Although the seeds of an economic recovery have been planted, and pledges have been made to address corruption, investor-friendly reforms are still urgently required to boost economic growth and household income levels.\footnote{SOURCE: Bureau of Economic Research (BER). 2018. FNB/BER CONSUMER CONFIDENCE INDEX, 2018Q2.}

\textbf{FIGURE 5.12: SOUTH AFRICAN RETAIL SALES RELATIVE TO THE PRIME INTEREST RATE}\footnote{SOURCE: Urban-Econ calculations based on Stats SA’s retail sales between 2012 and 2017 and South African Reserve Bank prime interest rate figures between 2012 and 2017.}

Figure 5.12 demonstrates the performance of the South African retail industry based on retail sales as well as the relationship between these figures and the prime interest rate.
South African consumers are characterised as having high levels of household debt, suggesting that a significant percentage of the population finance their purchases through credit. Figure 5.12 reveals that whenever the prime interest rate is high, retail sales trend lower. Accordingly, there is a negative correlation. This suggests that consumers shop less when interest rates are high, causing retail sales to decrease.

Interest rates, which were at historic lows between most of 2012 and 2013, have climbed steadily since January 2014, reaching 10.5% by March 2016 as the South African Reserve Bank (SARB) steadily raised rates to kerb inflation. Over this period, retail sales grew by only 0.2% month-on-month, compared to 2.2% month-on-month between July 2012 and December 2013 when interest rates were low. The interest rate remained unchanged for 16 straight months before it was lowered by 25 basis points in July 2017 to 10.25%, where it remained for the rest of 2017. This reduction interest rate had a positive impact on retail sales which between July 2017 and December increased by 6.7% month-on-month.

The South African Reserve Banks forecasts a gradual rise in the interest rate over the next three. SARB forecasts project that the prime interest rate will be 10.4% in 2018, rising to 10.8% in 2019 and 11.2% by 2020. This upward interest rate cycle is anticipated to adversely impact total retail sales which are expected to grow by 1.5% year-on-year in 2018, compared to 3.8% in 2017.

Online sales

In the last several years the international retail industry has experienced a major revolution, which has seen increasing numbers of people shopping online rather than in conventional brick-and-mortar stores.

According to a 2012 online retail study, South Africa’s online retail industry has entered a period of sustained acceleration, with the number of South African consumers shopping online increasing from 53.0% in 2010 to 58.0% in 2012. Figure 5.13 shows the total value e-commerce sales by South Africans from 2007 to 2015. It also indicates the estimated e-commerce sales for 2016 and 2017 based on other research reports.

From Figure 5.13 it is evident that online sales have increased rapidly since 2007. The total amount spent on online retail goods in the country increased from R928.0 million in 2007 to an estimated R10.0 billion in 2017, representing almost 1.0% of all retail sales. This equates to an average annual increase of 26.8% over the period. In 2017, e-commerce sales totalled an estimated R10.0 billion, a 136.7% increase from 2013. This increase in online retail is attributed to greater internet access, higher smartphone penetration levels and increasing confidence in online retail amongst internet users.

164 SOURCE: Trading Economics. 2018. SOUTH AFRICA RETAIL SALES YOY – FORECAST.
165 SOURCE: PricewaterhouseCoopers. 2014. ACHIEVING TOTAL RETAIL CONSUMER EXPECTATIONS DRIVING THE NEXT RETAIL BUSINESS MODEL.
Local

Trends in the greater Knysna municipal area’s trade sector have remained static over the last several years, with the last major retail developments being the construction of the Knysna Mall and Checkers Centre. All these developments have occurred in the town of Knysna, where the majority of retail activity is concentrated. There is a strong sentiment amongst stakeholders that the development of the Knysna Mall has had an adverse impact on the Knysna CBD. There is a widely held perception that the introduction of the mall into the CBD has led to foot traffic being diverted from the main street into the mall. This decline in Main Road foot traffic has resulted in many retail businesses, which are dependent on foot traffic for their financial viability, being forced to relocate to the mall.

This movement away from street fronting line shops has helped to contribute to the overall deterioration of the CBD. Although the area continues to play a strategic role in the local trade sector, certain precinct and sub-corridors remain underdeveloped or are not being used to their full potential. A recent assessment of the CBD identified several shortcomings with the area including:

- A prevalence of litter and rubbish;
- A fragmented infrastructure network that hampers the flow of people;
- A disproportionate amount of space being taken up by motor vehicles;
- The absence of visible policing/law enforcement in concentrated areas; and
- Insufficient road upgrading, a lack of signage, unsightly building facades, and cleaning and water draining problems that are threatening the overall image and functionality of the CBD.

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169 SOURCE: Knysna Local Municipality. 2016. KNYSNA CENTRAL CBD REGENERATION PROGRAMME - PROJECT TASK TEAM MEETING.
To address this, the Knysna Local Municipality is pursuing a CBD renewal programme focusing on five areas – Grey Street, the Taxi Rank Precinct (including portions of Nelson and St George’s Streets), Long Street, Main Road and Waterford Drive. The overarching goal of the programme will be to repair, upgrade, beautify, and add to the functionality and form of areas in the Knysna CBD. The specific objectives of the programme are to build, restore and renew the CBD and enhance it as central to Knysna’s future economic and social success and a destination for tourism, business and an attractive liveable space.

The long-term success of the process will be contingent on partnerships between the municipality, the private sector and citizens. One such partnership has been a private sector driven roll-out of CCTV cameras, which has improved the security situation in the CBD for all users.

The initial focus of the programme will be on the renewal of the Grey Street precinct from the Main Road to Waterfront Drive. To date, an urban design framework has been developed to guide the CBD renewal process. This framework will be instrumental in informing the actual detailed infrastructure and urban design upgrades that follow. Initial infrastructure work on water services and surface upgrades outlined in the urban design framework is scheduled to begin in August 2018. The project cost of this renewal programme is R25.3 million, R17.6 million of which will be spent on capital projects.

The potential of introducing a Special Ratings Area (SRA) or Business Improvement District is also being explored by the Knysna Local Municipality for the CBD area.

Based on an assessment of commercial retail property available within the greater Knysna municipal area and engagements with local stakeholders, the following additional information was established about the local trade sector:

- The absence of suitable retail space for start-up businesses, particularly SMMEs. It was indicated that many lessors were charging inflated rental rates for retail space (i.e. R126 per square metre). There was also a perceived unwillingness of lessors to lower their rental rates.
- The average asking price to purchase a commercial property in the greater Knysna municipal area was R12 960 per m\(^2\) of GLA in 2018, down 8.9% from R14 231 per m\(^2\) of GLA in 2017. This price varied notably between Knysna (R15 881 per m\(^2\) of GLA) and Sedgefield (R6 741 per m\(^2\) of GLA). It should however, be noted Knysna accounted for 62.2% of available commercial property in 2018, compared to only 30.8% for Sedgefield.

In order to establish the potential future retail space requirements in the greater Knysna municipal area, the Knysna Local Municipality commissioned a market research study in 2018. Using projected population figures, household income and expenditure patterns, consumer preferences, and the existing supply of retail space, the study found the following:

- Market potential for a retail centre in the greater Knysna municipal area was approximately 7 438 m\(^2\) GLA in 2018. Operationalising such a development however would take several years. Accordingly, the market entry point for such a centre would be 2022. By this point the retail market potential would have risen to 12 735 m\(^2\).

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170 The discussion that follows about this programme was sourced from the Knysna Local Municipality. 2018. KNYSNA CBD RENEWAL PROGRAMME STATUS REPORT attached to the Mayoral Committee Meeting Agenda for 14 March 2018.
173 SOURCE: Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.
• This 12 735 m² of GLA should be split between retail offerings (10 188 m²) and non-retail services (2 547 m²).
• Most of this floor space should be allocated to bulk groceries (31.8%); clothing, shoes and accessories (19.4%); and restaurants and entertainment (14.1%).

A similar methodology was adopted to determine the future demand for space by the trade sector. In this regard, the study notes that:

• The market demand for retail space in the greater Knysna municipal area will increase from 11 191 m² of GLA in 2023 to 34 990 m² of GLA in 2038, assuming no new supply enters the market.
• In 2023 the wholesale and retail trade sub-sector will account for the 88.6% (9 917 m²) of this demand compared to 11.4% (1 273 m²) for the catering and accommodation services sub-sector. The trend in 2038 will be similar with the wholesale and retail sub-sector accounting for 85.2% of projected GLA, and the catering and accommodation services sub-sector the reminder.
• The market demand for automotive retail sales (including fuel) is projected to increase cumulatively from 3 198 m² in 2023 up to 10 000 m² of GLA by 2038.
• Viable market-based take-up of this automotive retail demand is approximately 738 m² over the next 10 years. This floor space could include dealerships, automotive workshops, specialty shops and any other automotive related activities.

5.2.4.5 Development Criteria

Table 5.10 below provides a summary of the key issues assessed in the trade sector potential analysis.

<table>
<thead>
<tr>
<th>TABLE 5.10: SUMMARY OF SECTOR POTENTIAL CRITERIA FOR THE TRADE SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RAW MATERIALS</strong></td>
</tr>
<tr>
<td>There is a considerable variety amongst retail businesses in the greater Knysna municipal area. Retail businesses range from major national brands such as Woolworths, Pick n Pay and Spar, to highly specialised locally based businesses. The absence of major input suppliers or manufacturers in the greater Knysna municipal area means that most of these retailers have to source their business inputs from outside of the greater Knysna municipal area.</td>
</tr>
<tr>
<td><strong>ECONOMIC LINKAGES</strong></td>
</tr>
<tr>
<td>Inputs into the trade sector relate mainly to the products that are sold by retailers. Most retailers operating in the greater Knysna municipal area’s formal economy are part of established supply chains and source their products from distribution centres in Cape Town. Informal traders operating in the second economy that provide food and non-food products, generally source their inputs from larger retailers in the town of Knysna.</td>
</tr>
<tr>
<td><strong>MARKET TRENDS</strong></td>
</tr>
<tr>
<td>The performance of the trade sector is dependent on both income and consumer confidence. Consumer confidence amongst South Africans is anticipated to remain positive over the short- to medium-term. This increased confidence is likely to lead to a growth in retail sales, which are forecasted to rise 1.5% in 2018. The online retail industry in South Africa has shown considerable growth in the last several years. The total amount spent on online retail goods in the country increased from R928.0 million in 2007 to an estimated R10.0 billion in 2017. This growth is anticipated to continue as internet access increases and smartphone penetration rises.</td>
</tr>
</tbody>
</table>
The greater Knysna municipal area is unlikely to have the necessary demand to act as a nodal point for the trade sector. Although the greater Knysna municipal area may not have the necessary demand, future trends in the sector – particularly the increased demand for same-day delivery – are likely to necessitate the development of logistic related businesses.

The trade sector has one of the highest employment multipliers. This means that the trade sector has considerable potential to create sustainable, long-term employment for the greater Knysna municipal area. The skills profile required for retail employment is also less onerous than other sectors. The 2015 Knysna Business Unit Survey, however, has indicated an absence of the skills required by the retail sector. This will need to be addressed to capitalise on the sector’s employment creation potential.

5.2.4.6 Sector Potential

Based on the outcomes of the sector potential analysis, Table 5.11 highlights several opportunities for the trade sector in the greater Knysna municipal area.

<table>
<thead>
<tr>
<th>ALTERNATIVE RETAIL SPACE TYPOGRAPHIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Although some retail space exists for informal traders in the Knysna CBD and along George Rex drive, there is no suitable retail space in locations such as Hornlee and Northern Urban Areas.</td>
</tr>
</tbody>
</table>

There is therefore potential for a private investor to lease land in the aforementioned areas, as well as other strategic locations were informal traders are concentrated, to develop retail trading space for SMMEs/informal traders. SMMEs/informal traders could then rent space at these facilities at a daily rate. The recommended development approach for these areas is a modular/containerised enterprise hub like Philippi Village in Cape Town and 27 Boxes in Johannesburg. Integrated into this typographical approach should be the use of green building principles.

A potential investor should be responsible for managing the facility, marketing it to tenants and overseeing the day-to-day running of the hub to uphold the required service standards and administrative controls. The potential investor should strive to partner with developmental institutions that support micro-trade, business skills development and community development. The hub should must for ad-hoc uses or special events (e.g. market days, cultural activities).

As part of this development process extensive engagements should be held with SMMEs/local traders to ensure that the retail space provided meets the specific needs of local businesses. It is also important that SMMEs/informal traders invest in the process through rental contributions. These rentals should be small and be used to partially offset any future maintenance costs.

<table>
<thead>
<tr>
<th>SKILLS TRAINING FOR SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The skills profile of informal traders and some SMMEs operating in the trade sector in the greater Knysna municipal area is poor. Skill gaps were found to exist in the following areas: business plan development; basic booking; applying for tenders; marketing and social media management; business workplace systems; human resource management; and computer skills. The absence of these skills inhibits these</td>
</tr>
</tbody>
</table>
businesses growth and expansion prospects. Strong demand therefore exists to provide such skills through targeted training programmes.

**RETAIL LOGISTIC DISTRIBUTION POINT**

International retail trends indicate that all businesses will begin providing same-day, free delivery to customers who order goods either online or in store. This will necessitate the creation of warehousing and cold-storage facilities where retailers will be able to store, package and distribute their products. Such warehousing – which is currently available in the Knysna industrial area – should be marketed to businesses as an affordable local option. Targeted businesses should operate in the following areas: fast-moving consumer goods (perishables and non-perishables); and agro-processing (horticulture).

**EXPANSION OF EXISTING INFORMAL RETAIL SPACE**

A high-level assessment of the demand for informal retail space in the greater Knysna municipal area indicated that there was an inadequate supply, in specific locations, to meet the current needs. This shortage is projected to increase over the short- to medium-term as interventions that promote SMME and informal sector growth are undertaken. While there is a current oversupply of formal retail space, certain nodes within the greater Knysna municipal area are underserviced.

Areas prioritised for formal and informal retail space expansion should be linked to existing economic nodes (see Section 4.2), as well as new and emerging growth nodes such as:

- Concordia (Masifunde) and Hornlee over the short- to medium-term
- Karatara over the medium term
- Sedgefield over the medium- to long-term

**5.2.5 TOURISM**

In terms of the South African Standard Industry Classification System (SIC), the tourism industry is not classified as an economic sector but rather forms part of other sectors such as retail, trade, accommodation and catering. Due to the industry’s increasing importance both nationally and internationally as an income and employment creator, it will be discussed separately.

According to the World Trade Organization, tourism comprises all the activities undertaken by an individual that travels to and stays in a particular location outside of their usual environment for leisure, business and other purposes174. This usual environment is consequently defined as the area around an individual’s residence, workplace and other places they frequently visit. Based on this definition, the tourism industry is considered to have the following components:

- Travel and transport
- Accommodation and catering
- Entertainment
- Retail activities
- Services provided by tour operators

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TABLE 5.12: ECONOMIC SNAPSHOT OF THE CATERING AND ACCOMMODATION SUB-SECTOR IN 2017

<table>
<thead>
<tr>
<th></th>
<th>KNYSNA</th>
<th>GARDEN ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector GDP-R (R, millions)</td>
<td>R85.1</td>
<td>R391.1</td>
</tr>
<tr>
<td>Sector contribution to total GDP-R</td>
<td>2.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Average annual GDP-R growth rate (2011 – 2017)</td>
<td>-2.5%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Sector employment</td>
<td>2 183</td>
<td>9 990</td>
</tr>
<tr>
<td>Sector contribution total employment</td>
<td>8.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Average annual employment growth rate (2011 – 2017)</td>
<td>2.1%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Although the greater Knysna municipal area’s catering and accommodation sub-sector only directly employs 8.4% of the total workforce, as indicated in Table 5.12, the application of the employment multiplier\textsuperscript{175} to this figure suggests that the sub-sector supports a further 16,591 jobs across the broader greater Knysna municipal area’s economy through backward and forward linkages.

5.2.5.1 Raw Materials

This section considers the nature and type of raw materials available in the greater Knysna municipal area, focusing on both attractions and the supply of accommodation.

Attractions

The greater Knysna municipal area’s principal attraction is its natural beauty and the associated activities linked to the environment, such as mountain biking, hiking, bird watching, whale watching, fishing, water sports etc. The greater Knysna municipal area is also an attractive golfing destination, with three golf courses (Simola Golf Course, Pezula Champion Golf Course and Knysna Golf Course) located in the town of Knysna. Another unique attraction on offer in the area is the Old Millwood Mining Village.

The greater Knysna municipal area benefits from being home to both a provincial nature reserve (Goukamma) and part of a national reserve (Garden Route National Park). These two reserves, along with the other local reserves (Featherbed, Pledge and Steenbok) present an opportunity for the greater Knysna municipal area to leverage these products with other nature-based activities.

Beyond natural attractions, the greater Knysna municipal area’s tourism industry offers a wide variety of festivals throughout the year, some of which include:

- Pick n Pay Knysna Oyster Festival
- Several mountain-biking competitions (e.g. Garden Route 300, De Hoop/Potberg Challenge, RECM Knysna 200, etc.)
- Variety of running/triathlon events (e.g. Circles in the Forest, Knysna Heads Marathon, Knysna Extreme etc.)
- Sedgfield Slow Festival
- Pink Loerie Mardi Gras and Arts Festival
- Jaguar Simola Hillclimb

\textsuperscript{175} An employment multiplier of 7.6 was used for this computation based on the calculated multiplier for the catering and accommodation sector, as developed by Prof. F. Tregenna in SECTORAL LABOUR-INTENSITY IN SOUTH AFRICA. 2010. Available: http://www.nedlac.org.za/media/94785/labour_intensity_report_2010.pdf.
- Knysna Timber Festival
- Rotary Knysna Splash Festival
- Eden Kite Festival

These festivals are popular with both international and domestic tourists and help to offset the seasonality of the greater Knysna municipal area’s tourism industry. These festivals, however, place considerable pressure on the local accommodation establishments, which are unable to provide sufficient bednights for all visitors during peak periods. There is little scope to expand the number of accommodation establishments, as such establishments would only be viable during peak periods.

The attractions available within the greater Knysna municipal area tie in with the main activities undertaken by tourists when they visit the area (see Figure 5.14). Most domestic (40.5%) and international (43.3%) tourists undertake some form of nature-based activity when visiting the greater Knysna municipal area – either visiting the beach (14.1%), taking a scenic drive (13.2%), whale watching or undertaking some other form of nature-related activity (14.1%). Domestic tourists tended to favour beach visits (16.8%), while international tourists generally preferred scenic drives (18.7%).

**FIGURE 5.14: MAIN ACTIVITIES UNDERTAKEN BY DOMESTIC AND INTERNATIONAL TOURISTS**

Adventure-based activities were also popular, but mainly with domestic tourists. Event-based activities were also frequently cited as some of the main activities undertaken by both domestic and international tourists, with 4.5% of domestic tourists indicated that they attended an event, festival or expo in the greater Knysna municipal area, compared to 4.3% for international tourists.

Cultural-based activities were slightly more popular with international tourists (5.3%) that with domestic ones (3.3%). This was also the case for sports-based activities, particularly in respect of golf. Business-related tourism in comparison, was mainly cited by domestic tourists (2.9%) as one of the main activities undertaken when visiting the greater Knysna municipal area.

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176 SOURCE: Urban-Econ calculations based on the Knysna Local Municipality’s 2017 INTERNATIONAL AND DOMESTIC VISITOR SURVEYS.
Accommodation

An assessment of the estimated supply of accommodation establishments, based on several sources, is presented Table 5.13 below.

From the table it is evident that the greater Knysna municipal area had an estimated 140 to 156 accommodation establishments in 2018. If compared with the 2013 results, this represents a 17.0% decrease in the total number of establishments between 2013 and 2018. While the above figures suggest a decrease in accommodation establishments, particularly self-catering, it should be noted that not all establishments in the area are registered with Knysna Tourism or are on the Visit Knysna website.

**TABLE 5.13: NUMBER OF ACCOMMODATION ESTABLISHMENTS IN THE GREATER KNYSNA MUNICIPAL AREA**

<table>
<thead>
<tr>
<th>ESTABLISHMENT TYPE</th>
<th>Knysna Tourism (2018)</th>
<th>Visit Knysna(^{178})</th>
<th>DATA SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2018</td>
<td>2013</td>
</tr>
<tr>
<td>Guest House</td>
<td>40</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>B&amp;B</td>
<td>26</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Hotel</td>
<td>17</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Homestay</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Self-Catering</td>
<td>95</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>Caravan and Camping</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Backpackers</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>188</td>
<td>156</td>
</tr>
</tbody>
</table>

When considering the proportion of establishments per accommodation type, the figures between 2013 and 2018 are similar, barring self-catering. Regardless, bed and breakfasts and self-catering establishments account for the majority of accommodation in the greater Knysna municipal area (2018 – 70.5%; 2013 – 71.8%).

Daily rates for two-people sharing, varied between R499 and R3 353 in 2018 (average: R1 081) depending on the type of accommodation establishment selected\(^{179}\). These average daily rates were slightly higher in Knysna (R1 128) than in Sedgefield (R933).

The supply of accommodation largely mirrors the type of accommodation utilised domestic and international tourists when they visit the greater Knysna municipal area. Excluding day visitors, 82.2% of domestic tourists indicated that they utilised either a guest house/B&B (27.8%), stayed with friends/relatives (22.6%), used self-catering accommodation (22.1%), or stated in hotel (9.7%) when they visited the greater Knysna municipal area\(^{180}\). Most international tourists however opted for hotels (52.0%), guest houses (29.8%), self-catering establishments (6.3%) or backpackers (5.3%)\(^{181}\). A small percentage of international tourists indicated that they had made use of Airbnb (1.0%) accommodation.

\(^{177}\) This figure was obtained from Knysna Tourism and based on the number of accommodation establishments listed in their membership database. This figure thus only represents accommodation establishments that are members of Knysna Tourism. It was also not possible, at the time of this report, to categorise the number of establishments by type.

\(^{178}\) Figures were obtained from a manual count on the Visit Knysna website (www.visitknysna.co.za) for those establishments falling within each category in either Knysna or Sedgefield. Data for 2013 was based on the 2015 Knysna EDS.


\(^{180}\) SOURCE: Urban-Econ calculations based on Knysna Local Municipality’s 2017 DOMESTIC VISITORS SURVEY.

\(^{181}\) SOURCE: Urban-Econ calculations based on Knysna Local Municipality’s 2017 INTERNATIONAL VISITORS SURVEY.
Airbnb (not listed in Table 5.13) has become a popular alternative to traditional accommodation particularly amongst those younger than 35; and is increasingly being utilised by tourists visiting the greater Knysna municipal area\textsuperscript{182}. In terms of supply, the area has been noted as having the second highest concentration of Airbnb hosts in the Western Cape after Cape Town\textsuperscript{183}.

A supply audit of the greater Knysna municipal area’s Airbnb hosts in 2018, identified 180 registered establishments\textsuperscript{184}. The overwhelming majority of these were concentrated in the town of Knysna (81.9%), with the remaining 18.1% located in and around Sedgefield. These establishments offered a total of 525 beds – 430 in Knysna and 95 in Sedgefield. Most of these beds were situated either in private homes (37.2%) or apartments (27.8%).

Average rates for the greater Knysna municipal area were R1 247 per night in 2018. Rates in Knysna were slighter higher, ranging between R278 and R14 994 per night (average: R1 296); while in Sedgefield rates varied between and R305 and R5 497 per night (average: R802).

5.2.5.2 Economic Linkages

With the emergence of online travel services, the traditional vertical tourism value chain has undergone a number of changes. These changes have resulted in a more complex value chain involving a wide range of backward and forward linkages. This development has seen the tourism industry expand to include a more holistic network in which ICT; local culture and society; education, etc. have become part of the tourism value chain\textsuperscript{185}.

The economic linkages between the tourism industry, other economic sectors and society as a whole have become so integrated that the industry is considered more of a ‘value network’ rather than a conventional value chain. In this new tourism value network, a particular destination, rather than being a supplier of inputs to the tourism value chain, becomes an integral part of the value creation process. The narratives and images attached to the destination become an important determinant of the value of a destination in terms of a tourist’s willingness to pay\textsuperscript{186}.

\textsuperscript{182} SOURCE: Interviews with local stakeholders. 2018.
\textsuperscript{183} SOURCE: Henama, U.S. 2018. DISRUPTIVE ENTREPRENEURSHIP USING AIRBNB. THE SOUTH AFRICAN EXPERIENCE.
\textsuperscript{184} SOURCE: Urban-Econ calculations based on Airbnb Knysna, Western Cape, South Africa accessed in July 2018.
\textsuperscript{186} SOURCE: Richards, G. 2011. CULTURAL TOURISM TRENDS IN EUROPE: A CONTEXT FOR THE DEVELOPMENT OF CULTURAL ROUTES.
5.2.5.3 Market Structure and Trends

Globally, international tourist arrivals have shown strong positive growth. The UNWTO World Tourism Barometer indicated that international tourist arrivals (overnight visitors) grew by 6.8% in 2017, reaching 1.3 billion tourists. This represents eight consecutive years of sustained growth, and the highest growth in international tourist arrivals since 2009. In absolute terms, this represents an additional 84 million tourist arrivals from 2016. This growth was driven mainly by the African (8.6% year-on-year) and European regions (8.3% year-on-year). The UNWTO forecasts that international tourism arrivals will increase by between 4% and 5% in 2018.

Long-term forecasts released by the UNWTO suggest that international tourist arrivals worldwide will increase by 3.3% per year from 2010 to 2030, reaching 1.8 billion tourist arrivals by 2030. Between 2010 and 2030, total tourist arrivals to emerging destinations are forecasted to increase by 4.4% a year, twice the forecasted rate of advanced economies (2.2% a year). This increase in tourist arrivals will mean that emerging economies’ share of the total tourist market will increase from 45.0% in 2017 to 57.0% by 2030.

There are a number of different trends that are likely to drive this growth in international tourist volumes, some of which are summarised in Table 5.14.

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TABLE 5.14: MAJOR TRENDS IN THE GLOBAL TOURISM INDUSTRY

<table>
<thead>
<tr>
<th>TRENDS</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature-based, Green and Ecotourism</td>
<td>Collectively these terms refer to any tourism activity that is directly linked to natural attractions, including ecotourism (i.e. travel to natural areas or forms of tourism that responsibly protect nature and promote the prosperity of the local inhabitants), adrenaline tourism, hiking, bird watching, fishing, fly-fishing, riding, visiting nature parks and so forth.</td>
</tr>
<tr>
<td>Sustainable and Responsible tourism</td>
<td>Responsible tourism is considered a growth area amongst tourists, particularly high-income international visitors. This type of tourism aims to provide a more enjoyable experience for tourists, through meaningful connections with local people, and creating a greater understanding of local cultural, social and environmental issues. It also seeks to ensure that tourist offerings are culturally sensitive, encourage respect between tourist and host, and build local pride and confidence.</td>
</tr>
<tr>
<td>Geo-local travel</td>
<td>As the cost of flying increases, consumer’s leisure budgets decrease, and tourists become more conscious about the environmental impact of travel, local destinations will become increasingly popular with tourists. Tourism will thus become more ‘geo-local’, meaning that tourists will increasingly travel within their own countries and continents rather than outside of it.</td>
</tr>
<tr>
<td>Growth in the youth market</td>
<td>The youth travel market accounted for over 23.0% of all international arrivals (equal to 304 million arrivals and $308 billion in 2017). Youth travellers tend to stay longer, spend more ($2 160 per trip compared to $1 097 for an average tourist), travel more frequently than the average tourist and frequently use the majority of their money with local communities. Estimates predict that the youth, student and educational travel market will reach 370 million travellers by 2020 and represent $400 billion in total spend. The youth market sees tourism as a means of learning and career development; meeting new people; getting in touch with other cultures; and self-development.</td>
</tr>
<tr>
<td>Growth of the retired market</td>
<td>The market for retired individuals, defined by the World Tourism Organisation as those over the age of 55 years old, is anticipated to increase significantly in the next five years due to both an aging European population, and the retirement of the baby boomer generation. The size of this market is estimated at to reach 2 billion trips by 2050. These senior tourists are generally more affluent, tend to take longer holidays, and spend significantly more on flights and hotels than younger travellers.</td>
</tr>
</tbody>
</table>

191 SOURCE: Western Cape Tourism. 2002. CAPE TOWN DECLARATION: CAPE TOWN CONFERENCE ON RESPONSIBLE TOURISM IN DESTINATIONS.
192 SOURCE: Francis, J. No date. THE FUTURE OF TRAVEL: TRAVEL TRENDS AND PREDICATIONS.
196 SOURCE: Patterson, I. 2018. THE BABY BOOMER TRAVEL MARKET IS BOOMING.
| Adventure travellers | Adventure travel, which includes both nature and physical activity, is generally undertaken by younger tourists and is particularly popular amongst millennials. As of 2016, the global tourism adventure market was valued at $443.3 billion, and was projected to increase to $1.4 trillion by 2023\(^\text{197}\). The increasing popularity of active and adventure travel was noted by Virtuoso, who cited it as their second top travel trend in 2018. Virtuoso further noted that South Africa was ranked as the top global destination for this type of tourism\(^\text{198}\). |
| Technology shaping the future of travel | The online environment is becoming increasingly more important when it comes to a tourist planning their vacation. This is evident by the 73.5% of international and 60.3% domestic tourists that preferred using either a website or a mobile application to book accommodation when they visited the greater Knysna municipal area\(^\text{199}\). In the near future AI, machine learning, and the Internet of Things (IoT), will be used not only for travel planning, but also to create a highly customised travel experience that is unique to the tourists needs\(^\text{200}\). |
| Airbnb and the Sharing Economy | In 2017, Airbnb hosts in Africa welcomed 1.2 million guests, representing a 109.7% increase from the previous year. Over the period homes listed on the platform rose by 61.2% to 100 000. At 43 400, South Africa accounted for the majority of these listings\(^\text{201}\). South African Airbnb hosts received almost 400 000 guest arrivals in 2016, growing from only 38 000 in 2014. These arrivals generated R817.0 million in income for local hosts\(^\text{202}\). This rapid growth is projected to continue. Henama\(^\text{203}\) further notes that Airbnb has the potential to not only generate additional income for hosts, but also for to transform skewed ownership patterns in the tourism industry. |
| Creative tourism | Creative tourism is defined by UNESCO as travel that is directed towards an engaged and authentic experience, with participative learning in the arts, heritage or special character of a place. Creative tourists are individuals that lean by doing and who finds enjoyment and fulfilment in developing new abilities and interacting with local people\(^\text{204}\). |
| Sports Tourism | Sports tourism refers to tourist travel which involves either observing or participating in a sporting event. Sport tourism is one of the fastest growing components of the global travel industry and was valued at $1.4 trillion in 2016. This is projected to increase to $5.7 trillion by 2021\(^\text{205}\). |


\(^{198}\) SOURCE: Virtuoso. 2017. 2018 LUXE REPORT.

\(^{199}\) SOURCE: Urban-Econ calculations based on Knysna Local Municipality’s 2017 INTERNATIONAL AND DOMESTIC VISITOR SURVEYS.

\(^{200}\) SOURCE: Deloitte. 2018. 2018 TRAVEL AND HOSPITALITY OUTLOOK.

\(^{201}\) SOURCE: Airbnb. 2018. OVERVIEW OF THE AIRBNB COMMUNITY IN AFRICA.

\(^{202}\) SOURCE: Airbnb. 2017. OVERVIEW OF THE AIRBNB COMMUNITY IN SOUTH AFRICA.

\(^{203}\) SOURCE: Henama, U.S. 2018. DISRUPTIVE ENTREPRENEURSHIP USING AIRBNB. THE SOUTH AFRICAN EXPERIENCE.


\(^{205}\) SOURCE: Technavio. 2017. GLOBAL SPORTS TOURISM MARKET - DRIVERS AND FORECASTS.
National and Provincial

International Tourist Flows

A total of 10.3 million international tourist arrivals to South Africa were recorded in 2017, reflecting a year-on-year growth rate of 2.4%. These tourist arrivals were primarily from Africa (73.4%) and Europe (16.2%), followed by North America (4.2%). While the African region was the dominant source of international tourist arrivals, the source markets that exhibited the highest growth (China – 60.0%; Brazil – 74.7%; Russia – 50.9%) were from South Africa’s non-traditional source markets.

The Western Cape received approximately 1.7 million of these arrivals, equating to 1.7 million international visitors to the province in 2017. This represented a 10.2% increase from the 1.5 million international tourists that the province received in 2016. This growth contributed to the Western Cape’s share of all international tourists increasing from 15.6% in 2016 to 16.8% in 2017. Despite this increase, the Western Cape only received the third most international arrivals in 2017 after the Gauteng and Limpopo provinces. In comparison, during 2016, the Western Cape received the second largest proportion of international tourists after Gauteng.

In 2017, the majority (93.3%) of all tourist arrivals to the Cape Town tourist region were international visitors, largely due to the city’s role as a gateway to the rest of the province, and its high brand recognition globally. International tourists share of total arrivals to the Garden Route and Klein Karoo region has increased steadily since 2014, when 41.2% of all arrivals were international tourists (see Table 5.15). By 2017, this figure had risen to 59.7% indicating that the region was becoming more attraction to international tourists.

<table>
<thead>
<tr>
<th>TOURIST REGION</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Town</td>
<td>83.5%</td>
<td>83.3%</td>
<td>90.7%</td>
<td>93.3%</td>
</tr>
<tr>
<td>Garden Route &amp; Klein Karoo</td>
<td>41.2%</td>
<td>38.5%</td>
<td>48.2%</td>
<td>59.7%</td>
</tr>
<tr>
<td>Cape Winelands</td>
<td>50.8%</td>
<td>44.8%</td>
<td>52.4%</td>
<td>60.2%</td>
</tr>
<tr>
<td>West Coast</td>
<td>21.7%</td>
<td>22.4%</td>
<td>24.3%</td>
<td>29.5%</td>
</tr>
<tr>
<td>Overberg</td>
<td>44.0%</td>
<td>45.9%</td>
<td>52.7%</td>
<td>59.4%</td>
</tr>
</tbody>
</table>

The primary source markets for international tourist arrivals to the Western Cape in 2017 were Germany (30.0%), the United Kingdom (28.0%), Netherlands (9.0%) and the United States of America (7.0%). Much like the broader Western Cape, the top source markets for the Garden Route and Klein Karoo region in 2017 were the United Kingdom (32.0%), Germany (27.0%), the Netherlands (12.0%) and the United States of America (4.0%).

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207 The tourism statistics published by Wesgro divides the Western Cape into six tourism regions namely: Cape Town; Garden Route and Klein Karoo; Cape Winelands; West Coast; Cape Karoo; Overberg. The Garden Route District Municipality (in which the Knysna Local Municipality is located) largely aligns to the boundary of the Garden Route and Klein Karoo region.
Domestic Tourist Flows\textsuperscript{209, 210}

The total number of domestic trips taken by South Africans fell by 29.3% in 2017 to 17.2 million. This was attributable to both a decline in the number of adults that took a domestic trip in 2017 (9.9 million) which fell by 15.4%; and decrease in the number of trips per traveller from 21 in 2016 to 1.5 in 2017. The volume of domestic trips has been on a decline since 2015 mainly due to unfavourable economic conditions. The Western Cape’s share of total domestic trips continued to decline, with only 1.5 million trips being taken to the province in 2017 (2016: 2.0 million; 2015: 1.7 million).

Table 5.16 shows the distribution of domestic visitors in per Western Cape region based on the Wesgro Tourism Dashboard (2018).

<table>
<thead>
<tr>
<th>TOURIST REGION</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Town</td>
<td>2.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Garden Route &amp; Klein Karoo</td>
<td>14.0%</td>
<td>13.0%</td>
<td>12.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Cape Winelands</td>
<td>22.0%</td>
<td>26.0%</td>
<td>14.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>West Coast</td>
<td>34.0%</td>
<td>29.0%</td>
<td>32.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Cape Karoo</td>
<td>7.0%</td>
<td>7.0%</td>
<td>9.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Overberg</td>
<td>21.0%</td>
<td>24.0%</td>
<td>31.0%</td>
<td>28.0%</td>
</tr>
</tbody>
</table>

Table 5.15 reveals that, in 2017, the West Coast region received the greatest percentage share of total domestic tourists to the Western Cape at 50.0%, followed by the Overberg (28.0%) and Cape Winelands (11.0%) regions. The region with the lowest percentage of domestic visitors was Cape Town (1.0%). The top source markets for domestic tourists were the Western Cape (63.9%), Gauteng (16.9%), KwaZulu-Natal (4.2%) and the Eastern Cape (4.1%).

Of all the domestic tourists that visited the Western Cape in 2017, 49.5% stayed overnight, while 50.5% only visited for the day. The average length of stay in the Western Cape for domestic tourists in 2017 was 13 days, while the average group size was two people per group.

The most common travel group size for domestic tourists visiting the Garden Route and Klein Karoo region remained constant between 2016 and 2017, at two people per trip. These tourists mainly came to the region for leisure/holiday, with top activities in 2017 mainly being linked to the natural environment. This is a product of the Garden Route and Klein Karoo region’s abundance of outdoor activities and such as the nature parks, beaches, mountain ranges etc.

There are approximately five SANPark reserves that fall within the Western Cape, one of which is located in the Garden Route District Municipality, namely the Garden Route National Park. The Garden Route National Park, which comprises three component reserves (Tsitsikamma, Wilderness and Knysna), received 494 632 visitors in the 12 months ended March 2017.

\textsuperscript{209} SOURCE: South African Tourism. 2018. 2017 ANNUAL TOURISM REPORT.
During the 12 months ended March 2017, these five national parks attracted 932 536 visitors\textsuperscript{212}. Of this number, the highest percentage of visitors (53.0\%) were to the Garden Route National Park, followed by the West Coast National Park (36.6\%). Equally positive, was that the total number of visitors to SANParks in the Western Cape rose by 14.8\% year-on-year\textsuperscript{213}. This was driven by strong visitor growth in the West Coast (23.2\%), Bontebok (12.0) and Garden Route (11.7\%) National Parks.

**FIGURE 5.16: PERCENTAGE SHARE OF SANPARKS VISITORS TO WESTERN CAPE-BASED PARKS IN 2017**\textsuperscript{214}

Table 5.17 illustrates the lodging statistics for all the national parks and reserves that fall within Western Cape. Based on the figures presented in the table, it is evident that the Garden Route National Park achieved the highest number of unit nights sold (31 420), bed nights sold (73 093), as well as camping nights sold (23 453) in the 12 months ended March 2017. These figures however, were all lower than the preceding years numbers.

**TABLE 5.17: LODGING STATISTICS FOR SANPARKS WITHIN THE GARDEN ROUTE AND KLEIN KAROO REGION**\textsuperscript{215}

<table>
<thead>
<tr>
<th>NATIONAL PARK</th>
<th>UNIT NIGHTS SOLD</th>
<th>BED NIGHTS SOLD</th>
<th>CAMPING NIGHTS SOLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agulhas</td>
<td>3 494</td>
<td>3 479</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Bontebok</td>
<td>2 494</td>
<td>2 521</td>
<td>1.1%</td>
</tr>
<tr>
<td>Garden Route</td>
<td>32 110</td>
<td>31 420</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Karoo</td>
<td>10 470</td>
<td>10 289</td>
<td>-1.7%</td>
</tr>
<tr>
<td>West Coast</td>
<td>549</td>
<td>572</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Local

There are currently no reliable statistics on the total number of tourists that visit the greater Knysna municipal area annually. There are, however, several potential indicators available (i.e. number of arrivals at George Airport, visitors to the Garden Route National Park, number of people visiting the local tourism

information centre) and estimates can be made based on these and other historical information. Utilising the estimated number of visitors presented in the 2015 Knysna EDS, the split between international and domestic tourists; and provincial trends in foreign and domestic tourist numbers between 2013 and 2017, it was possible to estimate the total number of visitors to the greater Knysna municipal area. This estimate suggests that the greater Knysna municipal area received 460 614 tourists in 2017, down 10.9% from the estimated 516 972 visitors in 2012. Of this figure 179 613 were estimated to be international tourists (2012: 201 590). A profile of these tourists is illustrated in Table 5.18.

**TABLE 5.18: PROFILE OF GREATER KNYSNA MUNICIPAL TOURISTS IN 2017**

<table>
<thead>
<tr>
<th></th>
<th>DOMESTIC</th>
<th>INTERNATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated number of tourists</td>
<td>281 001</td>
<td>179 613</td>
</tr>
<tr>
<td>Percentage share of total tourists</td>
<td>61.0%</td>
<td>39.0%</td>
</tr>
<tr>
<td>Percentage which were 1st time visitors</td>
<td>15.2%</td>
<td>71.5%</td>
</tr>
<tr>
<td>Percentage which were repeat visitors</td>
<td>64.3%</td>
<td>28.5%</td>
</tr>
<tr>
<td>Likelihood to return to area in the next 2 years</td>
<td>71.8%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Average party size</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Major source markets</td>
<td>Western Cape (49.0%); Gauteng (21.8%); Eastern Cape (14.4%)</td>
<td>United Kingdom (23.6%); Germany (19.3%); Netherlands (5.3%); Spain (5.3%); China (4.1%)</td>
</tr>
</tbody>
</table>

While international tourists play an important role to the greater Knysna municipal area’s tourism industry, accounting for an estimated 39.0% of all arrivals in 2017 and a significant amount of the overall tourism spend, few of them were repeat visitors (28.5%) or indicated that they would return to the area in the next two years (27.0%). Domestic tourists, who mainly came from the Western Cape, Gauteng and the Eastern Cape, however, were more likely to be repeat visitors (71.8%) and also likely to return in the area in the next two years (71.8%).

**FIGURE 5.17: PURPOSE OF TOURIST’S VISIT TO THE GREATER KNYSNA MUNICIPAL AREA IN 2017**

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217 SOURCE: Urban-Econ calculations based on 2015 Knysna EDS; and the Knysna Local Municipality’s 2017 INTERNATIONAL AND DOMESTIC VISITOR SURVEYS.
International tourists all differed to domestic tourists when it came to the purpose of their visit (see Figure 5.17) and their age profile (see Figure 5.18). The overwhelming majority (93.4%) of international tourists visited the greater Knysna municipal area for holiday purposes, with almost half of these being younger than 35 years old. In comparison, the purpose of domestic tourist’s visits was either to see friends or relatives (58.8%) or to conduct business (30.8%). Accordingly, most (58.0%) domestic tourists were between the ages of 35 and 64 years old. This difference in age profile meant that the weighted age for an average international tourist was only 34.4 years compared to 44.1 years for a typical domestic tourist.

**FIGURE 5.18: AGE PROFILE OF TOURISTS THAT VISITED THE GREATER KNYSNA MUNICIPAL AREA IN 2017**

The average duration that either a domestic or international tourist stays within the greater Knysna municipal area is illustrated in Figure 5.19. It can be seen in the figure, that the majority (46.1%) of domestic tourists stay in the greater Knysna municipal area for 6 or more days, compared to only 12.9% for international tourists. Most international tourists stayed in the greater Knysna municipal area for two (33.7%) or three (15.9%) days in 2017. It is however important to note that most domestic tourists that stay longer than five days are likely staying with friends or relatives and not in a formal accommodation establishment.

**FIGURE 5.19: DURATION OF STAY BY TOURISTS TO THE GREATER KNYSNA MUNICIPAL AREA IN 2017**
Using the information presented in Figure 5.19 it was estimated that the average weighted length of stay in the greater Knysna municipal area during 2017 was 5.3 days. Domestic tourists tended to stay longer on average (6.5 days) than international tourists (3.9 days).

Many of the tourists that visited the greater Knysna municipal did so to attend one of the areas many festivals and/or events (see Figure 5.14). The most popular of these, which runs over the July period, was the Pick n Pay Knysna Oyster Festival which in 2017, received an estimated 50,440 visitors. Other major events which formed part of the 2017 festival included the:

- Momentum Knysna Cycle Tour which had 4,624 participants
- Momentum Knysna Forest Marathon which had 8,554 participants
- Maserati BIG5 Challenge
- Knysna Wine Festival and Night market

An economic impact assessment of the 2017 festival period (7-16 July) estimated that the greater Knysna municipal area attracted 56,883 visitors; incurred R109.3 million in expenditure (10.0% less than 2016); created 2,613 employment opportunities (9.0% more than 2016); generated R305.4 million in new business sales (5.0% more than 2016) and contributed R132.2 million to GDP-R (2.0% less than 2016). Furthermore, the 2017 Pick n Pay Knysna Oyster Festival generated an estimated R230.3 million in public relations value for the greater Knysna municipal area, mainly through social media (R150.2 million).

Another anchor event for the greater Knysna municipality is the Jaguar Simola Hillclimb which takes place during May. This event attracted an estimated 15,739 visitors in 2017, of which 29.0% were local day-visitors (2016: 36.0%), with the remaining 11,175 being classified as non-resident holiday makers. Preliminary 2018 figures suggest that attendance rose slightly (0.7%), increasing to 16,915. The profile of visitor attendance suggests that in 2017 the majority came from the Western Cape (53.0%), Eastern Cape (25.0%) and Gauteng (17.0%).

A typical local day-visitor to the 2017 event spent on average R784 (2016: R366) compared to R2,949 for a non-resident holiday maker (2016: R29,56). Utilising these figures, it was estimated that, in 2017, R12.4 million was spent by spectators over the three-day event period excluding ticket sales. If ticket sales were included, this figure rose to R14.0 million.

Other useful tourism statistics that can be considered when determining the number of tourists that visit the greater Knysna municipal area, are those published by SANParks. The SANPark administered Garden Route National Park, which comprises three separate sections (i.e. Knysna, Wilderness and Tsitsikamma), received approximately 494,632 visitors and sold 73,093 bed nights in the 12 months ended March 2017.

The Knysna section falls entirely within the greater Knysna municipal area, while parts of the Wilderness section also fall within the municipal boundary. The most current figures for the Knysna portion suggest that the it only accounts for 1.5% of the visitors and 0.8% of the bed-nights of the greater Garden Route National Park. Assuming that this figure has remained largely unchanged, it was estimated that the Knysna portion of the Garden Route National Park received 7,186 visitors and sold 609 bed-nights in the 12 months ended

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218 SOURCE: Knysna Local Municipality. PICK N PAY KNYSNA OYSTER FESTIVAL 7 – 16 JULY EVENT REPORT.
March 2017. This represented a 11.7% increase in estimated visitors from the preceding 12 months (6 433), but a 2.7% decrease in estimated bed-nights sold.

It is also beneficial to consider the number of arrivals at the George Airport. Although it is not possible to establish the reason for these arrivals and whether these arrivals travelled to the greater Knysna municipal area, it still serves as a useful indicator of the number of people entering the broader Garden Route District Municipality. Based on ACSA arrival figures, the George Airport received 399 053 arrivals in 2017, up 9.9% from 2016.

Similarly to other sectors, the greater Knysna municipal area’s tourism industry was adversely impacted by the fires in June 2017, with the GRI224 noting that 28.0% of all businesses affected by the fire were in the tourism industry. In addition, the fire damaged key local tourism assets such as the Featherbed Nature Reserve, which relies on the surrounding conservation area destroyed by the fire for 70.0% of its core business.

The fires also had a negative effect on key tourist events that occurred during the June to July period (see Figure 5.20). The most several effected were the Momentum Knysna Forest Marathon, which saw the number of runners participating decline by 3 000, and the Pick n Pay Knysna Oyster Festival whose estimated visitor numbers fell by 28.6%. This comes off a 4.8% decline in visitor numbers to the Pick n Pay Knysna Oyster Festival between 2015 and 2016. These lower tourist numbers during the Pick n Pay Knysna Oyster Festival led to an estimated 16.0% loss in revenue for restaurants and eating establishments in the greater Knysna municipal area when compared to 2016.

FIGURE 5.20: IMPACT OF THE KNYSNA FIRE ON SELECT EVENT VISITORS / ATTENDANCE

While the impacts of the fires were overwhelmingly negative for the greater Knysna municipal area’s tourism industry, some minor benefits did occur such as the hiring of additional workers to undertake rehabilitation work at various tourism establishments. Interviews225 with tourism-related businesses after the fire noted an uptick in visitors to restaurants, as these were seen as “good places to meet to speak about what had happened.” Businesses also noted that, while the fires were unfortunate, the businesses that did survive were “benefitting from cancellations from affected businesses.”

224 SOURCE: Garden Route Rebuild Initiative. 2018. GARDEN ROUTE REBUILD INITIATIVE: LANDSCAPE ASSESSMENT WORKSHOP.
225 SOURCE: Garden Route Rebuild Initiative. 2018. GARDEN ROUTE REBUILD INITIATIVE: LANDSCAPE ASSESSMENT WORKSHOP.
### 5.2.5.4 Development Criteria

Table 5.19 below provides a summary of the key issues assessed in the tourism potential analysis.

<table>
<thead>
<tr>
<th>TABLE 5.19: SUMMARY OF SECTOR POTENTIAL CRITERIA FOR THE TOURISM INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RAW MATERIALS</strong></td>
</tr>
<tr>
<td><strong>ECONOMIC LINKAGES</strong></td>
</tr>
<tr>
<td><strong>MARKET TRENDS</strong></td>
</tr>
<tr>
<td><strong>AGGLOMERATION ADVANTAGE</strong></td>
</tr>
<tr>
<td><strong>LOGISTICS</strong></td>
</tr>
</tbody>
</table>
Skills development, particularly educating the broader community in tourism awareness, is critical for improving a visitor’s experience. This is particularly true of front-line staff (i.e. petrol attendants, staff at the tourism office etc.). Hospitality training for staff at accommodation establishments is also important to ensure a positive visitor experience.

### 5.2.5.5 Sector Potential

Table 5.20 highlights the identified potential opportunities for the greater Knysna municipal area’s tourism industry.

#### TABLE 5.20: TOURISM INDUSTRY POTENTIAL AND OPPORTUNITIES

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>OPPORTUNITIES</th>
</tr>
</thead>
</table>
| DESTINATION PLAN, BRANDING AND PRODUCT DEVELOPMENT | • Implementation of interventions proposed in Knysna Local Municipality’s Tourism Destination Marketing Plan  
• Increase technical support, including joint marketing, to new and emerging events and festivals to improve event/festival footprint (i.e. Knysna Timber Festival)  
• Develop unique tourism products such as a “Passes Route” or a Lagoon/Marine Aquarium. This should be coupled with the introduction of associated tourism-related amenities.  
• Provision of hospitality and service-related training to individuals active in the tourism industry |
| TOWN BEAUTIFICATION | • Improve the visual aesthetic of key tourism sites and routes through the introduction of urban design elements (trees, plants, flowers, benches, water features, public art, outdoor sports equipment etc.) to make it more attractive to tourists visiting the greater Knysna municipal area  
• Link the introduction of these elements to Knysna CBD Renewal Programme  
• Identify appropriate iconic positions in the greater Knysna municipal area to create selfie points and erect structures with private partners |
| BOUTIQUE HOTELS | • Develop unique boutique hotel such as one comprising multiple houseboats moored together  
• Partner with SANParks in identifying appropriate location for development, either in Knysna or Sedgefield  
• Link this boutique hotel to water-related activities on the lagoons as well as other tourism product offerings in the surrounding areas |
| CONFERENCE AND EVENTS CENTRE | • Establish a state-of-the-art, smart and sustainable conference centre in the greater Knysna municipal area  
• Proposed development should include a convention travel bureau which would be responsible for marketing the greater Knysna municipal area as a business events destination, to bid for and secure business events for the area, to enhance the business events experience for organisers and delegates, and to facilitate engagements between the public and private sectors  
• Development should ideally take the form of public-private partnership where the public sector provides the land for the convention centre and retain full ownership on completion. The private sector partner would be responsible for building the centre in exchange for exclusive rights to operate it as a going concern |
• Conference centre should focus on targeting SMME events (e.g. Guestex, ICT for SMMEs, Klein Karoo and Garden Route Small Town Indaba) as well as those linked to sports, timber, and arts and crafts

FILM AND EVENT PRODUCTION

• Engage with industry role-players to identify most desired location requirements to optimise local product offering
• Identification of potential locations within the greater Knysna municipal area that meet industry requirements. This identification should occur in conjunction with local role-players and industry experts.
• Develop integrated Film and Events website that showcases the greater Knysna municipal area’s product offerings. This should include the ongoing management of the website.
• Provide film permitting support; liaise and build partnerships with other local permitting authorities (SANParks, Cape Nature, private landowners)
• Host film festivals and awareness workshops with local support industries to market greater Knysna municipal area as a film and events destination

ECO-TOURISM DEVELOPMENT

• Develop electronic and printable trail maps for adventure trail routes. This should include a mobile application.
• Engage with SANParks, Cape Nature and private landowners to obtain buy-in for routes within these entities’ jurisdiction
• Roll out signage and route markers along selected trails
• Design and implement website showcase adventure trail routes in the greater Knysna municipal area
• Link website and identified routes with cycling activities in the greater Knysna municipal area including cross-country cycling, BMXing and cyclocross

5.2.6 AGRICULTURE, FORESTRY AND FISHERIES

The agricultural sector was not a significant employer in the greater Knysna municipal area during 2017, however it was classified as a leading economic sector based on the outcomes of the Carvalho Classification Criteria. Furthermore, the sector has significant employment multiplier effects across the entire regional economy and stimulates a number of business activities through its linkages to other economic sectors.

TABLE 5.21: ECONOMIC SNAPSHOT OF THE AGRICULTURE, FORESTRY AND FISHERIES SECTOR IN 2017

<table>
<thead>
<tr>
<th></th>
<th>KNYSNA</th>
<th>GARDEN ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector GDP-R (R, millions)</td>
<td>R194.5</td>
<td>R1 852.4</td>
</tr>
<tr>
<td>Sector contribution to total GDP-R</td>
<td>5.7%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Average annual GDP-R growth rate (2011 – 2017)</td>
<td>-0.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Sector employment</td>
<td>2 337</td>
<td>28 326</td>
</tr>
<tr>
<td>Sector contribution total employment</td>
<td>9.0%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Average annual employment growth rate (2011 – 2017)</td>
<td>4.0%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Although the greater Knysna municipal area faces environmental constraints, little has been done historically to tap into the beneficiation and value-adding opportunities associated with the natural agricultural resources that are already produced within the area. It is the aim of this section to assess the economic
potential of the agricultural sector so as to make optimal use of the backward and forward linkages, particularly those associated with the agro-processing industry.

This will be achieved through assessing raw material availability, economic linkages, value chain overviews of key agricultural sub-sectors and prevailing market trends.

5.2.6.1 Raw Materials

A range of environmental factors contribute to the greater Knysna municipal area not being a primary agricultural production area. A summary of these environmental factors and how they impact the municipality’s suitability for agriculture is outlined in Table 5.22.

### TABLE 5.22: SUMMARY OF KEY ENVIRONMENTAL ELEMENTS’ IMPACT ON AGRICULTURE

<table>
<thead>
<tr>
<th>ENVIRONMENTAL ELEMENTS</th>
<th>IMPACT ON AGRICULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topography</td>
<td>The topography of the greater Knysna municipal area is classified as hilly and thus large tracks of land are too steep to cultivate.</td>
</tr>
<tr>
<td>Soils</td>
<td>The soil within the greater Knysna municipal area is particularly poor, low in nutrients and shallow. Furthermore, arable land accounts for only a small percentage of the total land area.</td>
</tr>
<tr>
<td>Rainfall</td>
<td>Although the greater Knysna municipal area has a high rainfall relative to the rest of the region, the pattern is erratic, with periods of heavy rains followed by periods of low rain and even drought.</td>
</tr>
<tr>
<td>Surface water</td>
<td>Surface water scarcity within the greater Knysna municipal area is exacerbated by the limited number of farms with access to storage dams. The absence of such dams makes it difficult to ensure a stable water supply. Surface water also exhibits low calcium levels, which are necessary in order to break down organic material. This can lead to outbreaks of algae, which can block irrigation schemes.</td>
</tr>
<tr>
<td>Ground water</td>
<td>Ground water appears to be of a good quality and strong in certain parts of the municipal area, notably the Sedgefield area, however, there are uncertainties around the recharge rates of certain boreholes bringing into question the sustainable use of ground water over the medium to long term for agro-forestry purposes.</td>
</tr>
<tr>
<td>Climate</td>
<td>High humidity levels within the greater Knysna municipal area have the potential to cause agricultural fungal problems. The temperate nature of the climate is, however, advantageous to the dairy industry, as it results in low heat stress for cows.</td>
</tr>
</tbody>
</table>

**Land Availability**

The greater Knysna municipal areas popularity as a holiday destination has led to a sharp increase in the demand for real estate over the last several years, which in turn has driven up land prices. Strong competition for agricultural land by private buyers seeking the “small-holding lifestyle” has further distorted agricultural land prices.

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226 SOURCE: Adapted from Knysna Local Municipality. 2007. KNYSNA RURAL DEVELOPMENT STRATEGY.

As such, the 2017 average per hectare market value in the greater Knysna municipal area, was R216 187 for agricultural properties smaller than 50 hectares, 17.3% higher than it was in 2011 (R184 331 per hectare). This made the greater Knysna municipal area the second most expensive location in the Garden Route region after George (R287 647 per hectare) for agricultural properties smaller than 50 hectares. Larger agricultural properties (i.e. 300 or more hectares) in the greater Knysna municipal area, were notably more competitively priced (R3 271 per hectare) than the rest of the region (between R3 933 and R14 789 per hectare) in 2017.

**FIGURE 5.21: COMPOSITION OF AGRICULTURAL PROPERTY SALES BY SIZE FOR THE GREATER KNYSNA MUNICIPAL AREA**

Despite its high cost relative to the rest of the region, agricultural land smaller than 50 hectares, accounted for the majority of agricultural property sales in the greater Knysna Local Municipality over the last eight years (see Figure 5.21). The average year-on-year growth of these properties (6.8%) however was lower than that of agricultural properties between 51 and 300 hectares (13.0%).

### 5.2.6.2 Economic Linkages

As indicated, economic linkages refer to the impacts or links that one economic sector has with other sectors or industries within the broader economy. Backward linkages are generally considered to be inputs into an economic sector (i.e. suppliers); while forward linkages are the outputs of a particular sector (i.e. demand from other sectors/industries).

The backward linkages of the agricultural sector are all the inputs that are needed by the sector to function and include products such as raw materials (e.g. chemicals, fertilisers, seeds and animal feed), tools and equipment; and labour. The agricultural sector in the greater Knysna municipal area predominantly sources its required agricultural inputs from larger economic centres such as George and Cape Town. Table 5.23 illustrates the main agricultural commodities produced within the greater Knysna municipal area and where the majority of the inputs for the production of these commodities are sourced.

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It is evident from the table that most of the inputs required by the various agricultural industries are sourced from George, which is conveniently located in terms of its proximity and road network links. Other more specialised inputs such as specific chemicals and complex machinery are sourced from Cape Town and Gauteng. This is particularly true for more specialised machinery. Labour is mostly sourced from within the greater Knysna municipal area, as the various industries primarily require elementary skills.

| TABLE 5.23: LOCATION FROM WHICH THE MAJORITY OF AGRICULTURAL INPUTS ARE SOURCED |
|-------------------------------------------------|-----------------|-----------------|-----------------|
| FORESTRY                                         | LIVESTOCK       | VEGETABLES       | FRUIT           |
| Inputs mainly sourced from                       |                 |                 |                 |
| Cape Town                                       | George          | George          | George          |
| Gauteng                                         | Cape Town       | Local           |                 |
| George                                          |                 |                 |                 |
| Labour mainly sourced from                       |                 |                 |                 |
| Local                                           | Local           | Local           | Local           |

Forward linkages refer to the demand for products and services produced by the agricultural sector. The absence of significant agricultural processing operations within most of the greater Knysna municipal area (excluding the forestry industry), has meant that raw materials are primarily exported out of the municipality without any additional value-adding taking place. Due to the lack of value adding-activities, a significant amount of horticulture and livestock production from small-scale farmers are sold in their raw state. Most agro-processing operations in the greater Knysna municipal area relate to the timber industry and take place in the outside the towns of Rheenendal and Karatara.

5.2.6.3 Value Chain Analysis

The greater Knysna municipal area can maximise the growth potential of its agricultural sector by promoting development along the entire value chain of the different agricultural sub-sectors that operate within the greater Knysna municipal area. To identify development opportunities within specific agricultural sub-sectors, this section undertakes a value chain analysis of a selection of agricultural industries operating within the greater Knysna municipal area, namely: forestry, livestock (dairy) and vegetables. The analysis will focus on the elements/components of typical value chains in each industry and point to current gaps within the greater Knysna municipal area, in terms of these value chain elements.

Forestry

Plantation and indigenous forests provide the raw materials for all downstream activities associated with the forestry industry such as pulp milling, paper manufacturing, sawmilling and certain furniture manufacturing. The development of plantation and/or indigenous forestry can also play an important role in environmental services, such as through the conservation of soil; water and biological diversity.

Industry Overview

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229 SOURCE: Interviews with local stakeholders. 2018.
230 Fruit production within greater Knysna municipal area is very marginal.
The total commercial timber plantation area in South Africa in 2016 was 1.2 million hectares, 0.3% less than in 2015. This equates to only 0.9% of the total land cover in South Africa, compared to 0.3% for natural forests. Most of these forestry plantations were situated in KwaZulu-Natal and Mpumalanga, which collectively accounted for 80.5% of total afforested areas in South Africa in 2016.

Though plantations have a legacy of state ownership, only 17.7% of the total plantation area in South Africa was manged by either SAFCOL (10.5%) or state/municipalities (7.0%) in 2016. The large grower category of plantation ownership (i.e. greater than 5,000 hectares) was highly concentrated, with these owners controlling 70.0% of the total plantation area in South Africa, slightly less than the 70.8% recorded in 2011. The medium growers (i.e. plantation size of between 200 and 5,000 hectares), owned 26.6% of all plantations in 2016 (2011: 25.8%). The approximately 518 individuals, partnerships, and trusts classified as small growers (i.e. plantation size of less than 200 hectares), owned the remaining 3.4%, slightly less than the 3.5% recorded in 2011.

The plantation market is defined by a large degree of vertical integration, with the major plantation owners in many cases also being the major processors and buyers of wood. Examples of this are Mondi and Sappi in the case of purchases of wood for pulp and paper, Masonite in the case of fibreboard, and Global Forest Products and Hans Merensky for sawmilling. Given this industry structure, a large majority of the wood produced is removed from the open market, which results in the dominance of a few large buyers.

Short-rotation softwood – mostly eucalyptus and some wattle – accounts for 49.8% of the total planted area in South Africa. Pine account for a further 49.8% of total plantation area. Compared to the 2011 figures there has been a gradual shift away from pine, which in 2011 accounted for 51.1% of total plantation area in South Africa.

Rotation periods for softwood species vary between 12 to 15 years for the manufacture of pulpwood; and 27 to 30 years for sawn timber products. The variation in rotation periods plays a critical role in the commercial viability of small-grower schemes.

Industry Performance and Trends

Due to its shorter rotation and higher yield, annual hardwood production outstrips that of softwood. Of the approximately 16.7 million m$^3$ of South African roundwood production in 2016, hardwood comprised 9.8 million m$^3$ (about 58.6%) while softwood accounted for only 6.9 million m$^3$. 
Total South Africa roundwood production volumes have, however, shown poor growth over the 2011 to 2016 period, with average annualised growth over the period of -2.9%. Total roundwood production peaked in 2006 at 22.8 million m$^3$ before declining 28.0% to its current 2016 levels.

Most roundwood was used for the production pulpwood (10.8 million m$^3$) and sawlogs (4.4 million m$^3$). The remaining 1.1 million m$^3$ of roundwood went to the production of mining timber, poles, charcoal and other uses. Accordingly, pulpwood and sawlogs accounted for 93.2% of all roundwood production in 2016, up from 90.9% in 2011. In comparison, mining timber, poles, and charcoals share of total roundwood production fell from 9.1% in 2011 to 6.8% in 2016.

Sawlog production growth outpaced that of pulpwood over the last five years, growing by 1.6% year-on-year, compared to a 4.3% year-on-year reduction in pulpwood production figures. This growth was further reflected in new afforestation figures. Over the last five years, sawlogs accounted for 55.4% of all new afforestation developments, equivalent to 2 412 hectares, compared to only 44.5% (1 938 hectares) for pulpwood. This growth can be attributed to the national shortage of sawlogs, particularly in the Western Cape, exacerbated by SAFCOL’s decision not to replant clear-felled areas.

**TABLE 5.24: ROUNDWOOD PRODUCTION BY PRODUCT**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>2011</th>
<th>2016</th>
<th>% GROWTH (2011-2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sawlogs and Veneer Logs (m$^3$)</td>
<td>4 179 100</td>
<td>4 447 343</td>
<td>1.6%</td>
</tr>
<tr>
<td>Pulpwood (tons)</td>
<td>10 337 799</td>
<td>8 660 153</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Mining Timber (tons)</td>
<td>573 142</td>
<td>299 188</td>
<td>-15.0%</td>
</tr>
<tr>
<td>Poles (m$^3$)</td>
<td>432 623</td>
<td>327 517</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Charcoal a and Firewood (tons)</td>
<td>233 069</td>
<td>197 384</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Other (tons)</td>
<td>102 489</td>
<td>87 304</td>
<td>-3.9%</td>
</tr>
</tbody>
</table>

---

**FIGURE 5.22: SOUTH AFRICAN ROUNDWOOD PRODUCTION LEVELS**

![Graph showing roundwood production levels from 1995 to 2016](image)

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The total value of plantation forestry products in 2016 was estimated at R8.9 billion in real terms, a 10.4% year-on-year increase. Of this value, R6.4 billion (71.9%) was generated from pulpwood and a further R2.0 billion (22.6%) from sawlogs and veneer log production. Since 2011, the total value of the plantation forestry industry has declined from R9.4 billion to R8.9 billion in 2016, equating to a negative real growth rate of 0.9%.

Forestry Plantation Areas in the Western Cape

The Western Cape accounted for approximately 3.6% (44 030 hectares) of total South African afforested area in 2016. This was down from the 61 454 hectares recorded in 2011, when the Western Cape accounted for 4.8% of all South African afforested area. This made the Western Cape the smallest province in terms of area under plantation. These plantations were almost exclusively privately owned (98.7%). Forestry plantations in the Western Cape are primarily located in the eastern part of the provinces, in what is demarcated as the Southern Cape.

In 2016, the Western Cape produced over 527 000 m$^3$ of roundwood from plantations, equating to 0.8% of total South African output. Almost all this production was in the form of sawlogs (93.2%). The estimated value of this roundwood production was approximately R239.0 million in 2016, up from the R208.3 million recorded in 2011. This accounted for 2.6% of the value of all South African roundwood sales in 2016. A further R706.0 million was generated in 2016 from roundwood sales by Western Cape processing plants (2011: R941.1 million), representing 2.7% of the national value.

Forestry Plantation Areas in the Greater Knysna Municipal Area

The forestry industry is the single most important component of the Knysna agricultural sector, accounting for an estimated 30% of the total land use within the municipality. It was estimated that, in 2016, there was a total of 32 000 under roundwood cultivation in the greater Knysna municipal area, with a maximum total annual production capacity of 431 010 m$^3$. This represented 62.6% of the total area under forestry plantation in the Southern Cape Forestry Region, which comprises the area around Mossel Bay, George and Plettenberg Bay.

Timber harvested from these plantations was sent to sawmills in the George Local Municipality (i.e. PG Bison, Steinhoff). Some of the timber, however, was sent to local sawmills such as Wilcross Timbers and Geelhoutvlei Timbers, which had an annual production capacity of 60 000 m$^3$.

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235 Tonnage figures have been converted into m$^3$ using standard industry conversion factors.
236 The Southern Cape (Zone 12) is a demarcation used by the Department of Agricultural, Forestry and Fisheries to define forestry activity accounting in the following magisterial districts: George, Knysna, Mossel Bay and Humansdorp. The Western Cape Province also includes another forestry area, namely the Western Cape (Zone 13). Zone 13 accounted for 18.1% of total provincial plantation area in 2016.
237 Note that all 2011 figures indicated in this paragraph have been adjusted by CPI to reflect 2016 prices.
238 SOURCE: Knysna Local Municipality. 2012. NEIGHBOURHOOD DEVELOPMENT PROGRAMME GRANT (NDPG) STUDY FINAL STATUS QUO REPORT.
240 SOURCE: Department of Agriculture, Forestry and Fisheries. 2017. REPORT ON COMMERCIAL TIMBER RESOURCES AND PRIMARY ROUNDWOOD PROCESSING IN SOUTH AFRICA 2015/2016. A detailed map indicating the Southern Cape Region (Zone 12) can be found at: www.nda.agric.za/doaDev/sideMenu/ForestryWeb/webapp/ResourceCentre/Documents/Maps/ofForest_Base_Map_Western_Cape_A3.pdf.
No figures are available for the total value of timber production within the greater Knysna municipal area; however, using the estimated size of existing plantations, the maximum total annual production (m³) of Knysna plantations and timber sales figures per hectare for the Southern Cape Region (Zone 12), it was estimated that timber sales yielded approximately R188.5 million²⁴¹ for the greater Knysna municipal area’s economy in 2016. This was 36.3% higher than the R138.2 million recorded in 2011 and equivalent to an average annual growth rate of 6.4% between 2011 and 2016. Contributing to this growth was a 55.7% increase in the volume of roundwood sold, and a 15.7% increase in the average price.

It should be noted that these figures are estimates based on regional trends and are calculated independently of total agricultural sector GDP-R. This figure can therefore not be compared to total agricultural sector GDP-R.

Other primary production includes a large tree nursery in Karatara, which produces an estimated 3 million tree saplings annually and employs 35 people. Local seedling requirements were estimated at 1 100 per hectare²⁴², suggesting that this facility had enough production capability to meet the local demand.

The June 2017 fires had a major impact on the greater Knysna municipal area’s forestry industry, with an estimated 10 000 hectares of plantations either damaged or destroyed²⁴³. PG Bison, the largest forestry plantation operator in the area alone, experienced 4 456 hectares of damage, equivalent to 22.3% of its total southern Cape operations. This damage has meant that up to 403 777 m³ of timber could potentially need to be harvested prematurely²⁴⁴.

Salvage plans²⁴⁵ are already underway by both PG Bison and the MTO Group, and the intention is to harvest between 70.0% and 80.0% of all damaged trees older than 10 years. The timber that cannot immediately be used by local processing plants in George, will be stored in wet deck preservation systems near the harvested areas. Logs from these preservation decks will gradually be released over the next two years to meet the raw material requirements of local processing operations.

The total damage to the plantations was estimated at R2.0 billion, R1.3 billion of which is likely to attributable to the greater Knysna municipal area’s forestry industry.

**Industry Value Chain**

Based on the value chain presented in Figure 5.23, there is potential to improve biodiversity management in plantations, as well as promote the development of further downstream activities such as bioenergy from woodchips and value-adding manufacturing.

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²⁴¹ To calculate this figure, the production figure (m³) per hectare was calculated for the Southern Cape Region in 2016 (12.4 m³ per hectare). This figure was then applied to the total estimated area under plantation in the greater Knysna municipal area (32 000 hectares) to determine the number of m³ of timber sold. The average roundwood selling price was then determined and applied to the aforementioned production figure (R473). Regional production figures were obtained from the National Department of Agriculture, Forestry and Fisheries; and Forestry South Africa’s FORESTRY AND FOREST PRODUCTION INDUSTRY FACTS 1980 – 2016 (2017).

²⁴² SOURCE: Interviews with local stakeholders. 2018.

²⁴³ SOURCE: Garden Route Rebuild Initiative. 2018. GARDEN ROUTE REBUILD INITIATIVE: LANDSCAPE ASSESSMENT WORKSHOP.


The plantation forestry exit strategy currently underway is anticipated to be concluded by 2020. As part of this exit strategy, 45,000 hectares of plantation land in the Western Cape was intended to be converted to other uses, with 37,000 hectares being retained under sustainable leases. National government has subsequently reversed this decision and is now planning to recommission 22,000 hectares of the initial 45,000 hectares.

While this creates some limited potential for new plantations, the scope for such in the greater Knysna municipal area is limited. This is due to several factors including:

- Long lead times before profit is realised, discouraging new market entrants
- Availability of suitable land
- Entrenched market players
- High capital costs
- Water tariff associated with new plantations
- Availability of land

The biodiversity in indigenous forests located within the greater Knysna municipal area has been compromised by invasive non-endemic flora. There is potential to undertake environmental management services (i.e. removal of invasive flora) through government works programmes such as Working for Water. Such projects would have a dual objective of improving indigenous forests’ biodiversity, while also generating organic waste that could be utilised for other value-adding activities. The harvesting of natural flora within indigenous forests for medical purposes and possibly as a food resource are also potential opportunities (e.g. wild honey, pine nuts, mushrooms).

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247 SOURCE: Stehle, T. 2016. SA FORESTRY: FINDING SOLUTIONS IN THE SOUTHERN CAPE.
248 All existing plantations in the greater Knysna municipal area are currently being retained under sustainable leases. These leases are all held by the MTO Group.
The sawmills that operate in the greater Knysna municipal area have strong links with local businesses, and efforts by both these enterprises to promote additional value adding along the forestry value chain have been undertaken through the Knysna Timber Initiative.

Beyond sawmilling, however, there is very little additional processing of timber in the greater Knysna municipal area. Over the medium- to long-term, potential exists to manufacture charcoal from waste products generated by sawmills operating in the greater Knysna municipal area. The low skill requirements of these enterprises make this form of manufacturing particularly accessible to rural communities, but input supplies will have to be expanded over the short-term. Other opportunities in the forestry processing sector include:

- Manufacturing of biomass for energy (e.g. stream) and charcoal from organic waste
- Mulching and composting of organic plantation waste, woodchips, and other sawmilling waste
- Transport and disposal of organic plantation and sawmilling waste
- Production of prefabricated or pre-cut pine components for the building industry
- Diversification existing sawmill operations into the production of doors, frames, flooring and planks
- Utilising indigenous woods to create unique wooden products

Livestock

Industry Overview of Beef Cattle

The South African beef value chain has become increasingly vertically integrated, with most of the feedlots in the country either having their own abattoirs or being partial owners in several smaller abattoirs. Several of the larger feedlots even participate in the entire beef value chain, selling directly to consumers through their own retail outlets. It is estimated that between 70.0% and 80.0% of the beef produced for the formal sector is produced through feedlots.

South African beef production has shown modest growth over the last six years, growing at an annualised rate of 4.3% between 2011 and 2017. This has resulted in total beef and veal production increasing from 585.1 million kilograms in 2011 to 1 096.7 million kilograms in 2017.

Domestic beef and veal consumption mirrored production trends, growing steadily over the period, and reaching 1 086.0 million kilograms in 2017. Higher income levels amongst consumers, saw per capita beef and veal consumption average 18.2 kilograms over the period – rising from 16.7 kilograms in 2011 to 19.2 kilograms in 2017. Part of this increased domestic consumption was met by international imports, which in 2017 stood at 25.0 million kilograms.


SOURCE: Department of Agriculture, Forestry and Fisheries (DAFF). 2011. BEEF MARKET VALUE CHAIN PROFILE.
This increase in domestic consumption and an upward trend in international beef prices saw the average carcass slaughter price increase from R28.43 per kilogram in 2011 to R44.39 per kilogram in 2017. Based on this figure, the total estimated value of South African beef and veal production in 2017 was R48.6 billion.

**FIGURE 5.24: BEEF AND DAIRY CATTLE VALUE CHAIN**

Animals must preferably be sold as soon as they are market ready, irrespective of the market price at that time. Keeping the animals for longer periods in the hope that the market price will improve implies both an opportunity cost and a direct cost for the farmer due to the additional feeding requirements.

**Beef Cattle Farming in the Greater Knysna Municipal Area**

Beef cattle production in the greater Knysna municipal area is very limited, with all production occurring under natural dryland grazing conditions. What production does occur is restricted to the last part of the value chain (i.e. preparing the animal for the market).

In most cases, beef farmers in the greater Knysna municipal area do not rear the calves, but rather procure animals on auctions and then get them market ready. Also, some milk cows are slaughtered for their meat. This is however, a much lower quality meat than that produced by beef cattle.

Based on this analysis, beef production volumes and other factors such as land availability within the in the greater Knysna municipal area, it is unlikely that the beef value chain can be developed.

**Industry Overview of Dairy Cattle**

The dairy value chain (refer to Figure 5.24) begins with the primary production of raw milk, which is then collected in bulk and processed into a number of different primary and secondary products, such as pasteurised milk, condensed milk, cheeses, yoghurts, etc. These products are then either exported or sold to markets (e.g. retail outlets, schools, clinics, etc.)

251 SOURCE: Department of Agriculture, Forestry and Fisheries (DAFF). 2012. A PROFILE OF THE SOUTH AFRICAN DAIRY MARKET VALUE CHAIN.
Over the last several years there has been a steady increase in the production costs of milk, which farmers have endeavoured to offset through increasing herd sizes and other practices, in an effort to increase milk production per cow. South Africa has relatively few milk processors, with these businesses generally operating under oligopolistic conditions\textsuperscript{252}, which means that processors have greater negotiating power in terms of determining the price charged to milk producers. This results in milk producers being classified as price takers.

This changing market structure has seen the number of dairy farmers decline by 40.6\% since 2011, while the average herd size has increased\textsuperscript{253}. Dairy farmers have consequently been forced to improve efficiency levels either through increasing volumes and/or reducing production costs or attempting to add value to their primary production. Some dairy farmers have consequently begun selling directly to retailers and consumers or producing their own value-added milk products on their farms (mainly targeted at niche markets)\textsuperscript{254}.

There also appears to be a trend towards fewer, but larger and more specialised dairy farms, mainly to increase production efficiency. This is evident by the fact that the total number of milk producers in the Western Cape has decreased from 683 in 2011 to 481 in 2017, while average herd size has increased from 246 in 2012 to 268 in 2017\textsuperscript{255}.

South African milk production has increased steadily over the last ten years, but remained fairly constant over the last three years, averaging 3.1 million tons over between 2015 and 2017. Total South African milk consumption likewise has risen, increasing from 37.6 kilograms per capita in 2007 to 39.0 kilograms per capita by 2017\textsuperscript{255}. This increase in production and consumption did not however, translated into higher prices which remained in a narrow band of between R4.30 and R5.21 per litre in real terms over the since 2011 (average: R4.82 per litre). In nominal terms however, the price of milk rose from R3.10 per litre in 2011 to R5.00 per litre in 2017.

\textsuperscript{252} In 2006 it was estimated that the four largest milk processors in South Africa process accounted for roughly 65\% of the total commercial milk delivered by producers (Cutts and Kristen, 2006).
\textsuperscript{253} SOURCE: Milk Producers Association (MPO). 2018. LACTODATA, VOLUME 21, NUMBER 1, MAY 2018.
\textsuperscript{254} SOURCE: Lassen, B.J. 2012. DAIRY PRODUCTION IN SOUTH AFRICA: IMPRESSIONS.
\textsuperscript{255} SOURCE: Milk Producers Association (MPO). 2018. LACTODATA, VOLUME 21, NUMBER 1, MAY 2018.
South Africa remained a net importer of dairy products in 2017, with approximately 83,504 tons imported compared to exports of only 48,627 tons. This was a continuation of the trend that started in 2015. Contributing to this increase in imports was lower international dairy product prices driven by global oversupply of milk. Lucrative dairy product export markets over the 2011 to 2017 period were: buttermilk powder and yoghurt (17.5% year-on-year price growth); and butter, butter spreads, and butter oil (11.5% year-on-year price growth).

**TABLE 5.25: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT PRICES FOR DAIRY PRODUCTS**

<table>
<thead>
<tr>
<th></th>
<th>Import Price (R/kg)</th>
<th>Export Price (R/kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk and cream, unsweetened</td>
<td>R5.66</td>
<td>R7.65</td>
</tr>
<tr>
<td>Milk, concentrated</td>
<td>R26.17</td>
<td>R32.31</td>
</tr>
<tr>
<td>Buttermilk powder, yoghurt</td>
<td>R22.78</td>
<td>R28.39</td>
</tr>
<tr>
<td>Whey, whey powder etc.</td>
<td>R20.46</td>
<td>R31.24</td>
</tr>
<tr>
<td>Butter, butter spreads, and butter oil</td>
<td>R32.01</td>
<td>R68.69</td>
</tr>
<tr>
<td>Cheese and curd</td>
<td>R43.41</td>
<td>R62.19</td>
</tr>
</tbody>
</table>

*Dairy Farming in the Greater Knysna Municipal Area*

Most of the estimated 5,180 head of cattle recorded in the greater Knysna municipal area during 2013 were geared towards dairy, with between 45% and 60% of the area’s 5,162 hectares of dryland and irrigated

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257 SOURCE: Milk Producers Association (MPO). 2018. LACTODATA, VOLUME 21, NUMBER 1, MAY 2018. Note that prices published by MPO are for January of that year. Raw milk production figures published by the MPO are reflected in tons, which have been converted to litres using an industry conversion factor of 1.03.


pastures committed to dairy production. This land was concentrated in the Rheenendal and Karatara areas.

It was estimated that the sale of dairy products (milk and cream) by farmers in the greater Knysna municipal area generated R96.3 million (2017 prices) in gross farming income in 2013, compared to R56.3 million (2017 prices) recorded in 2007. This represented a 70.9% increase in absolute terms and was equivalent to an average year-on-year growth rate of 9.3%.

The greater Knysna municipal area has been identified as having a competitive advantage in milk production, due to the area’s temperate climate, which enables dairy cattle to have a longer economic lifespan (10 to 15 years compared to 8 years in other milk producing areas). The high capital costs and large land requirements for the expansion of dairy farming however, is likely to limit further development.

**Horticulture**

Horticultural produce is generally classified into two categories, namely highly perishable and moderately perishable. Highly perishable produce includes green and leafy vegetables, green beans, green peas, green mealies, sweetcorn, cabbages, sweet pepper, asparagus, carrots and tomatoes. Moderately perishable produce includes potatoes, onions, nuts and melons. The analysis in this section will focus on cabbages, tomatoes and nuts, which were some of the dominant horticultural products in the greater Knysna municipal area.

The most common method of horticultural presentation is either fresh or preserved. Horticultural produce is marketed through either fresh produce markets in major towns/cities countrywide or directly to wholesalers and retailers. Preserved horticultural products are normally supplied to agro-processors for freeze-packing or drying (dehydration).

**Industry Performance and Trends**

**Cabbages**

South African cabbage production remained flat between 2007 and 2017, with an average annualised growth rate of 0.4% over the period. In terms of production, volumes have increased from an estimated 146 million kilograms in 2007 to 152 million kilograms in 2017. Cabbage production volumes in 2017 however, were 9.4% higher than the previous year, and the highest that they had been since 2011. This suggests low to moderate future growth prospects.

**Tomatoes**

Tomato production in South Africa has remained stable over the last 10 years, exhibiting an average annualised growth rate between 2007 and 2017 of 1.8%. Tomato production peaked in 2017 at 610 million kilograms, 8.3% higher than the previous year, and the highest that they had been since 2011. This improvement was attributed to

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260 Urban-Econ calculations based on Knysna Local Municipality’s NEIGHBOURHOOD DEVELOPMENT PROGRAMME GRANT (NDPG) STUDY FINAL STATUS QUO REPORT (2012) and Western Cape Department of Agriculture’s AGRISTATS (2013) available: http://www.elsenburg.com/gis/apps/agristats/.

261 Urban-Econ calculations based on cattle numbers recorded by the Western Cape Department of Agriculture’s 2013 AGRISTATS database for the greater Knysna municipal area; average milk production per cow of 20.2 litres as published by the Milk Producers Association’s LACTODATA VOLUME 17, NUMBER 2, NOVEMBER 2014; and a 305-milking day cycle per year per cow. Data for 2007 was obtained from the Knysna EDS (2015) and based on the 2007 CENSUS OF COMMERCIAL AGRICULTURE: WESTERN CAPE as published by the Department of Agriculture, Forestry and Fisheries (DAFF).

262 Knysna Local Municipality, 2012 NEIGHBOURHOOD DEVELOPMENT PROGRAMME GRANT (NDPG) STUDY FINAL STATUS QUO REPORT.

improved climatic conditions, coupled with a moderation in production costs. Average production over the last five years was 557 million kilograms.

**Macadamia Nuts**

Between 2007 and 2017, approximately 367.4 million kilograms of macadamia nuts were produced by South African farmers, 118.3 million kilograms of which was nut-in-shell. South African macadamia nut production rose almost consistently over this period, only declining in 2016, after a record production of 46 million kilograms in 2015. The addition of 5 000 hectares of new macadamia nut plantations in 2017 is anticipated to lead to production levels higher than those recorded in 2015.

Based on the average prices at various fresh produce markets throughout South Africa, it was evident that the price of tomatoes had risen by 7.4% in real terms from R5.79 per kilogram in 2012 to R6.22 per kilogram in 2017. Likewise, the average cabbage price rose by 7.4%, increasing from R2.32 per kilogram in 2012 to R2.50 per kilogram in 2017. Little to no macadamia nuts pass through fresh produce markets. The weighted average price of macadamia kernels was R224.72 per kilogram in 2017 and R71.63 per kilogram for nut-in-shell macadamia nuts.

**FIGURE 5.26: SOUTH AFRICAN TOMATO AND CABBAGE PRODUCTION LEVELS**

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**Horticultural Producing Areas in the Western Cape**

Given the suitability of the Western Cape climate, vegetable and fruit output is an important component of the province’s agricultural sector, representing some 46.0% of all hectares of agricultural activity.

Trade in fresh vegetables is either through the major Western Cape fresh produce markets in Cape Town and George, or through farmer organisations such as Potato South Africa and the Onion Forum. In 2016, approximately 242 129 tons of vegetables, worth R899.0 million, were sold through these two fresh produce markets (see Table 5.26). It is important to note that this figure does not take into account an estimated production of fresh vegetables.

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50.0% of production that is traded via the informal sector, produced under contract for major supermarket chains or exported.\textsuperscript{268}

**TABLE 5.26: VOLUME AND VALUE OF VEGETABLES SOLD THROUGH WESTERN CAPE FRESH PRODUCE MARKETS**\textsuperscript{269}

<table>
<thead>
<tr>
<th>MARKET</th>
<th>VOLUMES SOLD (TONS)</th>
<th>VALUE OF VEGETABLES SOLD (R, MILLIONS)</th>
<th>MAJOR VEGETABLES SOLD BY MASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Town</td>
<td>214 473</td>
<td>235 088</td>
<td>R1 090.6</td>
</tr>
<tr>
<td>George</td>
<td>6 177</td>
<td>7 041</td>
<td>R26.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>220 649</td>
<td>242 129</td>
<td><strong>R1 117.4</strong></td>
</tr>
</tbody>
</table>

As evident from Figure 5.27, the Garden Route District Municipality accounts for approximately 3.8% of the total horticultural production in the Western Cape as measured by number of hectares under cultivation. This production is confined to the more arable coastal belts around George, Mossel Bay and Knysna.

According to the Western Cape Department of Agricultural, approximately 9 906 hectares of land were used for horticultural production in 2013, comprising primarily apples (1 516 hectares; 15.3%), wine grapes (1 383 hectares; 14.0%), onions (1 284 hectares; 13.0%) and olives (799 hectares; 8.1%).

**FIGURE 5.27: AGRICULTURAL LAND USED FOR HORTICULTURAL PRODUCTION PER DISTRICT, 2013**\textsuperscript{270}

*Horticultural Production in the Greater Knysna Municipal Area*

A wide variety of horticultural products are produced by farmers in the greater Knysna municipal area, but mostly on a small scale and under irrigation. The small size of the greater Knysna municipal area’s

\textsuperscript{268} SOURCE: Vink, N and Tregurtha, N. 2004. AGRICULTURE AND MARICULTURE: STRUCTURE, PERFORMANCE AND FUTURE PROSPECTS – AN OVERVIEW.

\textsuperscript{269} SOURCE: Department of Agriculture, Forestry and Fisheries (DAFF). 2016. STATISTICS ON FRESH PRODUCE MARKETS.

horticultural industry was indicated by the fact that in 2013 only 89 hectares were under cultivation for this purpose\textsuperscript{271}. Tunnel farming operations in Karatara have the potential to expand the area used for horticultural production in the greater Knysna municipal by a further 21 hectares. Such horticultural activities would entail the production of cocktail tomatoes in tunnels, as well a selection of cash crops (herbs) grown under open irrigation.

Most vegetables are sold within the greater Knysna municipal area through either local retailers or farmers’ markets. There is also a strong informal market, where locally produced vegetables are sold to hawkers in the various towns within the municipality.

**Industry Value Chain**

The horticultural industry in the greater Knysna municipal area, although small in comparison to other production areas in the Western Cape, has a developed base on which growth can be built. The local horticultural industry should strengthen its linkages with SMMEs and informal traders. These two groupings can play an important role in the horticultural distribution network, as they have the capacity to reach both the rural and urban markets.

**FIGURE 5.28: HORTICULTURAL VALUE CHAIN**

The horticultural industry benefits from consistent demand throughout the year as well as comprising commodities commonly used in food preparation. The industry has potential to create job opportunities for local agribusinesses along the entire value chain from pre- to post-harvesting (transport, packaging, fertiliser inputs, etc.).

Gaps within the horticultural value chain that need to be addressed are:

1. **Increasing primary production volumes**
   Although increasing production volumes in the greater Knysna municipal area is limited by land availability and soil quality, a number of unique approaches can be followed, such as: promoting urban food gardens, multi-cropping, using both hydroponics and aquaponics, both of which have higher yields than conventional rain-fed agriculture.

2. **The introduction of packaging facilities**
   The cutting, peeling and packing of vegetables for retailers and wholesalers is labour intensive and permits producers to achieve a higher price. This would be contingent on greater primary production volumes.

3. **Targeting the local market**
   The in the greater Knysna municipal area’s horticultural industry should target local consumers (e.g. tourism establishments), as catering for this market lowers both transport and refrigeration costs, which in turn increases profitability.

4. **Focus on producing organic, sustainable vegetables**
   Following sustainable and organic production practices permits horticultural producers to charge a premium for their product.

Several factors however, can inhibit the development of the local horticultural industry. Some of these include:

- Difficulty in maintaining the quality of produce for exports
- High costs associated with refrigerated transport over long distances
- International competition, with competitors selling produce at much cheaper rates
- Competing against subsidised production in developed countries

### 5.2.6.4 Market Structure and Trends

The following section outlines major market trends within specific commodity groups (forestry, livestock and horticulture) as well as overarching trends that are likely to impact the agricultural sector as a whole.

**Forestry**

Global industrial roundwood production amounted to 1 874 million m³ in 2016, 2.6% higher than the figure recorded in 2015 (1 826 million m³) and 5.9% higher than the figure recorded in 2012. Most of this growth occurred in Asia-Pacific, European and Northern American regions, which, in 2016, jointly produced 7.0% more roundwood than they had in 2012. Production in Africa, Latin America and the Caribbean remained largely unchanged between 2012 and 2016. Other forestry product segments that saw positive production growth between 2015 and 2016 were: sawn wood (3.2%), wood-based panels (4.0%), wood pulp (2.0%) and paper (0.5%). This positive growth is anticipated to continue between 2017 and 2018.

Global trade in industrial roundwood, amounted to 125 million m³ in 2016, equating to approximately 7.0% of global production. Although international trade flows in roundwood are still lower than those recoded in 2014, 2016 saw a 3.0% increase from the 2015 figure. At a regional level, the Asia-Pacific region is was net

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importer of industrial roundwood, while other global regions were net exporters. After the United States of America, China was the world’s second largest consumer of roundwood in 2016 (213 million m\(^3\)), with its roundwood imports rising by 9.0% from 2015.

**Dairy\(^{273}\)**

International dairy product prices dropped by 61.0% from 2014 to 2016. The decrease in prices was caused by higher production, fuelled by higher producer prices and a slowdown in demand, especially from China. Lower producer prices resulted in a slowdown in milk production in 2016. Lower production growth, coupled with a moderate recovery in global markets, resulted in a recovery in product prices which increased by 62.0% from their low in 2016 to the end of 2017.

Milk production growth for 2017 is estimated at 16 million tons of energy-corrected milk (ECM), up from 9 million tons ECM in 2016. Dairy demand is expected to grow by 14 million tons in 2017, increasing to 20 million tons in 2018. World dairy product prices are expected to remain stable in 2017. A recovery in demand in 2018, as well as a slower production response, may result in a moderate increase in global dairy product prices in 2018.

Over the long-term, dairy demand is expected to grow by 2.3% a year for the next decade. The main drivers of this growth in demand will continue to be the increasing global population and the growth in the per capita consumption of dairy products.

Global dairy supply and demand will balance at an equilibrium price of $41\(^{274}\) per 100 kilograms of ECM. Milk production will remain focused on traditional dairy regions with a partial shift to areas of lower production cost, natural resources and existing infrastructure. Formal milk consumption will continue to increase as global trade expands.

The South Africa supply situation remains uncertain as the final effects of the 2016 and 2017 drought begin to materialise. Due to this, South African milk production growth will likely remain slow during 2017 and the first half of 2018. The long-term outlook for South African milk producers however, remains positive. At present, South Africa is the only surplus-producing country in Africa and as such there is considerable potential to export to other African countries.

**Horticulture\(^{275}\)**

Global horticultural production was 1 941.0 million tons in 2016, presenting a year-on-year grow rate of 1.9%. The vegetable market comprised the largest component and accounted for 55.4% of all horticultural production (1 075.2 million tons) in 2016. This increase was driven by robust production growth in European (3.7%) and Asia-Pacific (2.1%) markets. The gross value of world horticultural production increased by 1.8% between 2015 and 2016 to an estimated $741.0 billion. Between 2016 and 2021 the horticultural production is forecasted to be 2.8% year-on-year, reaching 2 392.8 million tons in 2021\(^{276}\).

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\(^{273}\) SOURCE: Coetzee, D. 2017. GLOBAL DAIRY CRISIS IS OVER.

\(^{274}\) Equivalent to R574 per 100 kilograms at an exchange rate of R14 per United States Dollar.


In addition to industry trends within specific agricultural sub-sectors, there are a number of overarching national and international trends, identified in Table 5.27, that are likely to impact the development of the greater Knysna municipal area’s agricultural sector.

**Table 5.27: Major Trends in the Agricultural Sector**

<table>
<thead>
<tr>
<th>Trend</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Resilience to Climate Change&lt;sup&gt;277&lt;/sup&gt;</td>
<td>African countries are anticipated to suffer disproportionately from the adverse effects of climate change, with several projections indicating increasing drought conditions and high temperatures, particularly in more arid regions. While the precise impacts of climate change on Africa’s agricultural sector are uncertain and are likely to vary spatially, there are two general predictions: greater variability in agricultural production and a possibly a decline in crop productivity arising from more erratic and extreme weather patterns. To counter these trends, greater emphasis will be placed on developing crops and horticultural products that are resilient to extreme climatic conditions.</td>
</tr>
<tr>
<td>Sustainable Agricultural Practices&lt;sup&gt;278&lt;/sup&gt;</td>
<td>Existing commercial agriculture is dominated by monocultural practices that use large amounts of chemical pesticides and fertilizers that damage soils, water, air, and climate. There is however an increasing focus on more sustainable agricultural processes which make use of methods that are economically viable, environmentally sound and protect public health. Such sustainable methods and practices include: the use of renewable energy sources; integrated pest management techniques that utilise natural pest eliminators; crop rotation and diversity; managed grazing; targeting agricultural sales at the local market to reduce transport costs; manual weed removal; and better waste management systems.</td>
</tr>
<tr>
<td>Organic Food&lt;sup&gt;279&lt;/sup&gt;</td>
<td>Demand for organic food is estimated to be at its highest in more than a decade and was valued at $124.7 billion in 2017. According to major global retailers, sales of organic produce is rising across all sectors, not just fruits and vegetables. Consumers are now to buy organic fish, dairy produce and grocery items, such as olive oil, pasta and cooking sauces that are classified as organic. Prices, however, continue to be a concern for consumers, with the market still dominated be wealthy consumers. Despite this, the organic food market is expected to generate revenue of around $323.0 billion by the end of 2024, growing at an average annual rate of 14.5% between 2017 and 2024.</td>
</tr>
<tr>
<td>Vegetarianism and Veganism&lt;sup&gt;280&lt;/sup&gt;</td>
<td>Approximately 2.2 billion people, equivalent to 21.8% of the global population, were estimated to be vegetarians in 2016, either by choice or necessity. While no large-scale global study has been undertaken of the vegan market, country studies suggest that veganism is a growing trend amongst consumers. The United States of American alone has experienced...</td>
</tr>
</tbody>
</table>

<sup>277</sup> SOURCE: International Labour Office (ILO). 2017. THE FUTURE OF WORK IN AFRICAN AGRICULTURE: TRENDS AND DRIVERS OF CHANGE.

<sup>278</sup> SOURCE: Conserve Energy Future. No date. SUSTAINABLE FARMING: SMALL STEPS TO A BIG TOMORROW.

<sup>279</sup> SOURCE: Doward, J. 2017. ORGANIC FOOD SALES SOAR AS SHOPPERS PUT QUALITY BEFORE PRICE.

<sup>280</sup> SOURCE: Oberst, L. 2018. WHY THE GLOBAL RISE IN VEGAN AND PLANT-BASED EATING ISN’T A FAD.
a 600% increase in the number of people identifying as vegan, while the United Kingdom vegan market grew by an estimated 350% growth over the last decade. China is anticipated to be a key driver of the future global vegan market, with a projected growth rate of 17.2% between 2015 and 2020. This trend is anticipated to significantly increase the demand for horticultural products over the near future.

### Urban Agriculture

There is a growing international movement towards ensuring sustainable cities that can meet all their own requirements (e.g. food, energy, etc.). Key to this process is finding ways of improving city food security through local sourcing and high-tech farming concepts.

Linked to this process is the re-greening cities through the introduction of green roofs, urban parks, flower gardens etc. into the city’s built environment and thereby reclaiming the urban environment.

### Natural Fibres

There is increasing interest in using high strength natural fibres to reinforce materials, such as the carbon fibre components used in the vehicle manufacturing sector. The focus of this trend is on moving towards the use of sustainable resources, and a transition towards closed-cycle manufacturing processes.

### Bioplastics

Bioplastics are currently being produced from renewable materials extracted from certain types of plants (e.g. lignin). These can be produced from crop residues which currently go to waste.

### Pharmaceuticals

There has been an increase in activity by pharmaceutical companies in the search for solutions to human health problems, derived from natural sources. Bioprospecting in South Africa’s fynbos is becoming increasingly common.

### Bioenergy

Bioenergy produced from biomass is becoming more popular internationally as a means of providing long-term carbon balanced energy solutions. Such biomass can be derived from renewable crops and animal waste streams or from managed plantations which have a positive carbon balance. Examples of the technology associated with this area include biogas generations, bio-gasification of wood and high efficiency wood burning devices. A key motivator for these developments is climate change and peak oil.

### Digital Agriculture

Digital agriculture, which is the use of new and advanced technologies (e.g. sensors, mobile phones, drones, AI, robotics etc.) in all aspects of the agricultural value chain, has experienced rapid growth over the last few years. This data-driven approach to agricultural, will increase agricultural production levels, and improve efficiency through reduced wastage and more targeted use of inputs.

### 5.2.6.5 Development Criteria

Table 5.28 below provides a summary of the key issues assessed in the agricultural sector potential analysis.

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### TABLE 5.28: POTENTIAL CRITERIA FOR THE AGRICULTURAL SECTOR

<table>
<thead>
<tr>
<th>RAW MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the greater Knysna municipal area, environmental conditions, such as drought</td>
</tr>
<tr>
<td>and climate change, pose considerable challenges to the expansion of the</td>
</tr>
<tr>
<td>agriculture sector, as they reduce output and increase risk and cost levels.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ECONOMIC LINKAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Another important constraint to agricultural expansion in the greater Knysna</td>
</tr>
<tr>
<td>municipal area is the availability and cost of water. Currently local farmers</td>
</tr>
<tr>
<td>make use of water from rivers, privately owned dams, ground water, and rain.</td>
</tr>
<tr>
<td>This is sufficient to meet current requirements under normal conditions;</td>
</tr>
<tr>
<td>however, the expansion of the agricultural sector will require additional</td>
</tr>
<tr>
<td>water resources. The use of more efficient irrigation systems will help to</td>
</tr>
<tr>
<td>improve existing water supply. Water availability and cost is particularly</td>
</tr>
<tr>
<td>important to the greater Knysna municipal area’s forestry industry.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKET TRENDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various linkages exist within the agricultural sector. These include backward</td>
</tr>
<tr>
<td>linkages with the manufacturing sector for the production of machinery and</td>
</tr>
<tr>
<td>fertilizers; the transport sector for the transport of inputs; and the</td>
</tr>
<tr>
<td>utilities sector for the provision of water for irrigation. Other backward</td>
</tr>
<tr>
<td>linkages include inputs from labourers, most of whom have low skill levels</td>
</tr>
<tr>
<td>and generally earn low wages.</td>
</tr>
</tbody>
</table>

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inputs for the manufacturing of food and beverage products can be</td>
</tr>
<tr>
<td>obtained locally from small- and large-scale farmers.</td>
</tr>
</tbody>
</table>

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Although the economic linkages in the greater Knysna municipal</td>
</tr>
<tr>
<td>area’s agricultural sector are well developed and structured, there</td>
</tr>
<tr>
<td>are possibilities to improve them and establish new linkages and</td>
</tr>
<tr>
<td>markets. For instance, there is the possibility to develop organic</td>
</tr>
<tr>
<td>farms in the area, which can expand the linkages to existing</td>
</tr>
<tr>
<td>markets. New/niche agricultural markets can also be created (e.g.</td>
</tr>
<tr>
<td>honey bush, mushrooms).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forestry</th>
</tr>
</thead>
<tbody>
<tr>
<td>An exit policy has been developed for the conversion of state-owned</td>
</tr>
<tr>
<td>areas where the viability of forest operations is no longer feasible.</td>
</tr>
<tr>
<td>These areas have been transferred to SANParks for reversion to</td>
</tr>
<tr>
<td>natural fynbos vegetation. The conversion of these areas to</td>
</tr>
<tr>
<td>natural vegetation will mean the harvesting of plantations over an</td>
</tr>
<tr>
<td>extended period of time. This is scheduled to be completed by 2020,</td>
</tr>
<tr>
<td>with a possible extension to 2024.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dairy</th>
</tr>
</thead>
<tbody>
<tr>
<td>International dairy product prices remained range bound during</td>
</tr>
<tr>
<td>2017 and are likely to remain so over the short-term. Over this</td>
</tr>
<tr>
<td>period, average dairy product prices are expected to range between</td>
</tr>
<tr>
<td>$35 and $38, reaching an equilibrium price of $45 over the</td>
</tr>
<tr>
<td>long-term. The impact on the South African dairy industry of the</td>
</tr>
<tr>
<td>anticipated stable international dairy product prices in 2017 and</td>
</tr>
<tr>
<td>higher prices in 2018, will depend on the local supply/demand</td>
</tr>
<tr>
<td>situation and the prevailing exchange rate.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Horticulture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationally, there is a growing recognition amongst</td>
</tr>
<tr>
<td>developing countries of health benefits associated with fresh</td>
</tr>
<tr>
<td>fruit and vegetables. There is also increased demand for a</td>
</tr>
<tr>
<td>greater variety of products supplied all year round. Growing</td>
</tr>
<tr>
<td>demand has been exhibited in organic produce and niche</td>
</tr>
<tr>
<td>horticultural products, such as berries, nuts, mushroom, herbs,</td>
</tr>
<tr>
<td>honeybush and ornamental plants.</td>
</tr>
</tbody>
</table>
The establishment of Karatara as a rural, agricultural node would help position the settlement to benefit from agglomeration advantages. For the settlement to realise this advantage, it will be necessary to encourage additional agricultural value-adding businesses to establish themselves either in the settlement or within close proximity to it. This can be achieved through a rates discount offered to agricultural businesses, similar to that offered by the Mossel Bay Local Municipality.

With the establishment of the hydroponic development, Karatara has the potential to develop into a logistics or nodal point for agricultural production. The area can serve as a distribution point for agricultural products to new and existing markets, including surrounding economies.

With an unemployment rate of 20.3%, the greater Knysna municipal area does not have a shortage of labourers to work in the agricultural sector. Those workers that lack the necessary skills/literacy can be trained in labour-intensive work, such as cutting and packaging of fruit and vegetables.

In the greater Knysna municipal area, water shortages are a major threat to agricultural production if new technologies are not implemented. This could include research and investment in technology (e.g. drip irrigation systems, soil-water sensors, drone monitoring), changing crops/livestock and associated practices and the implementation of soil-moisture conservation practices. The aim would be to implement these technologies to improve the efficiency of farming practices and agricultural production.

Enabling policy includes the regulations established by international organisations that implement programmes which encourage, for example, quality, protection of the environment and the health and safety of employees on farms. The introduction of incentives, such as rates discounts, can also be explored as part of the Knysna Local Municipality’s rates policy.

### 5.2.6.6 Sector Potential

Table 5.29 highlights the identified potential opportunities for the agricultural sector in the greater Knysna municipal area, based on the above opportunities assessment.

<table>
<thead>
<tr>
<th>Sector Potential</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agglomeration Advantage</td>
<td>The establishment of Karatara as a rural, agricultural node would help position the settlement to benefit from agglomeration advantages.</td>
</tr>
<tr>
<td>Logistics</td>
<td>With the establishment of the hydroponic development, Karatara has the potential to develop into a logistics or nodal point for agricultural production.</td>
</tr>
<tr>
<td>Labour</td>
<td>With an unemployment rate of 20.3%, the greater Knysna municipal area does not have a shortage of labourers to work in the agricultural sector.</td>
</tr>
<tr>
<td>Technology</td>
<td>In the greater Knysna municipal area, water shortages are a major threat to agricultural production if new technologies are not implemented.</td>
</tr>
<tr>
<td>Policy Environment</td>
<td>Enabling policy includes the regulations established by international organisations that implement programmes which encourage, for example, quality, protection of the environment and the health and safety of employees on farms.</td>
</tr>
</tbody>
</table>

### TABLE 5.29: AGRICULTURAL SECTOR POTENTIAL AND OPPORTUNITIES

**KNYSNA TIMBER INITIATIVE (KTI)**

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ECONOMIC DEVELOPMENT STRATEGY | MAY 2019
• Support technically and financially (through the supporting of funding applications) interventions in the timber industry
• Provide ongoing support to Knysna Timber Festival through a joint marketing strategy between KTI and the Knysna Local Municipality. Included in this would be industry skills development.
• Ongoing development of the KTI and Knysna Timber Festival websites
• Support Southern Cape Economic Partnership (SCEP) Timber Workstream, particularly the establishment of a timber industry incubator.
• Link identified opportunities for small local timber hand craft SMMEs to activities and operations of proposed SCEP timber industry development programme
• Potential for reforestation with indigenous species, but contingent on policy certainty from DAFF
• Ongoing support of local/regional timber industry body formulation and development initiatives
• Improve timber industry cluster marketing through partnering with Wesgro Trade Support Unit
• Make use of existing government programmes (i.e. Working for Water) to fund the removal of alien vegetation in indigenous forests and other environmentally sensitive areas. The biomass generated by this programme should be incorporated into a bioenergy production programme.

NICHE AGRICULTURAL PRODUCTION
• Potential for the cultivation of the following products utilising tunnel technology in the greater Knysna municipal area:
  o Cocktail tomatoes
  o Herbs focusing on: basil, chives, cilantro and oregano
  o Honeybush both wild and cultivated (possibly in amongst forestry plantations)
  o Berries
  o Nuts
  o Beekeeping
• Explore the feasibility of cultivating the following new products in the greater Knysna municipal area:
  o Hemp, including medical marijuana
  o Gourmet mushrooms, both cultivated and wild
  o Ornamental plants, including ferns
  o Oysters through surveying of quantities in deeper waters as opposed to intertidal zone
• Explore linked value adding and agro-processing opportunities for herbs (e.g. medical applications), honeybush (e.g. teas), bee products (e.g. royal jelly for cosmetic manufacturing)

ALTERNATIVE NATURAL PRODUCT USES
• Explore the potential of harvesting locally available natural fibres for the manufacturing sector
• Investigate potential of manufacturing bio-plastics from locally available indigenous plants
• Explore potential for growing hemp so as to create a sustainable natural fibre resource

BIOENERGY PRODUCTION
• Investigate the feasibility of the production of biomass from timber waste, linking this to R&D operations and timber industry value chain development
• Focus areas for timber waste should be state and private plantations in both Karatara and Rheenendal, as well as existing furniture manufacturers
• Plastic waste harvesting should occur in both Knysna and Sedgefield,

SUSTAINABLE AGRICULTURE AND ORGANIC FOOD PRODUCTION
• Encourage local farmers to start pursuing sustainable agricultural practices through changing existing production methods. This should include promoting the use of crop rotation, the use of natural fertilizers, and other sustainable agricultural practices.

• Once sustainable agricultural practices are rolled out, and organic products are being produced, encourage local farmers to seek both national (AFRISCO) and international (IFOAM, USDA Organic, EU-Eco-regulation) organic accreditation.

• Explore opportunities for local farmers to seek Fair Trade accreditation by piloting this accreditation with selected participants.

• Converge local organic food production with Halal practices, and encourage local farmers to seek Halal accreditation to target this growing market.

• Investigate feasibility of developing local Knysna organic accreditation for agricultural products sold within the greater Knysna municipal area.

• Encourage the use of tunnel farming throughout the greater Knysna municipal area.

• Seek to develop an aquaponics pilot site followed by a long-term roll-out plan if successful.

• Investigate feasibility and make recommendation on ensuring that existing agriculture occurs using permaculture practices.

**VEGETARIAN AND VEGAN INVESTMENT ATTRACTION**

• Lobby local farmers and farming association to target vegetarian and vegan market by increasing horticultural production, and the production of alternative proteins.

• Attract new vegetarian and vegan-friendly farming investors by leveraging the greater Knysna municipal areas recognised “green/environmentally conscious” brand.

• Link vegan production to downstream value additions (e.g. vegan textiles).

**VALUE ADDED DAIRY PRODUCTION**

• Explore the potential to, where possible, expand the primary production of dairy cattle at selected locations within the greater Knysna municipal area.

• Investigate the feasibility of pursuing value-added agro-processing of dairy products, specifically:
  - Ice cream
  - Other dairy products focusing on buttermilk powder, yoghurt, butter, and butter spreads

**5.2.7 MANUFACTURING**

The manufacturing sector comprise all activities associated with the physical or chemical transformation of raw materials (processed and unprocessed) into finished goods. This transformation process can be undertaken either by hand or through the use of machines.

The manufacturing sector is an important part of economic development due to its multiplier effects and strong backward and forward linkages. Economic research has also shown a strong positive correlation between GDP and the performance of the manufacturing sector, which is generally not the case with other primary and tertiary sectors. This implies that manufacturing is an important driver of GDP growth and employment creation, while other sectors are likely to grow based on the growing demand derived from (and resulting from) an increase in GDP\(^\text{284}\).

**TABLE 5.30: ECONOMIC SNAPSHOT OF THE MANUFACTURING SECTOR IN 2017**

In this section, the manufacturing sector will be viewed as all the value-adding activities associated with the transformation of primary products into final goods. This will include:

- Processing of raw materials (e.g. pasteurising milk)
- Conversion of raw materials into secondary products (e.g. granite into tiles)
- Conversion of secondary products into final goods (e.g. conversion of timber board into furniture)

### 5.2.7.1 Structure of Knysna’s Manufacturing Sector

The greater Knysna municipal area’s manufacturing sector is primarily based on the raw materials that are produced within the greater Garden Route District municipal area, such as timber, fruit and vegetables, meat and dairy. Although the greater Knysna municipal area’s manufacturing sector is only the eighth largest employer (7.2%), it is the fourth highest contributor (10.7%) to the area’s total GDP-R. Economic statistics for the municipality indicate that the three most important manufacturing sub-sectors within the municipality, based on their contribution to total manufacturing GDP-R in 2017 are:

- Wood, paper, publishing and printing (30.1%)
- Food, beverages and tobacco (21.0%)
- Furniture and other manufacturing (10.5%)

The manufacturing sector in the greater Knysna municipal area had a location quotient of just less than one, indicating only a moderate degree of comparative advantage. The sector was, however, classified as “vulnerable”, meaning that it was an important local employer, but that overall employment levels had been declining. This, coupled with the sector’s strong linkages, suggest that there is potential to grow the manufacturing base in the greater Knysna municipal area.

The manufacturing activities currently taking place in the greater Knysna municipal area, as well as their geographic location, are illustrated in Table 5.31.

### TABLE 5.31: KNYSNA MANUFACTURING ACTIVITIES BY PRODUCT AND LOCATION IN 2017

<table>
<thead>
<tr>
<th>PRODUCTS</th>
<th>SETTLEMENT</th>
<th>SUB SECTOR (S)</th>
<th>GDP-R CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing (food, beer,</td>
<td>Knysna, Rheeenendal, Karatara</td>
<td>Food, beverages and tobacco</td>
<td>21.0%</td>
</tr>
<tr>
<td>meat, flavoured water, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aquaculture and seafood</td>
<td>Knysna</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Type</td>
<td>Location(s)</td>
<td>Value-Addition Area (%)</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-------------</td>
<td>-------------------------</td>
<td></td>
</tr>
<tr>
<td>Agro-processing (sawmilling etc.)</td>
<td>Knysna, Rheenenadal, Karatara</td>
<td>Wood, paper, publishing and printing</td>
<td>30.1%</td>
</tr>
<tr>
<td>Aluminium and other metal products</td>
<td>Knysna</td>
<td>Metals, metal products, machinery and equipment</td>
<td>9.9%</td>
</tr>
<tr>
<td>Water purification systems</td>
<td>Knysna</td>
<td>Transport equipment</td>
<td>7.5%</td>
</tr>
<tr>
<td>Boat building and repair (yachts, canoes)</td>
<td>Knysna</td>
<td>Other non-metal mineral products</td>
<td>4.4%</td>
</tr>
<tr>
<td>Construction materials such as brick, stones, etc.</td>
<td>Knysna</td>
<td>Electrical machinery and apparatus</td>
<td>0.7%</td>
</tr>
<tr>
<td>ICT and specialised electronics</td>
<td>Knysna</td>
<td>Petroleum products, chemicals, rubber and plastic</td>
<td>13.6%</td>
</tr>
<tr>
<td>Plastic products</td>
<td>Knysna</td>
<td>Furniture and other manufacturing</td>
<td>10.5%</td>
</tr>
<tr>
<td>Wood product processing (furniture, wood sculptures, hand-craft items etc.)</td>
<td>Knysna</td>
<td>Textiles, clothing and leather goods</td>
<td>1.4%</td>
</tr>
<tr>
<td>Clothing, knitwear, soft furnishings, t-shirts etc.</td>
<td>Knysna, Sedgefield</td>
<td>Selected sub-sectors</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

The largest manufacturing and processing hub in the greater Knysna municipal area is located in the town of Knysna, more specifically the industrial area. The manufacturing businesses operating within the industrial area are primarily linked to value-adding products associated with the forestry industry. This is evident by the fact that, of the 34 manufacturing businesses identified in the Knysna industrial area, 32.4% were classified as operating in the wood product processing sub-sector. Other manufacturing linked to the forestry industry also occurs in the towns of Rheenenadal and Karatara. This manufacturing exclusively comprises sawmilling operations.

In addition to the wood product processing sub-sector, there are also several manufacturing businesses operating in the broader agro-processing industry (i.e. fresh food processing). Most of these operations occur on a small scale and are confined to farms located within the greater Knysna municipal area. The majority of agricultural commodities produced within the area, however, are sent out of the greater Knysna municipal area for value addition (e.g. milk to dairies in George).

The time sensitive nature of fresh food processing in respect of ensuring that processed goods are able to reach major markets before they spoil, as well as the fact that 50.0% of manufactured goods are sold outside of the greater Knysna municipal area (see Table 5.32), means that future investments in logistics infrastructure, chiefly air cargo and rail freight, will be critically important.

Any significant improvements in the cargo processing capabilities of the George Airport or the smaller Plettenberg Bay Airport, will increase the ability of agro-processors operating in the greater Knysna

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285 Urban-Econ calculations based on Industrial Areas Supply Audit undertaken by the Knysna Local Municipality in 2013.
286 SOURCE: Interviews with local stakeholders. 2014.
municipal area to export their products to different regional and national markets. The absence of cold storage facilities within the greater Knysna municipal area or at the George Airport prevents local farmers from transporting fresh produce by air. The infrequency of cargo flights from the George Airport, the lack of cold storage facilities and the absence of refrigerated rail transport is likely to hamper the future development of the local agro-processing industry.

5.2.7.2 Economic Linkages

Various backward and forward linkages exist between the greater Knysna municipal area’s manufacturing sector and the rest of the economy. Inputs for the manufacturing of furniture, wood products, food, beverages, etc. are obtained within the greater Knysna municipal area from sawmills, plantations and farms. Finished goods produced by the manufacturing sector are then sold either locally, nationally or exported to overseas markets. Table 5.32 illustrates the manufacturing sector’s regional backward and forward linkages based on where inputs are sourced (raw material and labour) and where finished goods are sold.

**TABLE 5.32: LOCATION WHERE MANUFACTURING INPUTS ARE SOURCED, AND OUTPUTS ARE SOLD**

<table>
<thead>
<tr>
<th></th>
<th>KNYSNA</th>
<th>GARDEN ROUTE</th>
<th>WESTERN CAPE</th>
<th>SOUTH AFRICA</th>
<th>INTERNATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inputs sourced from</td>
<td>30.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>50.0%</td>
<td>-</td>
</tr>
<tr>
<td>Labour sourced from</td>
<td>80.0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20.0%</td>
</tr>
<tr>
<td>Outputs sold in</td>
<td>50.0%</td>
<td>28.6%</td>
<td>7.1%</td>
<td>7.1%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

In Table 5.32 it is evident that 30.0% of the inputs used by local manufacturers in 2018 were sourced from supplies based within the greater Knysna municipal area. This represents a slight increase from the 22.2% of respondents that indicated that their inputs were primarily sourced from the greater Knysna municipal area in 2014. This indicates that, while the greater Knysna municipal area has weak backward linkages, a greater number of local manufacturers are beginning to source inputs from the local market. Interregional backward linkages deteriorated over the period, with only 10.0% of manufacturers indicating that they sourced inputs from suppliers in other parts of the Garden Route District Municipality (primarily George), compared to 27.8% of manufactures in 2014. Suppliers in other parts of South Africa have become an increasingly important source of input for local manufacturers (2014: 38.9%; 2018: 50.0%).

It is probable that the low demand for manufacturing inputs, coupled with the specialised nature of some of the inputs required by local manufactures, does not necessitate the establishment of new input suppliers within the greater Knysna municipal area. The establishment of the Knysna Timber Cluster has the potential to alter this trend, as it will create a sustained increased demand for certain types of manufacturing inputs. This could necessitate the establishment of new input suppliers within the greater Knysna municipal area.

All manufacturing businesses in the greater Knysna municipal area indicated that they sourced their labour force from the local area in 2018. Approximately 20.0% of manufacturing businesses however indicated that, while their labour force was locally-based, they were foreign born. Most (50.0%) local manufactures indicated that the skill levels of the local labour force were sufficient to meet their requirement following the provision of in-house training. Local manufactures however still struggled to source certain types of skilled individuals within the greater Knysna municipal area (e.g. engineering, IT).²⁸⁸

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Table 5.32 also indicates that the local manufacturing sector’s forward linkages were stronger than its backward linkages. This was evident by the 50.0% of products manufactured in the area sold to other businesses located within the greater Knysna municipal area (2014: 36.4%). This is compared to only 30.0% of local manufacturing businesses that sourced their inputs from other businesses within the greater Knysna municipal area. When interregional linkages are considered (i.e. including inputs/outputs from the Garden Route District Municipality), forward linkages (78.6%) were even stronger than backward linkages (40.0%).

5.2.7.3 Market Structure and Trends

International

During the final quarter of 2017, world manufacturing output grew by 4.7% compared to the same period in 2016. This growth was driven by improvements in business conditions, rising consumer spending and promising investment plans amongst both industrialised and emerging economies.

Developing and emerging industrial economies were the main drivers of this growth. Manufacturing output in these economies increased by 6.1% in the fourth quarter of 2017 compared to the same period in the previous year. The growth rate however, was slightly down from the 6.3% recorded in the previous quarter.

Industrialised economies registered a relatively high growth rate of 3.5% in the fourth quarter of 2017 compared to the same period of 2016. This was the highest year-on-year growth in manufacturing output amongst industrialised economies in the post-crisis period. This growth was attributable to Europe’s dynamic recovery, with the region recoding a 4.9% growth rate in manufacturing output in the last quarter of 2017. At the same time, the manufacturing output in the North America region rose by 2.6% compared to the fourth quarter of 2016. A strong growth rate was also observed in East Asia’s industrialized economies, which had a very positive impact on the overall manufacturing growth of industrialized countries. The manufacturing output of these economies increased by 3.2% over the period.

Projections are that 2018 will be characterised by lower international manufacturing output due to new tariffs and economic sanctions proposed by the United States of America and uncertainties related to Brexit.

Research and Development (R&D) will be an important part of this projected growth in manufacturing output. Increased R&D spending assists manufacturing firms in either developing new products; or creating new knowledge about scientific and technological topics to aid in the production of new products, processes and services. This can be seen in Figure 5.30, which shows the integral role that R&D plays in the entire agro-processing industry.

Internationally, both public and private sector R&D spending has remained fairly constant since 2000 at +/−2% of global GDP. Despite this, global R&D investment is projected to increase by 4.1% in 2018 to $2.1 trillion\(^{290}\).

**FIGURE 5.30: R&D ROLES IN THE AGRO-PROCESSING VALUE CHAIN\(^{291}\)**

Table 5.33 highlights several other major international trends that could be capitalised on by the greater Knysna municipal area’s manufacturing sector or which could have an impact on the sector.

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\(^{290}\) SOURCE: R&D Magazine. 2018. 2018 GLOBAL R&D FUNDING FORECAST.

\(^{291}\) SOURCE: Bhandari, C. 2016. INNOVATION TO TABLE: THE ROLE OF IP IN THE AGRI-FOOD INDUSTRY.
<table>
<thead>
<tr>
<th>TRENDS</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Photonics</td>
<td>Photonics, also known as optoelectronics, refers to the generation, transmission, modulation and signal processing of light. The application of photonics covers a diverse range of areas, including industrial lasers, consumer electronics, telecommunications, data storage, biotechnology, medicine, general illumination and defence. The development of integrated optoelectronics is driven by the growing needs of the telecommunications industry.</td>
</tr>
<tr>
<td>Biomanufacturing</td>
<td>Biomanufacturing harnesses living systems to produce desired products by purifying a natural biological source (e.g. penicillin from mould) or by genetically engineering an organism to produce a product. Biomanufacturing processes are complex, labour-intensive and expensive. Production is highly variable because it involves living organisms and is therefore hampered by a lack of predictability and standardisation.</td>
</tr>
<tr>
<td>Additive manufacturing</td>
<td>Additive manufacturing (also known as 3D printing) encompasses multiple techniques used to build solid parts by adding material in layers. Additive manufacturing is able to reduce a significant amount of wastage because it only uses the exact quantities of materials needed to produce a particular product. The process also reduces the need to maintain large inventories, because required components can be manufactured on-site as required. Additive manufacturing machines are highly beneficial as they can produce multiple types of products without retooling.</td>
</tr>
<tr>
<td>Microtechnology</td>
<td>Microsystems, particularly Micro Electronic Mechanical Systems (MEMS), such as actuators and integrated sensors and microprocessors, are expected to be used across the manufacturing sector so as to make machines more intelligent and efficient. Microelectronics is already a well-established industry globally, with applications in semiconductors, electronics, telecommunications, automobiles, aerospace and engineering.</td>
</tr>
<tr>
<td>Digitalisation</td>
<td>The digitalisation of manufacturing has emerged as one of the most important themes in the manufacturing and innovation policies. In particular, the convergence of digital technologies such as cyber-physical systems, cloud computing, big data, artificial intelligence, machine learning, and the internet-of-things (IoT) offers the potential to more effectively connect and integrate manufacturing systems. These technologies (and associated enabling technologies) offer the potential to enable more rapid development of new products and more efficient logistics, as well as allowing manufacturing businesses to respond to customer and user demands such as greater personalisation, higher safety, and improved energy and resource efficiency.</td>
</tr>
</tbody>
</table>

294 This term refers to smart networked embedded systems formed of electronic hardware, software, sensors, actuators and control algorithms, designed to sense and interact with the physical world (including human users), and support real-time, guaranteed performance in applications.
Advanced materials

Manufacturing businesses are expected to increasingly make use of new materials to take advantage of their improved characteristics, including increased functionality, lower weight, increased energy efficiency, etc.

Environmental and energy technologies

Manufacturing systems will require new materials, methods, processes and technologies to address future environmental issues. Examples of clean energy technology’s being developed include: resource recovery and reuse systems, renewable feedstock, electricity storage, fuel cells, renewable energy (solar, wind, geothermal, bioenergy and hydro) and advanced vehicles.

Hubs and clusters

Internationally, manufacturing tends to occur in clusters or hubs where interconnected businesses, suppliers, and related industries operate within close geographic proximity to each other. This permits businesses to increase productivity (through accessing specialised inputs and information, creating synergies, and better access to transport logistics) and enhance the rate of innovation (through cooperative research and competitive).

**National**

The competitiveness of the South African manufacturing sector has eroded over the last several years. This was seen in the country falling from 24th in the Deloitte Global Manufacturing Competitiveness Index in 2013, to 27th in 2016. Over this period, South Africa’s Global Manufacturing Competitiveness Index score fell by 2.2%, falling from 49.2 in 2013 to 48.1 in 2016.

This declining competitiveness has been attributed to structural issues, such as rising input costs, inadequate infrastructure, energy uncertainty and, importantly, the limited attention given to the sectors’ long-term competitiveness relative to other countries.

This limited attention could be attributable to the fact that the key driver of the South African economy’s growth over the last decade has been domestic consumption, on the back of increased liquidity. The result of this has been little focus on the productive economic sectors such as manufacturing. This consumption driven growth has meant that South African imports have exhibited a higher nominal growth rate than exports. Declining exports have in turn led to greater de-industrialisation, with the structure of the South African economy shifted more towards tertiary sector activities.

Despite the slow uptick in global demand, export growth has risen firmly in emerging markets (particularly East Asian economies). Since the recession, many emerging economies have strengthened regional trade, pursued active industrial policies and place greater emphasis on manufacturing competitiveness. South Africa’s poor manufacturing sector performance over the last several years can be attributable to a range of factors including: a lack of emphasis on manufacturing competitiveness, persistent global trade imbalances (e.g. over supply of steel), the vulnerability of the sector to global external shocks, and a poor domestic policy environment (e.g. electricity prices; rail and port logistic prices and inefficiencies; weak aggregate demand; and unusually volatile demand which is difficult for the private sector to plan and invest for).

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296 SOURCE: Small Enterprise Development Agency (Seda). 2012. RESEARCH ON THE PERFORMANCE OF THE MANUFACTURING SECTOR

While hindered by a volatile exchange rate, and rising administered prices, the outlook for the South African manufacturing sector remains positive over the short-term. This positive outlook is evident in Figure 5.30, which indicated the Manufacturing Circle Investment Tracker\textsuperscript{301} (MCIT) index score between the third quarters of 2016 and 2018. Although there was a moderation in investment appetite by manufactures in the

\textsuperscript{298} SOURCE: Deloitte. 2014. 2013 GLOBAL MANUFACTURING COMPETITIVENESS INDEX.

\textsuperscript{299} SOURCE: Manufacturing Circle. 2018. MANUFACTURING CIRCLE INVESTMENT TRACKER Q2 2018: SUMMARY FINDINGS AND OUTLOOK.

\textsuperscript{300} The MCIT index score for the third quarter represents expectations amongst South African manufacturers.

\textsuperscript{301} The MCIT is a composite index tracking investment trends in the South African manufacturing sector on a quarterly basis. It measures investment expenditure by South African manufacturing firms under four sub-indices namely: property (land and buildings), plant and equipment; inventory; human capital; and research and development.
second quarter of 2018 compared to the preceding five quarters, the index remains well above the 50-point mark which indicates an expanding in manufacturing investment. The quarter-on-quarter decline was attributable to a sharp decrease in investment on inventories; a reduction in replace and maintenance of property, plant and equipment; as well as a decline in human capital training and development.

South African manufacturers however remain upbeat about the future, with a projected index score of 63 points. This increased manufacturing investment will be driven by a projected recovery in domestic demand and the moderation of the effects of the drought in the Western Cape.

Local

The greater Knysna municipal area’s manufacturing sector has historically been driven by its strong links to the forestry sub-sector and associated manufacturing (i.e. sawmilling, carpentry and joinery, boat building and furniture production). The decline of both the timber milling industry and to a lesser extent the boat building industry over the last several years has accordingly had a severe impact on local manufacturing.

The decline of the greater Knysna municipal area’s furniture manufacturing industry has been particularly severe and has resulted in the loss of key local intellectual capital. The development of the timber cluster has sought to address this decline through the implementation of several short-, medium- and long-term interventions, focusing on critical elements such as the provision of skilled labour.

There, however, remains scope for the manufacturing of highly specialised or unique products within the greater Knysna municipal area. Such products, which currently include the production of luxury yachts and canoes, the restoration of vintage motor vehicles, manufacturing of drones, and the production of handcrafted bows and knives, have the potential to be high-value export earners.

**TABLE 5.34: AVERAGE SELLING PRICES FOR INDUSTRIAL PROPERTY IN SELECTED AREAS**

<table>
<thead>
<tr>
<th>LOCAL MUNICIPALITY</th>
<th>ESTIMATED AVAILABLE FLOOR SPACE</th>
<th>AVERAGE SELLING PRICE (RANDS PER M² OF FLOOR SPACE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>3 455</td>
<td>R4 427</td>
</tr>
<tr>
<td>Oudtshoorn</td>
<td>2 102</td>
<td>R4 583</td>
</tr>
<tr>
<td>Mossel Bay</td>
<td>9 532</td>
<td>R4 781</td>
</tr>
<tr>
<td>Bitou</td>
<td>437</td>
<td>R5 034</td>
</tr>
<tr>
<td>George</td>
<td>14 605</td>
<td>R5 595</td>
</tr>
</tbody>
</table>

Prior to 2013, the greater Knysna municipal area was characterised by a high degree of vacant industrial space, with vacancy rates in the town of Knysna estimated at of more than 50.0%\(^{303}\). Subsequently, vacancy rates in the Knysna industrial area have declined, as local manufacturers expand their operations and take up existing supply\(^{304}\). This reduction in vacancy rates can, in part, be attributed to the competitive prices of industrial properties in the greater Knysna municipal area relative to other areas in the Garden Route District Municipality (see Table 5.34). As of 2018, the average selling price for industrial property in the greater Knysna municipal area was R4 427 per square metre of floor space. This was 8.0% cheaper than industrial

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\(^{304}\) SOURCE: Interviews with local stakeholders. 2018.
property in the Mossel Bay Local Municipality and 26.4% cheaper than industrial property in the George Local Municipality.

This decline in available industrial space, coupled with projected population growth, suggests that the greater Knysna municipal area will require an additional 15 118 m² of industrial zoned land by 2023. This is projected to increase by 31 612 m² by 2028.

5.2.7.4 Development Criteria

Table 5.35 below provides a summary of the key issues assessed in the manufacturing sector potential analysis.

<table>
<thead>
<tr>
<th>TABLE 5.35: POTENTIAL CRITERIA FOR THE MANUFACTURING SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RAW MATERIALS</strong></td>
</tr>
<tr>
<td><strong>ECONOMIC LINKAGES</strong></td>
</tr>
<tr>
<td><strong>MARKET TRENDS</strong></td>
</tr>
<tr>
<td><strong>REGIONAL SERVICE DELIVERY</strong></td>
</tr>
</tbody>
</table>

SOURCE: Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.
Depending on specific industry, the manufacturing sector can require very specific skills. Such skills are mainly learnt ‘on-the-job’ rather than in tertiary learning institutions. Skills shortages can, however, be addressed through importing the necessary expertise from outside of the area permitting skills transfer to the locals. The local manufacturing industry has lost a considerable number of experienced artisans with the closure of local furniture companies and businesses linked to the timber industry. The Knysna Timber Initiative, part of the Knysna Timber Cluster (see Agricultural Potential), aims to address these skills gaps through training and mentoring programmes linked to their manufacturing operations.

Internationally, there is a growing trend amongst manufacturers to research and develop new environmentally friendly processes and products. There are also several emerging technologies available for recycling plants and light industrial activities. Other import technologies, that will likely impact manufacturing in the future include: predicate analytics; smart factories; smart, connected products (IoT); and advanced materials.

The manufacturing sector is classified as an important potential growth sector at a national level. The dti provides incentive programmes to support manufacturing in selected, strategic industries (e.g. Manufacturing Competitiveness Enhancement Programme, MCEP; Sector Specific Assistance Scheme, SSAS; Enterprise Investment Programme, EIP). These programmes can be used by the local manufacturing sector to offset/subsidise certain expenditure.

5.2.7.5 Sector Potential

Table 5.36 highlights the identified potential opportunities for the manufacturing sector in the greater Knysna municipal area.

<table>
<thead>
<tr>
<th>TABLE 5.36: MANUFACTURING SECTOR POTENTIAL AND OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRENGTHEN DEVELOPMENT OF INDUSTRIAL AREAS</strong></td>
</tr>
<tr>
<td>• Promote the Knysna industrial area through active marketing and investment attraction (linked to key industries)</td>
</tr>
<tr>
<td>• Prioritise road improvement and maintenance along key access and arterial roads in the Knysna industrial area</td>
</tr>
<tr>
<td>• Engagements should be conducted with businesses owners to ensure that current electricity supply is reliable; and sufficient to meet their current and future needs. If, based on these engagements, electricity supply was deemed to be insufficient/unreliable, upgrades should be prioritised.</td>
</tr>
<tr>
<td>• Explore the potential densification of selected sites in the Knysna industrial area, based on engagements with current property owners</td>
</tr>
<tr>
<td>• Explore future locations for industrial development sites in:</td>
</tr>
<tr>
<td>o Sedgefield focusing to biowaste processing and the production of bioenergy from waste products</td>
</tr>
<tr>
<td>o Karatara focusing on agro-processing</td>
</tr>
</tbody>
</table>
MANUFACTURING INCENTIVE PACKAGE

• Consider feasibility of introducing an incentive scheme, linking it to a broader municipal-wide invest policy, which would take the form of a 30.0% discount on property rates. Certain criteria would however need to be met before a firm could qualify including:
  o Promotes job creation
  o Operating in a designated priority manufacturing sub-sector, either agro-processing or transport equipment
  o Be a new investor to the area, or an existing investor already based in the area who plans to invest more than R5.0 million
  o Planning to locate their operations in area designated as a manufacturing zone (e.g. Knysna industrial area). This condition could be waived if compelling reasons are provided by the firm for the selection of an alternate site.

• Introduction of fast track mechanism facilitated by the Knysna Local Municipality’s Department of Economic Development for all municipal processes (zoning, building plans etc.) for qualifying new investors, or any investors whose total investment exceeds R10.0 million

EXPAND AGRO-PROCESSING ACTIVITIES

• Investigate feasibility of constructing a vegetable packaging facility, which would cut, peel and pack vegetables for retailers and wholesalers for local consumption or export. This could be situated in Karatara and linked to planned tunnel farming operations in the area.
• Explore market potential to produce meal-kits, and ready-made meals utilising local and regional ingredients
• Test feasibility of establishing cold storage facility linked to packaging plant
• Investigate the potential for new agro-processing investment in the following areas:
  o Herbal remedies and cosmetics including essential oils
  o Natural supplements including sweeteners
  o Juice concentrates, such as tomato juice
  o Mead, honey production and royal jelly
  o Teas, and other honeybush derivatives
• Link new agro-processing investments (and opportunities) to existing agricultural businesses and farmers operating outside of the urban centres of the greater Knysna municipal area. This should be informed by a business database of all such firms developed by the Knysna Local Municipality.

STRENGTHEN EXISTING NICHE MANUFACTURING

• Build on existing niche manufacturing (i.e. vintage cars, boats, drones, furniture made from indigenous woods, medical equipment, camper vans etc.) through new proposed manufacturing incentive package and linking qualifying firms with other government trade incentive programmes provided by the dti.
• Actively seek to attract further investment from maritime manufacturing firms with the aim of developing a local cluster.
• Promote additive manufacturing among local manufactures, particularly the vintage car industry, which can use it to manufacture components that are no longer available. Also seek to attract existing companies already utilising additive manufacturing practices to the greater Knysna municipal area
• Provide exporter support and development to niche manufactures, and manufacturing firms more broadly, by:
  o Assisting with inward buying missions
  o Providing access to incentive information and trade advice
- Assisting in accessing exporter development programmes

**WASTE MANUFACTURING**

- Investigate potential for reducing waste through repurposing or innovative ideas. This includes manufacturing diesel/bioenergy from plastic waste (see Agricultural Sector Potential) and upscaling recycling initiatives and linkages with the current Waste Nothing Knysna Campaign
- Increase local awareness about waste management and recycling programmes
- Promote the use of vermiculture as a means of reducing organic waste

**NEW NICHE MANUFACTURING OPPORTUNITIES**

- Investigate the potential for new niche manufacturing investment in the following areas:
  - Bicycle assembly and associated accessories applicable to commuter cycling (e.g. bike racks)
  - Organic/Green clothing
  - Bio-plastic packing from locally available waste and/or indigenous plants
  - Natural and environmentally friendly cleaning products
  - Natural fibre products (e.g. bed linen, kitchen and table linen, curtains, aprons and bags), and their application as components in other manufacturing sub-sectors
  - Hemp insulation for the heating and sanitary industry
  - Green technology manufactures linked specifically to hydroponics, aquaponics and aquaculture systems

**TRAINING AND VOCATIONAL DEVELOPMENT**

- Support and facilitate expansion of the vocational skills centre currently situated in the industrial area, through bursary programmes for deserving candidates
- Undertake regular business skills audits (in conjunction with local learning institutions) so as to match learning programmes with skills demand. This process should be industry led.

**5.2.8 GOVERNMENT AND COMMUNITY SERVICES**

*General Government Services comprise those activities related to the administration of all public sector government departments in the greater Knysna municipal area. This includes the services provided by all national, provincial and local departments. It also includes other government entities such as South African Social Services Agency (SASSA). Community services, in comparison, comprise services related to both public and private education and healthcare; activities of membership organisations; recreational, cultural and sporting activities as well as a range of other social amenities.*

As the single largest investor in the greater Knysna municipal area, through its infrastructure build and maintenance programme as well as its provision of key social services, the government and community services sectors have an important role to play in the economic development of the area.

Although the sector is not intended as an employment creator, a number of people derive their livelihoods either directly (as paid staff) or indirectly (through various works programmes) from the sectors. The sector also plays a critical role in the provision of certain goods and services that are prerequisites for economic development. Some of these include:

- Education and skills development
• Infrastructure provision (transport infrastructure, water, electricity, sanitation)
• Healthcare
• Legal compliance and oversight

**TABLE 5.37: ECONOMIC SNAPSHOT OF THE GOVERNMENT AND COMMUNITY SERVICES SECTORS IN 2017**

<table>
<thead>
<tr>
<th>Sector GDP-R (R, millions)</th>
<th>KNYSNA</th>
<th>GARDEN ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector contribution to total GDP-R</td>
<td>19.4%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Average annual GDP-R growth rate (2011 – 2017)</td>
<td>2.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Sector employment</td>
<td>7 424</td>
<td>57 081</td>
</tr>
<tr>
<td>Sector contribution total employment</td>
<td>28.6%</td>
<td>25.2%</td>
</tr>
<tr>
<td>Average annual employment growth rate (2011 – 2017)</td>
<td>2.2%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

The following section provides a profile of the government and community services sector in greater Knysna municipal area. It includes an assessment of the supply and demand of those social facilities provided by the local government and community services sector as well as the current market trends within the sector as it relates to operational and capital expenditure.

**5.2.8.1 Sector Characteristics**

A summary of the supply and demand for various social facilities within the greater Knysna municipal area is presented in this section. Included is a high-level overview of the future demand for housing. The public sector provision of infrastructure, which is also critical to the economic development, is discussed in greater detail in Chapter 4 of the report. The focus of the analysis presented will be on the economic development potential that can be leveraged from the gaps between the demand and supply of social facilities, housing and infrastructure.

**Social Facilities**

Social facilities are those that are accessible to the public and can be either publicly or privately owned. These facilities support social and socio-economic development and are prerequisite for balanced, sustainable and integrated human settlements. These social facilities are classified into six broad categories, namely:

• Education
• Health and Welfare
• Social and Cultural
• Public Service
• Recreation and Public Open Space
• Waste Management

Table 5.38 provides a summary of the number of social facilities that the greater Knysna municipal area will require by 2028. The required provision of social facilities was based on the population projections for 2028.
and recommendations presented in Development Parameters: A Quick Reference for the Provision of Facilities within settlements of the Western Cape.  

**TABLE 5.38: REQUIRED SOCIAL FACILITIES FOR THE GREATER KNYSNA MUNICIPAL AREA IN 2028**

<table>
<thead>
<tr>
<th>TYPE OF SOCIAL FACILITIES</th>
<th>NUMBER OF FACILITIES REQUIRED</th>
<th>SPACE REQUIREMENTS (HECTARES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>56</td>
<td>27.4</td>
</tr>
<tr>
<td>Health and Welfare</td>
<td>7</td>
<td>3.3</td>
</tr>
<tr>
<td>Social and Cultural</td>
<td>16</td>
<td>24.1</td>
</tr>
<tr>
<td>Public Service</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>Recreation and Public Open Space</td>
<td>17</td>
<td>16.9</td>
</tr>
</tbody>
</table>

From Table 5.38 and the information presented in the Knysna Residential and Ancillary Uses Development Market Study (2018), the following key factors were highlighted:

- **Education**
  
  The assessment of the provision of educational facilities within the greater Knysna municipal area undertaken in 2014 indicated that there was an oversupply of pre-primary schools (crèches). This remained the case in 2018. Although supply figures suggested that there was an adequate supply of schools based on the greater Knysna municipal area’s population size, the distribution of these facilities reveals that specific settlements (Sedgefield, Rheenendal) were undersupplied in terms of secondary education. The implication of this was that secondary school learners must travel to Knysna to attend school, even though the current population of Sedgefield and Rheenendal justified the provision of such facilities in the respective settlements.

  In terms of future demand, based on the estimated population growth rate and population thresholds, the greater Knysna municipal area will require an additional five primary schools and three secondary schools by 2028.

- **Health and Welfare**
  
  The outlying rural population in the greater Knysna municipal were required to travel to Knysna or one of the clinics in Sedgefield and Rheenendal to receive medical attention. There was also an absence of ambulance services for Sedgefield and Rheenendal.

  Based on the estimated population growth rate and population thresholds, the greater Knysna municipal area will require a further seven primary health care clinics by 2028. It will further be important for the Knysna Local Municipality to ensure that the areas future disease burden remains low, as a higher level could necessitate greater provision of health services as well as lower productivity (due to less time spent at work).

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307 SOURCE: Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.

308 Comprises five (5) primary schools, three (3) secondary schools, thirty-four (34) Grade R classes at primary schools, and fourteen (14) creches or early childhood development centres.

309 Comprises the following facilities: libraries (7), community halls (2), ICT access points (3), post office (2) social services office, SASSA (1), and cemetery (1).
• **Social and Cultural**
  The number of community halls provided in each settlement were deemed to be sufficient to meet current needs. Although the population figures suggested that there were insufficient libraries, the distribution of existing libraries makes them easily accessible to all residents. Accordingly, it was not suggested that more libraries be established. Using population parameters, there were also sufficient places of worship. The high number of home churches in Rheenendal may suggest the need for a formal facility in the future.

  In terms of the future need, it was projected that, by 2028, the greater Knysna municipal area will require seven additional libraries, two community halls and post offices, and a new cemetery. An additional South African Social Services Agency (SASSA) would also be required by 2028.

• **Public Service**
  The population thresholds suggested that the greater Knysna municipal area required an additional police station in 2014. There were sufficient fire stations in 2014 to meet current demand.

  Based on the population growth forecasts, the greater Knysna municipal area will need 17 additional mobile/e-government integrated service centres by 2028.

• **Recreation and Public Open Space**
  Based on the prescribed provincial standard of 0.9 hectares of public open space per 1 000 people, the total public open space (including recreational areas) required for the greater Knysna municipal area by 2028 equates to 16.9 hectares, which is well below the current supply. Many of the existing recreational sites are in poor condition or vacant and therefore do not fulfil their intended function.

  Rheenendal was the only settlement that currently required an additional community or functional play park.

• **Waste Management**
  There are currently no legal waste sites for either garden, household or builder’s waste in the greater Knysna municipal area.

**Housing**

Table 5.39 presents a summary of the medium-term (2023) and long-term (2028) demand for housing in the greater Knysna municipal area based on population projections for the area. It should be noted that these figures exclude the demand for housing based on the existing housing backlog within the greater Knysna municipal area.

<table>
<thead>
<tr>
<th>HOUSING OFFERING TYPE</th>
<th>2023</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Break New Ground (BNG)/Subsidy</td>
<td>2 907</td>
<td>5 732</td>
</tr>
<tr>
<td>CRU</td>
<td>323</td>
<td>637</td>
</tr>
<tr>
<td>FLISP/GAP and Social</td>
<td>861</td>
<td>1 697</td>
</tr>
</tbody>
</table>

**Table 5.39: FUTURE DEMAND FOR HOUSING**

310 **SOURCE:** Demacon. 2018. KNYSNA RESIDENTIAL AND ANCILLARY USES DEVELOPMENT MARKET STUDY: MARKET RESEARCH FINDINGS & RECOMMENDATIONS.
FLISP/GAP and Affordable Bonded

<table>
<thead>
<tr>
<th></th>
<th>FLISP/GAP</th>
<th>GAP</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLISP/GAP</td>
<td>633</td>
<td></td>
<td>1 249</td>
</tr>
<tr>
<td>GAP</td>
<td>933</td>
<td></td>
<td>1 958</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5 657</strong></td>
<td></td>
<td><strong>11 273</strong></td>
</tr>
</tbody>
</table>

Approximately 80.0% (9 018 units) of the estimated demand for housing in 2028 should be accommodated in and around the town of Knysna, 10.0% (1 127 units) in and around Sedgefield and the balance (i.e. 10%) at selected smaller nodes in and around Rheenendal and Karatara.

**Infrastructure**

The Knysna Local Municipality’s 2018 budget identified the following public sector spending priorities over the medium-term expenditure framework (2018/2019 to 2020/2021) for the greater Knysna municipal area:

- R38.9 million for water infrastructure, comprising R3.5 million on new water infrastructure; R18.0 million on renewal of water infrastructure; and R17.4 million of upgrading existing water infrastructure.
- R25.9 million for sanitation infrastructure, comprising R2.0 million on new sanitation infrastructure; and R23.9 million of upgrading existing sanitation infrastructure.
- R25.8 million for electrical infrastructure, comprising R18.9 million on new electrical infrastructure; R4.0 million on renewal of electrical infrastructure; and R2.9 million of upgrading existing electrical infrastructure.
- R23.6 million for road and storm water infrastructure, comprising R500 000 on new road and storm water infrastructure; R17.6 million on renewal of road and storm water infrastructure; and R5.5 million of upgrading existing road and storm water infrastructure.

The provision of government and community services to the greater Knysna municipal area – particularly health, education and other infrastructure – increases service delivery and makes the area more attractive to potential investors. In this respect, it is important that the Knysna Local Municipality differentiates between the provision of infrastructure that directly supports economic activity (such as water and electricity supply, transport networks, etc.), and infrastructure that supports basic services needs (e.g. housing).

Of critical importance is that, in addition to meeting its service delivery mandate, the Knysna Local Municipality should ensure that it actively promotes economic development through creating an enabling environment for the economy to grow. To achieve this, red tape and bureaucracy should be minimised through greater support to the existing red tape reduction strategies being undertaken by the Knysna Local Municipality’s Economic Development Department.

The above discussion highlighted that the Knysna Local Municipality has a number of backlogs relating to the provision of social facilities, housing and infrastructure. These backlogs are in the process of being addressed through the municipality’s operational programmes. Expenditure on these various aspects by the greater Knysna municipal area’s government and community services sector will stimulate economic activity, particularly in the construction sector. This in turn has the potential to lead to higher economic growth and employment creation, albeit of a temporary nature.
5.2.8.2 Market Structure and Trends

International

One of the leading international trends in the governance space, is the public sector-driven redesign of towns and cities, driven by urbanisation, which seeks to make towns and cities more intelligent, agile and efficient. This process finds expression in the ‘Smart City’ concept. Smart cities are those that use information, communication technologies (ICTs) and other means to improve the quality of life, efficiency of urban operations and services, and competitiveness, while ensuring that the city meets the needs of present and future generations with respect to economic, social, and environmental aspects.\(^{311}\)

The smart city concept is underpinned by a technology base which comprises a critical mass of smartphones and other sensors connected by high-speed communication networks. These sensors take constant readings of variables such as traffic flow, energy consumption, air quality, etc. within a city, and make them available to those who make use of this information.

Smart city technologies affect multiple aspects of city user’s quality of life. These can be broadly classified into the following eight domains and associated interventions\(^{312}\):

1. **Mobility**
   This includes aspects such as: real-time public transit information; digital public transit payment; autonomous vehicles; predictive maintenance of transportation infrastructure; intelligent traffic signals; congestion pricing; demand-based microtransit; smart parking; e-hailing (private and pooled); car sharing; bike sharing; integrated multimodal information; real-time road navigation; parcel load pooling; and smart parcel lockers.

2. **Security**
   Including elements such as: predictive policing; real-time crime mapping; gunshot detection; smart surveillance; emergency response optimization; body-worn cameras; disaster early-warning systems; personal alert applications; home security systems; data-driven building inspections; crowd management.

3. **Healthcare**
   Covers interventions such as: telemedicine; remote patient monitoring; lifestyle wearables; first aid alerts; real-time air quality information; infectious disease surveillance; data-based public health interventions: maternal and child health as well as sanitation and hygiene; online care search and scheduling.

4. **Energy**
   Includes aspects such as: building automation systems; home energy automation systems including consumption tracking; smart streetlights; dynamic electricity pricing; distribution automation systems.

5. **Water**
   Including elements such as: water consumption tracking; leakage detection and control; smart irrigation; water quality monitoring.

6. **Waste**
   Covers interventions such as: digital tracking and payment for waste disposal; optimisation of waste collection routes.

7. **Economic development and housing**

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\(^{312}\) SOURCE: McKinsey Global Institute. 2014. SMART CITIES: DIGITAL SOLUTIONS FOR A MORE LIVEABLE FUTURE.
Includes: digital business licensing and permitting; online retraining programs; personalised education; local e-career centres; digital land-use and building permitting; open cadastral database; peer-to-peer accommodation platforms; smart shacks\textsuperscript{313}.

8. Engagement and community
Covers aspects such as: local civic engagement applications; local connection platforms; digital citizen services; e-governance.

Research from international case studies has shown that the roll out of the smart city technologies can have a range of benefits including\textsuperscript{314}:

- A 15 to 30-minute reduction in average daily commuting time.
- An improvement in safety as evident by 8.0% to 10.0% drop in fatalities; and a 30.0% to 40.0% reduction in overall crime incidents.
- Between 2 and 7 minutes shorter average emergency response times.
- More affordable cities, with between 1.0% and 3.0% reduction in the cost of living for citizens.
- An increase in employment of between 1.0% and 3.0%.
- Improvement in environmental quality through a saving of between 25 and 80 litres of water per person, per day; and a 30 to 130-kilogram reduction in unrecycled waste per person per year.
- Better health outcomes through an 8.0% to 15.0% reduction in the city’s disease burden.

The smart city concept is underpinned by two basic enablers: data and ICT infrastructure, particularly fibre. Ensuring that these two enablers are in place is critically to the effective roll-out of any smart city-related interventions.

National\textsuperscript{315}

Despite an improved economic outlook as a result of higher investor confidence and renewed policy coordination and effective implementation, national government still faces a revenue gap of R48.2 billion in 2017/2018. In addition, the December 2017 announcement of fee-free higher education and training entails an additional allocation of R57 billion over the medium term.

Accordingly, the 2018 Budget proposed measures to reduce the budget deficit while at the same time creating space for new spending commitments. This was achieved through the introduction of new tax measurers (i.e. increase in VAT), that were projected to raise an additional R36.0 billion in tax revenue; and a reduction in expenditure over the medium-term expenditure framework period of R26.0 billion. Together with an improved growth outlook, these proposals are anticipated to reduce the consolidated budget deficit to 3.5% by 2020/2021.

The risks to the fiscal outlook however, remain high and include uncertainty over the pace of the domestic economic recovery, the cost of the public-service wage negations and the poor state of finances amongst state-owned companies.

\textsuperscript{313} SOURCE: Modisaatsone, N. 2014. A DIFFERENT KIND OF SMART CITY.
\textsuperscript{314} SOURCE: McKinsey Global Institute. 2014. SMART CITIES: DIGITAL SOLUTIONS FOR A MORE LIVEABLE FUTURE.
TABLE 5.40: SOUTH AFRICAN REVENUE AND EXPENDITURE (IN R’ BILLIONS) FOR 2017/2018 TO 2020/2021

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>R1 285.7</td>
<td>R1 353.6</td>
<td>R1 490.7</td>
<td>R1 609.7</td>
<td>R1 736.9</td>
<td>7.9%</td>
</tr>
<tr>
<td>Expenditure</td>
<td>R1 441.8</td>
<td>R1 558.0</td>
<td>R1 671.2</td>
<td>R1 803.0</td>
<td>R1 941.9</td>
<td>7.8%</td>
</tr>
<tr>
<td>Budget (Deficit)/Surplus</td>
<td>(R156.1)</td>
<td>(R204.4)</td>
<td>(R180.5)</td>
<td>(R193.3)</td>
<td>(R205.0)</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

As part of its expenditure reduction plan, national government has identified R85.0 billion in expenditure cuts. About R53.0 billion of this amount will be cut at national government level, including large programmes and transfers to public entities. At subnational level, conditional infrastructure grants of provincial and local government will be reduced by R28.0 billion. In addition, all national and provincial departments have been required to reduce their spending on administration. These reductions exclude compensation of employees, which is already subject to a ceiling.

As far as possible, these reductions have been applied to programmes that underspent in previous financial years. Even after these reductions however, allocations to programmes continue to grow in real terms over the medium term (see Figure 5.33). Nevertheless, the reductions result in a shift in the composition of spending away from capital and towards consumption expenditure.

FIGURE 5.33: REAL GROWTH IN NON-INTEREST EXPENDITURE BY NATIONAL GOVERNMENT

The above trends indicate that the national government expenditure will continue to be under pressure over the medium term, with low growth rates in real, non-interest expenditure. The absence of expansionary fiscal policy (i.e. high real increases in government expenditure) over the medium term will lead to lower investment by national and provincial governments. This could result in less funding being available for the Knysna Local Municipality through its equitable share. It is also likely to impact capital programmes undertaken by the provincial government within the municipality.

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317 Includes interest expenditure
As evidenced by the above discussion, the greater Knysna municipal area's government and community services sector plays an important role in the overall economy as both a provider of goods and services (i.e. roads, electricity, etc.) as well as a consumer of such goods and services. It is therefore beneficial to analyse the administration’s historical and budgeted expenditure patterns to assess what the impact of this sector might be on the overall economy in the future.

The Knysna Local Municipality does not provide a long term (10 or more years) indication of its capital expenditure requirements. Research undertaken by INCA Portfolio Managers however, was able to estimate these requirements based on engagements with the Knysna Local Municipality’s Technical Services Deplanement, an assessment of the municipality’s projects aimed at addressing infrastructure backlogs, and water and sanitation projects outlined in the 2015 Knysna Integrated Strategic Development Framework Overarching Document.

INCA Portfolio Managers estimates that the total future demand for capital expenditure by the Knysna Local Municipality will be in the region of R7.3 billion over the 2016/2017 to 2025/2026 period. This comprises an R2.1 billion in new capital expenditure and a further R5.1 billion to replace existing capital assets. In comparison, the Knysna Local Municipality, places its capital requirements over the period at R3.4 billion. Actual historic capital expenditure by the Knysna Local Municipality over the last eight years however, was only R72.0 million per annum and never exceeded R100.0 million in a single year.

**FIGURE 5.34: ACTUAL CAPITAL EXPENDITURE AND CAPITAL EXPENDITURE AFFORDABILITY FOR THE KNYSNA LOCAL MUNICIPALITY**

Based on this, Figure 5.34 illustrates the Knysna Local Municipality’s actual annual capital expenditure between as 2013 and 2016 as well as the forecasted capital expenditure that the municipality can afford to incur between 2017 and 2026, based on its revenue generating capabilities over the period.

From these forecasts, the total capital expenditure that the Knysna Local Municipality can afford to incur between 2016/2017 and 2025/2026 was estimated at R1.1 billion. This was significantly lower than the amount

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of capital expenditure that was estimated to be required for the period (between R3.4 billion and R7.4 billion). Long-term capital expenditure demand expectations will therefore have to be adjusted downward, unless additional funding can be secured to finance shortfall of between R2.3 billion and R6.3 billion.

**FIGURE 5.35: ESTIMATED REVENUE AND EXPENDITURE FOR THE KNYSNA LOCAL MUNICIPALITY BETWEEN 2017 AND 2026**

![Figure 5.35](image)

Figure 5.35 illustrates the projected revenue and expenditure for the Knysna Local Municipality between 2017 and 2026. The challenge for the Knysna Local Municipality over the long-term is to ensure that revenue growth increases at a sufficient rate to cover planned expenditure, while at the same time generating both accounting and cash surpluses to cover unplanned expenditure. Insufficient revenue growth will inhibit the Knysna Local Municipality’s ability to effectively fulfil its mandate and could compromise future economic development initiatives.

Over the long-term, there is limited scope to substantially increase any expenditure without negatively impacting on the overall operational performance of the Knysna Local Municipality. This will necessitate stringent management of any future expenditure increases and ensuring that such increases are balanced against a corresponding improvement in revenue generation.

Regulated expense items such as: salaries and wages; and bulk electricity purchases, contribute the bulk of total expenditure (47.0%) in the 2017/2018 adjusted budget. Employee related expenses as a percentage of total expenditure (28.0%) remained low, translating into high staff productivity of 3.4 as measured by total income relative to staff costs. The opportunity to save on employee related expenses in future is therefore likely to be limited.

Any cost containment will therefore be limited to minor savings under contracted services and other expenditure items. The Knysna Local Municipality may also need to reconsider its level of services and adjust these downwards, in an attempt to incur expenditure savings.

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5.2.8.3 Development Criteria

Table 5.41 below provides a summary of the key issues assessed in the government and community services sector potential analysis.

**TABLE 5.41: POTENTIAL CRITERIA FOR THE GOVERNMENT AND COMMUNITY SERVICES SECTOR**

<table>
<thead>
<tr>
<th>Raw Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>The primary resource for the government and community services sector is the overall population (as a basis for revenue generation), labour force and individuals requiring access to community and government services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economic Linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a service industry, the government and community services have strong backward linkages in terms of the provision of goods and services (i.e. text books, medical equipment etc.). The overwhelming majority of these goods and services are sourced from outside of the greater Knysna municipal area, suggesting a significant potential gap.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>The greater Knysna municipal area’s population is estimated to increase by 16.8%, to 83 679 by 2030, leading to a corresponding 8 038 increase in the labour force. It is further estimated that by 2030 there will be a total school going age population (primary and secondary) of 17 375 and a further 31 310 individuals that could require some form of tertiary education. The greatest need for these services is likely to be in the town of Knysna.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regional Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is currently a limited supply of tertiary institutions in the Garden Route District Municipality, and none in the greater Knysna municipal area. Focusing on the development of tertiary education services in greater Knysna municipal area could potentially lead to the municipality attracting students from other parts of the district.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current skills profile suggests that there are insufficient highly skilled individuals within the greater Knysna municipal area to meet the economy’s needs. The greater Knysna municipal area does, however, benefit from having a significant number of experienced, retired individuals that could be utilised to address the existing skills gap and future skills shortage in the area.</td>
</tr>
</tbody>
</table>

5.2.8.4 Sector Potential

Table 5.42 highlights the identified potential opportunities for the government and community services sectors in the greater Knysna municipal area.
TABLE 5.42: COMMUNITY AND GOVERNMENT SERVICES SECTOR POTENTIAL AND OPPORTUNITIES

PUBLIC SECTOR DRIVEN INFRASTRUCTURE ROLL OUT

- Investment of R147.4 million in infrastructure over the medium-term in line with the 2018/19 Knysna Local Municipality’s Budget,
- Undertake capital expenditure as envisioned in the Knysna CBD renewal programme
- Introduction of the SRA or Business Improvement District in the Knysna CBD will provide additional revenue for the introduction of new urban elements
- Ensure Knysna Local Municipality’s local spending targets SMMEs and remains at 50% (minimum) of non-statutory and bid operational expenditure. This could result in an injection of an estimated R496.7 million into the local economy over the 2018/19 to 2020/21 period.

INVEST KNYSNA

- Expand Invest Knysna handbook to include:
  - Available incentive options, both local (e.g. fast-track process, manufacturing incentive) and national
  - Priority sectoral focus areas for the greater Knysna municipal area (i.e. agriculture; manufacturing – agro-processing, transport equipment, specialist manufacturing; tourism; ICT) and associated opportunities
  - Cost of doing business, updated annually and showing the greater Knysna municipal areas attractiveness relative to other areas in the Garden Route District Municipality
  - Cost of industrial property; and average commercial rental rates in the greater Knysna municipal areas attractiveness
- Introduction of an investor bulletin and coordinated by the Knysna Local Municipality in conjunction with the local business chamber, detailing:
  - Synopsis of the South African and Western Cape economies (GDP, employment, exports, business confidence)
  - Local information relating to: number and value of building plans passed; cost of industrial property; and average commercial rental rates
- Ongoing implementation of Knysna Local Municipality’s multi-year investment facilitation programme and sector support initiatives

SMART CITY CONCEPT

- The planned development of fibre will facilitate the implementation of the Smart City concept in the greater Knysna municipal area. Opportunities will be created in a range of areas including:
  - Mobility (e.g. digital public transit payment; predictive maintenance of transportation infrastructure; intelligent traffic signals; smart parking; bike sharing)
  - Security (e.g. real-time crime mapping; emergency response optimization; disaster early-warning systems; personal alert applications)
  - Healthcare (e.g. telemedicine; remote patient monitoring; lifestyle wearables; real-time air quality information; infectious disease surveillance).
  - Energy (e.g. home energy automation systems including consumption tracking; smart streetlights)
  - Water (e.g. leakage detection and control; smart irrigation; water quality monitoring)
  - Waste (e.g. digital tracking; optimisation of waste collection routes)
  - Economic development and housing (e.g. digital business licensing and permitting; online retraining programs; personalised education; local e-career centres)
  - Engagement and community (e.g. local civic engagement applications; local connection platforms; digital citizen services; e-governance)
5.2.9 FINANCIAL AND BUSINESS SERVICES

The financial and business services sector, which was defined as including inter alia: financial intermediation, insurance and pension funding and all activities auxiliary to financial intermediation; was the single largest economic contributor to the greater Knysna municipal area’s economy.

The sector, which focuses on banking; insurance; securities trading and financial market administration; as well as some less significant auxiliary activities such as debt collection and company secretarial services; contributed approximately R1.0 billion to the GDP-R of the greater Knysna municipal area in 2017.

In addition to financial related activities, the sector also includes the provision of business-related services offered by individuals or organisations (e.g. real estate; legal; accounting; bookkeeping and auditing; architecture; engineering and technical services, etc.) as well as the renting of any type of equipment. It is important to note that as a tertiary sector, the economic performance of the financial and business services sector is highly dependent on the growth of other productive economic sectors such as manufacturing.

<table>
<thead>
<tr>
<th>TABLE 5.43: ECONOMIC SNAPSHOT OF THE FINANCIAL AND BUSINESS SERVICES SECTOR IN 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector GDP-R (R, millions)</strong></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>R1 044.1</td>
</tr>
<tr>
<td><strong>Sector contribution to total GDP-R</strong></td>
</tr>
<tr>
<td><strong>Average annual GDP-R growth rate (2011 – 2017)</strong></td>
</tr>
<tr>
<td><strong>Sector employment</strong></td>
</tr>
<tr>
<td><strong>Sector contribution total employment</strong></td>
</tr>
<tr>
<td><strong>Average annual employment growth rate (2011 – 2017)</strong></td>
</tr>
</tbody>
</table>

The following section will provide a more detailed overview of the financial and business services sector through reviewing the sector’s structure and performance in the context of both national and local trends.

5.2.9.1 Financial Services Industry

The level of sophistication of the South African financial services industry is indicated as a key strength in the National Development Plan (NDP). The NDP further highlights the development of the financial services industry as a key vehicle for improving the economy’s national and regional competitiveness. The National Industrial Policy Framework, in contrast, indicates the importance of the financial services industry due to its cross-cutting nature in terms of effectively allocating capital resources towards industrial upgrading, productive investment and easing the costs of capital for SMMEs.

In addition to its role as a provider of intermediate services, the financial services sector has the potential to contribute towards greater inclusion of historically marginalised groups – by extending access to banking and insurance services, by helping to promote and mobilise household savings, and by easing broader access to credit. Although the sector is fairly advanced, many banks and insurers experience difficulties in extending services to this market segment using traditional channels. This is attributable to the high administrative costs associated with providing this service relative to the limited income that can be obtained.
According to the NDP, the proportion of the population that is banked or has access to transactional financial services and savings facilities is likely to increase from 63% to almost 90% by 2030. Innovations in the provision of ICT have made it possible to establish alternative virtual networks that can be used to deliver financial and other services at a much lower cost. Similarly, alternative, low-cost technology platforms, such as the internet and mobile banking, are likely to make it easier for short-term insurers to offer reduced premiums, which will help to expand access.

The financial sector has an important role to play in terms of the development of SMMEs. Most commercial banks do not extend sufficient credit to new start-up businesses, which require such funding to cover their initial capital expenditure. Greater access to credit for start-ups, particularly SMMEs, is likely to raise levels of business investment and job creation in the greater Knysna municipal area.

The greater Knysna municipal area has a number of financial institutions, most of which have their regional head offices in George. Branch offices of the major South African banks (ABSA, Capitec, FNB, Nedbank, Standard Bank) are all located within the greater Knysna municipal area, mainly in the town of Knysna. Both Karatara and Rheenendal lack financial services provided by a bank branch office.

Besides retail and commercial banking, the greater Knysna municipal area also has a number of financial advisors and insurance brokerages. Approximately eight such businesses were identified within the municipality, split evenly between financial advisors and insurance brokers. These businesses included firms with a national presence such as Bluestar (Sanlam's financial advisory services division) and PSG Wealth.

Access to financial services is significantly better in the Knysna and Sedgefield CBDs than in the surrounding informal settlements. Improving access to financial services within these settlements is particularly important given the concentration of SMMEs in these areas and the likelihood that there are a high number of unbanked individuals.

Areas that should be prioritised in the greater Knysna municipal area with respect to the financial services industry include:

- Broadening access to banking services to low-income areas through reducing infrastructure costs such as broadband access;
- Strengthening credit extension for working capital to SMMEs. The Knysna Local Municipality and the private sector should work together to find ways of increasing business lending;
- Providing small-business advisory and support services through linkages with other government entities, such as SEDA, Department of Small Business Development, etc.; and
- Encouraging private enterprises, such as construction firms, to partner with local banks in providing project finance for local SMME contracts.

5.2.9.2 Business Services Industry

The greater Knysna municipal area’s business services industry plays an important role in the overall economy and accounts for the majority (89.1%) of all employment within the broader financial and business services sector. It was estimated that in terms of GDP contribution the industry accounted for 82.8% of the broader sector’s value addition in 2017. Developments in the business services industry are considered to be highly advantageous due to the low capital costs relative to the industry’s employment creation potential.


323 SOURCE: BankSETA. 2013. THE MICROFINANCE REVIEW 2013: FROM MICROFINANCE TO FINANCIAL INCLUSION.
According to the 2015 Knysna Business Unit Study firms operating in the business services industry account for between 11.2% of all businesses within the greater Knysna municipal area, slightly lower than the 11.5% to 13.1% recorded in 2012. A significant percentage of these companies are involved in either the real estate industry (e.g. Sotheby’s Realty, Pam Golding, Remax Property, Just Letting, etc.) or the legal profession (e.g. conveyance). This is indicative of the importance of the residential and commercial property market within the greater Knysna municipal area.

Companies in the business services industry have a high number of backward and forward linkages through the provision of support services to a variety of different firms and, in some cases, to households. Offerings include office administration; hiring and placing of personnel; document preparation and similar clerical services; travel planning; solicitation; collection; security and surveillance services; cleaning; landscaping; pest control; and waste disposal.

Despite the importance of the industry to the local economy, most of the firms in the industry have remained small and have not expanded to provide services beyond the greater Knysna municipal area. This has had a limiting effect on the industry’s contribution to the growth of the economy and revenue collection base. The expansion of these businesses can be aided through public sector support as well as the effective cooperation between public and private entities supporting SMMEs in the greater region (i.e. the Garden Route District Municipality).

Business support structures in the Garden Route District Municipality that can be utilised by businesses in the greater Knysna municipal area include:

- RED door
- SETA
- Cape Agency for Sustainable Integrated Development (Casidra)
- Southern Cape Economic Partnership
- AGRI Klein Karoo
- ABSA, FNB, Nedbank and Standard Bank Small Business Support Centres

Areas that should be prioritised within the business services industry include:

- Supporting the soon to be established business chamber as a platform for engagements between businesses and the Knysna Local Municipality. This mechanism can be used to raise pertinent business matters, take remedial action, and promote economic renewal;
- Regular business confidence surveys to establish trends and assist in economic planning. These should be communicated to local businesses;
- Provision of business training through local training organisations to improve business knowledge and functioning; and
- Investigating the feasibility of BPS in the greater Knysna municipal area, contingent on the planned fibre roll-out.

5.2.9.3 Labour and Skill Levels

As the financial and business services sector grows and innovates, the skills required by the sector will also change. The current and future skills required by the sector will also be driven by changing consumer

324 SOURCE: Knysna Local Municipality. 2015. KNYSNA BUSINESS UNIT STUDY; and Knysna Local Municipality. 2015. KNYSNA EDS.
demand, technology, organisational evolution as well as the changing competitive advantage of an area. This means that the demand for skilled labour in the financial and business services sector is a derived demand (i.e. driven by the demand for other skills).

The 2015 Knysna Business Unit Study identified the following skills development needs for businesses operating in the financial and business services sector:

- Advertising and marketing;
- Computer literacy training;
- Business management training; and
- Financial Management and accounting training.

Expanding on the above list, Table 5.44 illustrates the skills gaps identified by the South African Services SETA that are required at various skill levels within the financial and business services sector.

### TABLE 5.44: SCARCE AND CRITICAL SKILLS REQUIRED BY SKILL LEVEL IN THE FINANCIAL AND BUSINESS SERVICES SECTOR

<table>
<thead>
<tr>
<th>SKILL-LEVEL</th>
<th>CRITICAL SKILLS GAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>• Leadership&lt;br&gt;• Strategic and project management&lt;br&gt;• Change management&lt;br&gt;• Workforce forecasting and planning&lt;br&gt;• Diversity management&lt;br&gt;• Database analytics and data management&lt;br&gt;• B-BBEE verification&lt;br&gt;• Business plan writing skills</td>
</tr>
<tr>
<td>Technicians and Associate Professionals</td>
<td>• Time management&lt;br&gt;• Telephone etiquette&lt;br&gt;• Communication&lt;br&gt;• Professional conduct&lt;br&gt;• Communication&lt;br&gt;• Work ethics&lt;br&gt;• Sales and marketing</td>
</tr>
<tr>
<td>Clerical Support Workers</td>
<td>• Internet skills&lt;br&gt;• Computer literacy&lt;br&gt;• CCMA accreditation&lt;br&gt;• Labour relations&lt;br&gt;• Office administration</td>
</tr>
</tbody>
</table>

---

326 SOURCE: Knysna Local Municipality. 2015. KNYSNA BUSINESS UNIT STUDY.
5.2.9.4 Market Structure and Trends

International

The adverse effects of the global financial crisis on the financial and businesses services sector have begun to ease. Real GDP growth has remained positive across major markets over the last several years, giving most lines of businesses in the sector room for expansion. The continued tightening of the labour markets in the United States of America and more recently the European Union is anticipated to fuel income gains and credit expansion for retail banks in the near future. This favourable situation has the potential to lead to monetary tightening, as the European Central Bank gradually reduces its quantitative easing program, and raises interest rates, as the Federal Reserve in the United States of America has done.

Internationally, real fixed-business investments and corporate profits are anticipated to continue to rise, albeit at low rates. This is likely to be aided by the proposed corporate tax reforms and repartition of corporate profits in the United States of America. Adversely impacting these investment prospects however, are large unfunded tax cuts that could fuel concerns in international bond markets about the long-run sustainability of budget deficits.

In this context, Table 5.45 highlights several major international trends within the financial and business services sector that could be capitalised on by the greater Knysna municipal area or, which could have an impact on the future performance of the local sector.

<table>
<thead>
<tr>
<th>TABLE 5.45: MAJOR TRENDS IN THE GLOBAL FINANCIAL AND BUSINESS SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TREND</strong></td>
</tr>
<tr>
<td>Technology-driven Customer Service Efficiency</td>
</tr>
<tr>
<td>Rise of Fintechs</td>
</tr>
<tr>
<td>Mobile and Online Banking</td>
</tr>
</tbody>
</table>

330 SOURCE: Kisel, T. No date. FOUR FINANCIAL SECTOR TRENDS TO WATCH IN 2018.
online banking will lead to a transformation of brick-and-motor branches to centres that provide advisory services.

Cryptocurrencies

Online, mobile and offline stores will increasingly start accepting cryptocurrencies (e.g. Bitcoin, Ethereum) and other alternative payment types. This trend will benefit both customers and businesses, making it easier to undertake all types of transactions. Risks from a regulatory perspective however, remain that could hamper wide scale future adoption.

Mitigating cyberrisk

The potential for cyber risk has been increasing with greater interconnectedness in the banking ecosystem, rapid adoption of new technologies, and the continued reliance on legacy infrastructure designed for a different period. It is estimated that between 2017 and 2021 over $1 trillion will be spent by firms, mainly in the financial and businesses service sector, on cybersecurity.

Crowdfunding

Crowdfunding is making it easier to raise capital outside of traditional banking channels. Crowdfunding is also making it possible to bring new products to market faster and without the traditional hurdles associated with conventional funding institutions. Crowdfunding models are now being used to assist in a range of activities in the financial and business services sector, such as real-estate investing, scientific research and angel investing.

National

By channelling savings into investment and credit, the financial and business services sector plays a key role in growing and transforming the economy. The South African government’s reform agenda focuses on strengthening the safety and soundness of financial institutions, improving market conduct, financial inclusion and transformation, and combatting financial crime. The following section outlines some of the current interventions linked to this agenda and their associated opportunities.

Mitigating the impact of illicit financial flows

Illicit financial flows are movements of money or capital from one country to another, where the funds are illegally earned, transferred or used. The National Treasury, in close cooperation with the South African Reserve Bank (SARB), the Financial Intelligence Centre and the South African Revenue Service, is taking several steps to detect, disrupt and deter illicit financial flows. The reduction in illicit financial flows could help reduced unemployment, increase public spending, and contribute to the expansion of the financial and business services sector.

FinTech and the future of finance

Technological advancements have brought about significant changes in the business model of financial systems around the world. In South Africa, these changes have the potential to improve competition, reduce cost structures and enhance inclusion. A national working group has been established to to draft a financial innovation framework that will introduce regulatory, financial and human capital incentives, and innovation zones for South African fintech firms.

New technology also offers opportunities for new entrants into the financial and business services sector and can help to keep costs down. In 2017, the SARB granted three bank licences – two for banks with significant digital banking capabilities and one for a new digitally focused mutual bank.

The SARB is working with the National Treasury, and other organisations to modernise its governing payment system legislation. This may permit new players, such as retailers, to participate in the payment system and support more affordable account technologies like mobile money and e-wallet.

New financial sector regulators will introduce a simplified licence regime for financial institutions in the start-up phase. This regime will allow start-ups to provide new innovative financial services and products to consumers within an appropriate regulatory framework.

**Strengthening the safety and soundness of financial institutions and the financial system**

During 2017, Parliament passed the Insurance Act (No. 18 of 2017). This Act introduces a solvency and asset management programme which outlines a new approach for insurance companies that hold capital for risk. In addition, the National Treasury and the SARB published a new policy framework, which introduces deposit insurance.

**Implementing Twin Peaks and improving market conduct**

The Twin Peaks model of financial sector regulation will see the creation of a prudential regulator – the Prudential Authority – housed in the SARB, while the Financial Services Board will be transformed into a dedicated market conduct regulator – the Financial Sector Conduct Authority. The implementation of the Twin Peaks model in South Africa has two fundamental objectives:

- To strengthen South Africa’s approach to consumer protection and market conduct in financial services, and
- To create a more resilient and stable financial system.

The responsibilities of the new Financial Sector Conduct Authority will include oversight of market conduct in the retail banking sector and ensuring fair treatment of banking customers. It will future help to address the fragmented nature and overlapping mandates of the current financial services ombudsmen.

**Introduction of project bonds**

Government and banks alone cannot fund South Africa’s infrastructure programme. From 2018, the Johannesburg Stock Exchange will allow the listing of “project bonds”. This new funding instrument will offer an opportunity for institutional investors to participate in infrastructure projects through listed, tradable securities that can offer risk-adjusted returns. These bonds will be underpinned by the cash flows of a ring-fenced project (such as infrastructure or energy projects).

**Finance for SMMEs**

The expansion of SMMEs can help transform the economy. The 2015 SMME Survey however, shows that the majority of small businesses do not borrow from financial institutions, with only 2.0% indicating that they rely on banks for funding. In 2018, the National Treasury in partnership with the World Bank will publish a diagnostic assessing financing constraints on the SMME sector. It will inform new interventions, expected
to include credit information sharing, a review of credit guarantee initiatives and further work on a movable asset register.

Local

The weak performance of the financial and business services sector between 2011 and 2017 is linked to the performance of those sub-industries within the sector that are associated with the construction sector. The recovery of the greater Knysna’s municipal area’s construction sector following the global financial crisis is likely to have led to an increase in the demand for architectural and engineering services, as residents and non-residents sought to build new homes. This increase in the construction of residential properties, coupled with increased demand for second homes, is also likely to have spurred demand for real estate services as well as those legal services required to undertake property transfers.

The probability of the above scenario is supported by the observation that during this post-recovery period in construction (2010 to 2013), the financial and business services sector grew by an average annual rate of 2.0%. Following the deterioration in the local property market from 2013, the financial and business services sector has only managed to attain an average annual growth of 1.1%.

Should this correlation between the construction sector and that of the financial and business services sector be as strong as the above trends suggest, it is likely that over the short to medium term, the sector will grow at a slower rate than it has in the preceding 10 years.

5.2.9.5 Development Criteria

Table 5.46 below provides a summary of the key issues assessed in the financial and business services sector potential analysis.

| RAW MATERIALS | The spatial position, business climate and lifestyle of the greater Knysna municipal area makes it an attractive destination for businesses. The region consists of business support organisation and adequate infrastructural services, such as electricity. |
| ECONOMIC LINKAGES | Business activity creates jobs, cultivates inter-firm linkages, enables technology transfer, builds human capital and physical infrastructure, creates tax revenues for government, and offers a variety of products and services to customers and other businesses. For the poor, these services reduce vulnerability and enable people to manage the assets available to them in ways that generate income and create opportunities. |
| MARKET TRENDS | Consumers’ lifestyles have become more rushed and therefore trade nodes and online shopping have become more attractive, since consumers can buy all goods and services in one location. There has also been a major focus on formalising the informal sector within a national context. Retailers now provides financial services through their Easy Pay system, without associating with a bank or other financial institutions, thus eliminating the need for the low-income individuals to hold bank accounts to pay bills; transfer funds; and deposit or withdraw cash. |
Promoting office/business nodes should be encouraged to ensure that financial and business services enterprises are in close proximity to one another, allowing easy access for possible clients.

The town of Knysna serves as the primary commercial node in the greater Knysna municipal area and is home to a range of financial and business services enterprises. Development of this sector is therefore likely to occur here, given the abundance of such supporting services.

The majority of the greater Knysna municipal area’s labour force is classified as either semi- or low-skilled. Such individuals are poorly suited for participating in the financial and business services sector. There is a critical lack of the skills associated with the financial and business services sector in the greater Knysna municipal area.

Internationally, there has been an increasing move to electronic banking and financial services, which is reducing the need for brick-and-mortar structures. As a result, financial services are choosing to locate in major urban centres rather than in smaller urban nodes. This is likely to impact employment opportunities for the greater Knysna municipal area going forward.

5.2.9.6 Sector Potential

Table 5.47 highlights the identified potential opportunities for the finance and business services sector in the greater Knysna municipal area.

<table>
<thead>
<tr>
<th>TABLE 5.47: FINANCE AND BUSINESS SERVICES SECTOR POTENTIAL AND OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUILDING INSTITUTIONAL CAPACITY</strong></td>
</tr>
<tr>
<td>• Finance and business services firms can help build institutional capacity within their organisations through financial investment, technology transfer, knowledge sharing and networking. They can create and spin off brand new institutions.</td>
</tr>
<tr>
<td>• Providing small-business advisory and support services through linkages with other government entities such SEDA, the Department of Small Business Development, etc.</td>
</tr>
<tr>
<td><strong>SECTOR SUPPORT PROGRAMME</strong></td>
</tr>
<tr>
<td>• Promoting the development of local human capital through providing training on banking services, such as through financial literacy programmes and partnering with local schools</td>
</tr>
<tr>
<td>• Encouraging private firms, such as construction firms, to partner with local banks in providing project finance for contracts on the continent</td>
</tr>
</tbody>
</table>
• Formalising a mechanism for engagements between businesses and the municipality so as to create a platform through which stakeholders can raise pertinent business matters, take remedial action, and promote economic renewal (business chamber, association or forum)

<table>
<thead>
<tr>
<th>INCREASE ACCESS TO FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Broadening access to banking services to low-income areas through reducing infrastructure costs such as broadband access</td>
</tr>
<tr>
<td>• Strengthening credit extension for working capital to SMMEs. The Knysna Local Municipality and the private sector should work together to find ways of increasing business lending.</td>
</tr>
</tbody>
</table>

5.3 CONCLUSION

This chapter indicated a range of development opportunities and constraints in the greater Knysna municipal area, including:

• The agriculture and manufacturing sectors as well as the tourism industry within the greater Knysna municipal area have all been shown to have a comparative advantage, with the tourism industry demonstrating a latent potential comparative advantage.
• Within the agricultural sector, the main constraints to development are availability of suitable land, water scarcity, high input costs (particularly land), low productivity and lack of access to financial support.
• Opportunities identified within the agricultural sector include the use of digital agricultural; organic horticulture products including those that cater for vegans and vegetarians; hydroponics, aquaponics, permaculture as well as a focus on niche high-value agricultural products (e.g. honeybush, berries, mushrooms, herbs, nuts, ornamental plants).
• Development opportunities within the manufacturing sector include: waste recycling; timber related products (furniture, prefabricated homes, coffins, school desks, etc.); food processing (e.g. juice concentrates, ice cream); natural products (e.g. bio-degradable materials; natural supplements including sweeteners, and herbal remedies; and cosmetics); environmental and energy technologies (including biomass), additive manufacturing; ICT (e.g. information analytics, cybersecurity); drones; transport equipment (e.g. vintage cars, yachts, canoes, boats and refurbishment, restoration and maintenance of these); and construction materials (e.g. luxury vinyl tiles). The demand for energy efficient products and other “green products” is a particularly important growth area.

The performance of many of the other sectors, such as finance and business services, is essentially a derived demand. These sectors will benefit from the development of the previous economic sectors as well as the general strengthening of economic linkages within the greater Knysna municipal area. The transport and communication sector has a particularly important role to play in terms of creating an enabling environment for economic development. The improvement and expansion of transport linkages and communication technology will improve the accessibility of the municipality. A transportation framework plan should be developed to guide the establishment of future mobility infrastructure. This should be aligned to the Knysna Local Municipality’s Spatial Development Framework and capital investment framework.

The successful roll out of fibre networks in the greater Knysna municipal area will significantly improve ICT infrastructure in the area. Furthermore, it will position the greater Knysna municipal to take advantage of the rapid increase in the use of digital technologies in a range of economic sectors pertinent to the area. The introduction of a high-speed fibre network will also create opportunities in new areas such as:
• Film industry development
• Business Processes Outsourcing
• Secure data storage
• E-sports and game design
• Edu-tech
• E-government and data driven policy
• Digital health services

As highlighted in Chapter 4, the greater Knysna municipal area performs relatively well in terms of the cost of doing business when compared to other municipalities in the region. To ensure that the greater Knysna municipal area realises the opportunities identified in this chapter, it will continuously need to improve its attractiveness as investment destination by increasing the affordability of doing business in it.
CHAPTER 6: ECONOMIC PLANNING FRAMEWORK

The following chapter contains the response to the existing economic situation as presented in the previous sections of the Economic Development Strategy. As such, it may be seen as a means of unlocking the identified opportunities within the greater Knysna municipal area as well as mitigating the various challenges that have been highlighted.

Where the previous chapters provided information regarding the structure and trends governing the greater Knysna municipal area’s economy, the Economic Planning Framework provides mechanisms by which the Knysna Local Municipality, the private sector and other developmental stakeholders can promote economic development, investment attraction and facilitate job creation in its locality. The economic planning framework thus sets the key priorities for local economic development and creates consensus on the fundamental actions required.

The first part of this chapter details the process followed in determining the planning framework for the EDS. This is followed by the translation of the opportunities identified in the previous chapter into specific projects. These projects are then prioritised based on a standard set of criteria.

6.1 PLANNING FRAMEWORK APPROACH

Figure 6.1 illustrates the process adopted when developing the economic planning framework for the EDS. The figure also highlights the mechanisms by which the outcomes of the economic situation analysis feed into the projects identified in the subsequent sections.

FIGURE 6.1: SCHEMATIC REPRESENTATION OF EDS APPROACH
6.2 VISION AND MISSION

To ensure suitable strategic alignment, the EDS has adopted the Knysna Local Municipality’s vision (Inclusive, Innovative, Inspired) as well as the municipality’s mission. Accordingly, the municipality’s vision and mission form the basis and focus for all the identified interventions and projects outlined in the EDS.

6.3 LED PROJECT IDENTIFICATION

This section provides descriptions of the various LED projects identified for implementation in the greater Knysna municipal area. The methodology utilised in identifying these LED projects is outlined in Figure 6.2. From Figure 6.2 it is evident that LED projects were identified based on the previous Knysna EDS, the updated social and economic overviews, the potential assessment, the most recent Knysna Local Municipality’s SDF and the stakeholder engagement process.

FIGURE 6.2: LED PROJECT IDENTIFICATION METHODOLOGY

Each of the projects identified through the above methodology were subsequently screened against a set of factors (see Table 6.1). This was done to ensure that the projects identified would result in the maximum benefit to the greater Knysna municipal area’s economy and community, whilst utilising a relatively low level of resources (in terms of time, finances, approvals, etc.). The projects identified also takes into account alignment with spatial planning objectives outlined in the Knysna Local Municipality’s SDF.

The projects identified through this process are focused on growing the greater Knysna municipal area’s formal economy, while at the same time recognising the importance of its informal sector. They take cognisance of the importance of the knowledge economy in the greater Knysna municipal area, while also acknowledging that partnerships are vital for economic development. All of these projects are underpinned by the assumption that improved access to land and infrastructure are predictors to growth and development, particularly given the backlogs in infrastructure service provision.
## TABLE 6.1: PROJECT SCREENING FACTORS

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-hanging fruit</td>
<td>It is desirable to undertake LED projects that involve small actions, but which have significant ramifications on the state of development in the area. Low-hanging fruit represents catalytic actions that do not in themselves require significant amounts of effort to establish, and yet yield high and positive returns. Low-hanging fruit typically are based on the locality's strengths and areas of high potential. Low-hanging fruit are particularly important in creating momentum for LED efforts in an area, as they produce easily visible and measurable results.</td>
</tr>
<tr>
<td>Quick win</td>
<td>Such projects can be easily assessed based on SMART outcomes (Specific, Measurable, Achievable, Realistic and Time based) within a relatively short space of time. The benefit of such projects is in their ability to align with the planning horizons of the public sector (e.g. Municipal IDP). Quick wins tend to tie-up fewer resources over time and their successful implementation may be used to galvanise stakeholder support for other LED projects with longer timeframes.</td>
</tr>
<tr>
<td>Linkages with support programmes</td>
<td>In order to maximise on synergies and complementarity, it is ideal for a project to have linkages with existing or planned support programmes. Such programmes may be initiated by the Knysna Local Municipality, local stakeholders or partners in development at a district, provincial or national level. An example of this is seen in how a project that supports efforts undertaken by the Expanded Public Works Programme may have a greater impact than one which operates in isolation from such support programmes. Linkages with support programmes have implications on a project's ability to receive external funding.</td>
</tr>
<tr>
<td>Viability</td>
<td>It is important to distinguish between LED projects and poverty alleviation or social development projects. Where LED projects involve the conceptualisation, production or marketing of goods or services, it is pivotal that such activities be underpinned by the business principle of viability. There needs to be adequate revenue generating potential or market demand for the LED project to be selected, whilst production needs to use a technology that allows income to cover the cost of sales. Ideally, projects would be able to generate a regular revenue stream and have established potential for market growth. Key in establishing the viability of LED projects will be business plans, feasibility studies and other such forms of market research. This includes spatial development and environmental viability.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>While it is recognised that many LED projects require the impetus of an external agent, such as the municipality or a funder to kick-start operations, it is also worth noting that a large percentage of such projects fail to survive once the support provided by such these external agents is withdrawn. It is imperative that LED projects which are selected are sustainable once the initial period of support has expired. Benefits accruing from an LED project must continue over a relatively long period of time and not result in so-called ‘white elephants’ or ultimately prove to have been wasteful expenditure.</td>
</tr>
<tr>
<td>Affordability</td>
<td>Given the fact that LED is about actors from the locality coming together to improve the state of the economy, it is essential that such actions must on the whole be affordable to local actors. While it is recognised that some large-scale anchor projects will require significant amounts of external funding, the cost of LED projects must be in line with the capacity of local actors to lobby for funding.</td>
</tr>
</tbody>
</table>
This prevents a situation whereby all the LED projects cannot commence pending the allocation of external funding. Some of the LED projects should be achievable using local resources (not necessarily all financial, with resources such as know-how, expertise and indigenous knowledge seen as important contributions to improving the affordability of projects).

The screening factors set out in Table 6.1 seek to address the following problems that often plague LED projects:

- Short-term interventionist approaches
- Dependency on grant funding
- Limited life-cycle assessment of costs and benefits
- Lack of private sector involvement and partnerships

Based on Figure 6.1 and Table 6.1, the table below outlines the various projects identified to facilitate economic development in the greater Knysna municipal area. The table provides project activities, an indicative timeframe\(^{332}\) as well as the estimated budgetary implication where possible. The projects listed in Table 6.2 seek to:

- Build on the region’s strengths
- Address the locations’ current weaknesses
- Take advantage of opportunities for development that exist currently or in the foreseeable future
- Mitigate the impact of possible threats to the achievement of the Knysna Local Municipality’s economic development vision
- Provide a guide for the selection of projects over short-, medium- and long-term for implementation by the public sector, the private sector and other stakeholders.

### TABLE 6.2: LED PROJECTS FROM POTENTIAL ASSESSMENT

<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
</table>
| **Construction** | • Establish green construction by-laws to guide new commercial, industrial and residential developments  
 • Require minimum percentage spend on green building materials for developments whose building plans are valued at over R10 million  
 • Set minimum specifications for:  
   - Material usage  
   - Construction waste disposal  
   - Rainwater collection  
   - Utilisation of local plant species | Medium Term | N/A; Will require budget allocation to ensure compliance |
| **Green Construction** |                                                                                   |            |                         |

\(^{332}\) For the purpose of Table 6.2, short-term refers to less than five years, medium-term covers a five to ten-year period, while long-term refers 10+ years.
<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
</table>
| Sports and Recreational Facilities          | • Construct/rehabilitate sports facilities in strategic locations to meet community needs and promote the greater Knysna municipal area as a sporting destination  
  • Investigate possibility of creating a satellite high-performance centre linked to popular sporting codes that take advantage of greater Knysna municipal area’s water ways and coastal access | Medium Term      | Costs vary per centre; No costs associated with investigations                          |
| Municipal Infrastructure Upgrading/Development in Urban and Rural Areas | • Address the infrastructure backlog in respect of water, sewerage and transport infrastructure through increasing budget allocation in both CBD areas and rural towns.  
  • Priority should be given to road infrastructure, focusing on the following roads in order of priority:   
    - DR1615 and DR1617  
    - MR351  
    - MR355  
  • Ensure local SMME participation through contractor development programmes. This should be linked to EPWP implementation and supply chain management policies.  
  • At a minimum, maintain current local spending targets on SMMEs for public infrastructure spending  
  • Include mandatory training programme as part of construction tenders  
  • SRA or business improvement district in Knysna CBD to fund urban renewal and additional urban precinct management functions. | Short to Long Term | Varies based on Technical Services Department’s budget.                                  |
| Transport Framework Planning                | • Identify main public transport routes  
  • Structure existing public transport network into a formalised network  
  • Brand public transport network  
  • Install/upgrade public transport infrastructure at strategic locations (e.g. taxi ranks) | Medium Term      | To be determined                                                                        |
| CBD Renewal Programme                       | • Support internal coordination to implement intervention plan through CBD renewal task team  
  • Create awareness regarding the urban design/regeneration framework to guide detailed future CBD upgrade | Short to Medium Term | R1 849 000                               |
<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
</table>
| Heidevallei Redevelopment     | • Identification of appropriate development concept linked to primary research to test market preferences  
• Incorporate development concept into SDF  
• Link proposed developments to local construction sector and SMME development.                                                                                   | Short to Medium Term       | To be determined          |
|                               |                                                                                                                                                                                                                     |                            |                          |
| Wholesale and Retail Trade    |                                                                                                                                                                                                                     | Short-Medium Term          | To be determined          |
| Formal and Informal Retail Space Development | • Encourage development of retail space in key locations (Hornlee; Northern Urban areas) / neighbourhood centres  
• Focus on areas where existing informal business clusters already exist that could be formalised.  
• Link with SMME Development  
• Explore alternative building construction typographies (e.g. containers, green construction techniques)                                                                 |                            |                          |
| Informal Trading Management   | • Upgrading and maintenance of key informal area trading spaces  
• Informal Trading Permits  
  o Permit Process  
  o Managing traders and dealing with queries  
  o Seasonal Trading Applications  
  o Site visits  
  o Liaising with Law Enforcement                                                                                                                                 | Short Term                 | N/A                      |
<p>| Retail Logistic Distribution Point | • Assess local businesses’ use of online retail to distribute products                                                                                                                                              | Long Term                  | To be determined; Existing |</p>
<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
</table>
| SMME Development                              | • Target businesses providing consumer goods (perishables and non-perishables); and agro-processing (horticulture)  
  • Determine warehousing/storage requirements  
  • Identify sites designated for the establishment of such facilities  
  • Establish partnerships with private sector and Learning Campus to provide:  
    o Business training  
    o Mentoring services  
    o On-the-job experience  
    o Learnerships and apprenticeships  
    o Incubator support  
  • Utilise online SMME training material provided through recognised training providers. Alternatively partner with organisation to provide training services.  
  • Create SMME networking platform linking this to new business chamber  
  • Ensure that public sector SMME spending remains at a minimum of 50%  
  • Encourage BBBEE compliance and enterprise development initiatives                                                                                                                                   | Short to Medium Term | R600 000 per annum |
| Knysna Business Forum                         | • Identify private and public sector driver  
  • Partner with local business-related organisations to facilitate implementation  
  • Set up governing documents  
  • Knysna Local Municipality’s officials should attend/send representatives periodically                                                                                                                                 | Short Term  | N/A                      |
| Tourism                                       | • Implementation of projects and interventions outlined in Knysna Local Municipality’s Tourism Destination Plan  
  • Identify new/unique events and increase technical support, including joint marketing to new and emerging events and festivals  
  • Develop and formalise tourism products and experiences                                                                                                                                                    | Short to Long Term | N/A; Linked to implementation cost of Tourism Destination Plan |
<p>| Destination Plan, Branding and Product Development |                                                                                                                                                                                                                     |            |                          |</p>
<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town Beautification</td>
<td>• Ensure efficient and effective administration of visitor information services</td>
<td>Short to Medium Term</td>
<td>Linked to implementation cost of Tourism Destination Plan</td>
</tr>
<tr>
<td></td>
<td>• Identification of tourism sites and routes that can have their visual aesthetic enhanced</td>
<td></td>
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<tr>
<td></td>
<td>• Clean-up signage and improve walkways with high visitor foot traffic.</td>
<td></td>
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<tr>
<td></td>
<td>• Introduce urban design elements at these sites/routes (e.g. flowers, water features, public art, etc.)</td>
<td></td>
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<tr>
<td></td>
<td>• Link to Knysna CBD Renewal Programme</td>
<td></td>
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<tr>
<td></td>
<td>• Identify iconic positions in area for potential route and infrastructure development</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Erect selfie point infrastructure in conjunction with private partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boutique Hotels</td>
<td>• Test concept and feasibility of a floating hotel as a unique boutique hotel</td>
<td>Short to Medium Term</td>
<td>Fund proof of concept</td>
</tr>
<tr>
<td></td>
<td>• Partner with SANParks to identify appropriate location in either Knysna or Sedgefield</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Link concept to appropriate initiatives in Tourism Destination Plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Tourism and Events Facilities</td>
<td>• Identify private investor(s) and partners to establish events centre(s)</td>
<td>Medium to Long Term</td>
<td>To be determined</td>
</tr>
<tr>
<td></td>
<td>• Locate suitable land for multi-purpose events centre(s).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Assess business infrastructure requirements for event facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Support development of business tourism marketing strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Investigate feasibility of an event infrastructure co-operative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knysna Central Park</td>
<td>• Complete precinct plan for Knysna Central Park</td>
<td>Medium to Long Term</td>
<td>To be determined</td>
</tr>
<tr>
<td></td>
<td>• Determine park development and operating model with potential partners.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Film Sector Marketing Initiatives</td>
<td>• Operation and content management of Film and Events website</td>
<td>Short Term</td>
<td>R30 000</td>
</tr>
<tr>
<td></td>
<td>• Conduct film hosting awareness workshops with local support industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Review relevant film by-law</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provide film permitting support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROJECTS</td>
<td>PROJECT ACTIVITIES</td>
<td>TIME FRAME</td>
<td>POTENTIAL COST ESTIMATE</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Eco-Tourism Development</td>
<td>• Liaise and build partnerships with other location permitting authorities (SANParks, Cape Nature etc.)&lt;br&gt;• Hosting film festivals&lt;br&gt;• Support film skills development initiatives to increase employability of locals in productions</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Develop electronic and printable maps of routes of adventure/eco-tourism trails&lt;br&gt;• Design website showcasing trail options&lt;br&gt;• Engage with SANParks, Cape Nature, Forestry, and landowners to obtain buy-in for routes&lt;br&gt;• Roll out signage along routes</td>
<td>Short Term</td>
<td>R70 000</td>
</tr>
<tr>
<td>Agriculture (Agro-processing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timber Sector Support</td>
<td>• Provision of support to the Knysna Timber Initiative (KTI) through joint marketing, and industry skills development&lt;br&gt;• Ongoing development of the KTI and Knysna Timber brand&lt;br&gt;• Support South Cape Economic Partnership Timber Workstream&lt;br&gt;• Support marketing of timber construction&lt;br&gt;• Facilitate engagement on the future of forestry in greater Knysna municipal area</td>
<td>Short Term</td>
<td>R65 000</td>
</tr>
<tr>
<td>Niche Agricultural Development</td>
<td>• Test the feasibility of cultivating the following new products:&lt;br&gt;  o Hemp, including medical marijuana&lt;br&gt;  o Gourmet mushrooms, both cultivated and wild&lt;br&gt;  o Ornamental plants, including ferns&lt;br&gt;  o Oysters, crab, freshwater fish&lt;br&gt;• Test the feasibility of linked value adding and agro-processing opportunities for herbs, honeybush, bee products</td>
<td>Medium Term</td>
<td>R100 000 to fund feasibility studies</td>
</tr>
<tr>
<td>Alternative Natural Products Uses</td>
<td>• Explore potential of harvesting locally available natural fibres (e.g. bark) for manufacturing sector&lt;br&gt;• Investigate potential for manufacturing bio-plastics from indigenous plants</td>
<td>Medium Term</td>
<td>R100 000 to fund feasibility study</td>
</tr>
<tr>
<td>PROJECTS</td>
<td>PROJECT ACTIVITIES</td>
<td>TIME FRAME</td>
<td>POTENTIAL COST ESTIMATE</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Bioenergy Production</td>
<td>• Explore potential for growing hemp to create sustainable natural fibres</td>
<td>Short Term</td>
<td>R150 000 to fund feasibility and business plan</td>
</tr>
<tr>
<td></td>
<td>• Investigate feasibility of production of biomass from timber waste as feedstock for energy generation – complete technology proof of concept and pilot implementation</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Investigate feasibility of utilising plastic waste as part of bioenergy programme</td>
<td></td>
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<tr>
<td></td>
<td>• Make use of alien vegetation to generate biomass</td>
<td></td>
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<tr>
<td></td>
<td>• Create community of practice/working group that includes, private sector, research and government institutions to coordinate bioenergy production initiatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable Agriculture and Organic Food Production</td>
<td>• Establish organic farmers working group</td>
<td>Short to Medium Term</td>
<td>To be determined; Costs likely to be covered by the private sector</td>
</tr>
<tr>
<td></td>
<td>• Encourage sustainable agricultural practices through working group</td>
<td></td>
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<tr>
<td></td>
<td>• Assist local farmers in obtaining organic certification, Fair-Trade and Halal accreditation</td>
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<tr>
<td></td>
<td>• Pilot Fair-trade accreditation</td>
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<tr>
<td></td>
<td>• Establish packaging plant for organic vegetables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetarian and Vegan Investment Attraction</td>
<td>• Lobby local farmers and farming association to target vegetarian and vegan market</td>
<td>Medium Term</td>
<td>To be determined; Costs likely to be covered by the private sector</td>
</tr>
<tr>
<td></td>
<td>• Attract new vegetarian and vegan-friendly farming investors by leveraging the greater Knysna municipal areas recognised “green/environmentally conscious” brand</td>
<td></td>
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<tr>
<td></td>
<td>• Link vegan production to downstream value additions (e.g. vegan textiles)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dairy Industry Investigation</td>
<td>• Undertake assessment of dairy industry potential in the greater Knysna municipal area with a focus on expanding primary production</td>
<td>Short-Term</td>
<td>R50 000</td>
</tr>
<tr>
<td></td>
<td>• Test feasibility of value-added opportunities specifically:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Ice cream</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>o Other dairy products focusing on buttermilk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROJECTS</td>
<td>PROJECT ACTIVITIES</td>
<td>TIME FRAME</td>
<td>POTENTIAL COST ESTIMATE</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
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<td>-------------------------</td>
</tr>
<tr>
<td>powder, yoghurt, butter, and butter spreads</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
| **Industrial Area Development**  | • Prioritise road improvement and maintenance along selected arterials in Knysna industrial area  
• Explore potential for densification of selected industrial sites  
• Market industrial area to investors; include such marketing as part of municipality's investment policy  
• Identify future sites for industrial development in Sedgefield (i.e. biowaste) and Karatara (i.e. agro-processing) | Short to Medium Term | N/A                     |
| **Manufacturing Incentive Package** | • Determine projected benefits relative to financial implications of introducing a manufacturing incentive package  
• Introduce a mechanism for investors to track the progress of municipal processes attached to their investment (e.g. zoning application, building plans etc.)  
• Development application management system.  
• Explore the feasibility of introducing a system by which the aforementioned processes are fast-tracked as a non-financial investment incentive (within legislative timeframes) | Short Term | R50 000 to undertake cost/benefit assessment |
| **Agro-processing Expansion**    | • Undertake feasibility study and if feasible, business plan  
• Test market potential for the local production of meal kits and ready-made meals  
• Investigate the potential for new agro-processing investment in:  
  o Herbal remedies, cosmetics and essential oils  
  o Natural supplements  
  o Juice concentrates, such as tomato juice  
  o Honeybush (e.g. teas)  
  o Mead and honey production | Medium Term | R250 000 to fund feasibility study and market research |
<p>| <strong>Niche Manufacturing Growth Strategy</strong> | • Build on existing niche manufacturing though manufacturing incentive package | Short - Medium Term | R300 000 to fund development of strategy and |</p>
<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
<th>POTENTIAL COST ESTIMATE</th>
</tr>
</thead>
</table>
| Waste Beneficiation | • Partner with stakeholders to expand waste minimisation projects  
• Increase awareness about existing local waste management and recycling programmes  
• Promote use of vermiculture as means of reducing organic waste  
• Investigate potential for manufacturing products from waste  
• Support implementation of local bio-wise and biomimicry projects that impact job creation and SMME development | Short Term | To be determined |
| Training and Vocational Development | • Support and facilitate expansion of industry-led vocation skills centre in industrial area  
• Expand existing Mayoral Bursary scheme and ensure that it focuses on local training institutions | Short Term | R300 000 annually to fund bursaries |

- Actively attract further investment from marine manufacturing firms and investigate cluster cooperation initiatives
- Promote additive manufacturing amongst local businesses
- Attract additive manufactures to industrial area
- Explore potential for new niche manufacturing products:
  - Bicycle assembly and associated accessories
  - Organic/green clothing
  - Bio-plastic packaging
  - Natural cleaning products
  - Natural fibre products
  - Hemp insulation
- Incentivise establishment of green technology manufacturers
- Provide export support and development to both niche and general manufactures by:
  - Assisting with inward buying missions
  - Providing access to incentive information and trade advice
  - Assisting in accessing exporter development programmes
- Support industrial cluster cooperation and waste minimisation through industrial symbiosis
- Partner with stakeholders to expand waste minimisation projects
- Increase awareness about existing local waste management and recycling programmes
- Promote use of vermiculture as means of reducing organic waste
- Investigate potential for manufacturing products from waste
- Support implementation of local bio-wise and biomimicry projects that impact job creation and SMME development
- Train and facilitate expansion of industry-led vocation skills centre in industrial area
- Expand existing Mayoral Bursary scheme and ensure that it focuses on local training institutions
6.4 PROJECT PRIORITISATION

The aim of the project prioritisation process is to determine which of the identified projects are likely to have the greatest impact on the attainment of the vision of the Knysna Local Municipality. Furthermore, the prioritisation process seeks to establish which of the projects will have the highest impact on the greater Knysna municipal area's economy in terms of job creation, capacity building, social upliftment and infrastructure development.

In order to achieve this, a prioritisation model has been developed as a guide to assist in the assessment of the identified projects. The model utilises four criteria, each of which is allocated a weighting based on its relative importance. The criteria used for the assessment of the projects are:

5. **Strategic Importance of the Project**
   The strategic importance criterion is based on the potential impact of the project on the local economy. This criterion considers factors such as the scale of the project, the chances of its
activities being duplicated elsewhere and the effect the project will have on the comparative advantage of the local economy as a whole.

6. Economic Impact of the Project
The economic impact criterion refers to the sum of the project’s influence on the local economy. The different impacts considered are:
- Increased/additional income for affected communities
- New business sales
- Potential agglomeration effects and advantages
- Foreign and domestic direct investment

7. Feasibility of the Project
The implementation of a project is dependent on its financial feasibility. It is therefore important to include financial feasibility indicators in the assessment of the project. Aspects that are considered here include:
- Existing research on the project topic
- Availability of resources, skills and technology

8. SMME Promotion, Skills Development and BBBEE impact of the Project
This criterion is based on a projects ability to provide support and training to small, medium and micro enterprises; its potential to support companies that actively promote development and skills transfer to their employees; and those projects that comply with, and actively pursue, BBBEE targets and standards.

The indicators that impact programme and project prioritisation has been applied to the list of projects per sector taking into consideration the detailed economic opportunity and sectoral analysis done in Chapters 2 to 5. From this process, ten initiatives were identified as having the highest priority at the time of this strategy review and are thus were viewed as the most important projects required for local economic development within the greater Knysna municipal area.

Table 6.3 below shows these top ten prioritised initiatives that should be undertaken by the Knysna Local Municipality, private sector and other development partners in the short to medium term. It needs to be noted, however, that the high priority initiatives does not exclude any of the other projects identified to be pursued should one or more of its impact indicators that affect its priority change at any given point in time.

<table>
<thead>
<tr>
<th>OVERALL RANKING</th>
<th>PROJECT</th>
<th>SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eco-Tourism Development</td>
<td>Tourism</td>
</tr>
<tr>
<td>2</td>
<td>Niche Manufacturing Growth Strategy</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>3</td>
<td>SMME Development</td>
<td>Wholesale and Retail Trade</td>
</tr>
<tr>
<td>4</td>
<td>Niche Agricultural Development</td>
<td>Agriculture</td>
</tr>
<tr>
<td>5</td>
<td>Industrial Area Development</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>6</td>
<td>Municipal Infrastructure Upgrading/Development</td>
<td>Construction</td>
</tr>
<tr>
<td>7</td>
<td>Timber Sector Marketing Initiatives</td>
<td>Agriculture</td>
</tr>
<tr>
<td>8</td>
<td>Formal and Informal Retail Space Development</td>
<td>Wholesale and Retail Trade</td>
</tr>
<tr>
<td>9</td>
<td>Invest Knysna Brand &amp; Incentives</td>
<td>Community &amp; Government Services</td>
</tr>
<tr>
<td>10</td>
<td>Bioenergy Production</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>
Creating an environment for the top prioritised projects that is conducive and attractive to investors, especially within the manufacturing sector, will predominantly be the role of the Knysna Local Municipality. With the tourism and manufacturing sectors being strategic sectors within the greater Knysna municipal area, the implementation of initiatives relating to these sectors will benefit the business services and wholesale and retail sector which are directly and indirectly reliant on the performance of the tourism and manufacturing sectors.

Other prioritised projects aim to develop the local agricultural sector, through niche agriculture, promoting the existing timber cluster and encouraging bioenergy production. The local agricultural sector, while comparably small, has the greatest capacity to absorb the high number of low-skilled, unemployed individuals within the municipality. Given the prevailing biophysical conditions of the municipality, however, future agricultural development will need to focus high-value niche products as well as agricultural practices that make use of innovative technologies.

The support of SMMEs underpins the expansion of a range of economic sectors within the greater Knysna municipal area. Prioritised interventions for SMMEs seek to, in partnership with the private sector, provide developmental support (e.g. business training mentoring services, incubator support, on-the-job experience etc.) as well as access to affordable, purpose-built retail space in high impact areas throughout the greater Knysna municipal area.

Prioritised tourism-related projects seek to support the greater Knysna municipal areas existing competitive advantages in nature- and adventure-based tourism activities. The implementation of the tourism destination plan will be an important means by which the untapped tourism potential of new and existing tourism-related projects can be realised.

The following, and final chapter, of the strategy document will provide an overview of the institutional arrangements and implementation guidelines that play a critical role in facilitating implementation of the EDS.
CHAPTER 7: IMPLEMENTATION GUIDELINES

The following chapter considers the various stakeholders that will be involved in the implementation of the Knysna Economic Development Strategy (EDS), and identifies clear roles for each party in terms of the implementation of the strategy. The aim of this process is to identify existing institutional arrangements and capacity constraints, coupled with recommended institutional arrangements in order to address these, thereby enhancing the overall effectiveness of the implementation process.

This chapter also discusses the role and responsibilities of the Knysna Local Municipality as a whole, as well as those of the Economic Development Department. As a municipal planning document, this section provides guidance on these roles, which are split in order to provide clarity on what is expected of the municipality (in the entirety of all its departments and units) and of the Economic Development Department (as a specialised unit with a mandate of promoting LED).

In addition, this final chapter presents general guidelines and steps which should be followed when implementing the projects identified in Chapter 6. It further presents and proposed monitoring and evaluation framework for the Knysna EDS.

7.1 PROPOSED IMPLEMENTING STRUCTURE

Well established implementation structure, particularly adequate human resources, are critical to ensuring that the LED projects identified in Chapter 6 can be effectively implemented by means of a structured mechanism. This mechanism can either be internal to the municipality, such as an LED department or administrative unit, or external to the municipality, in the form of a municipal entity (e.g. Economic Development Agency).

The Municipal Systems Act (Clause 78: 1-3) has a clear bias towards the use of internal mechanisms, stating that municipalities must consider this option first, given its advantages of lower costs, fewer legal obligations and ease of control.

Traditionally, the best practice role of a local municipality in economic development is found in creating an enabling environment for economic development and investment attraction, promoting interdepartmental collaboration, facilitating Private Public Partnerships (PPPs), improving market and public confidence in the municipality and coordinating planning based on competitiveness. The role of the local municipality typically does not cover job creation, handing out business plans for potential entrepreneurs or running quasi-businesses.

As such, the mandate of the Knysna Local Municipality’s Economic Development Department has been set out as follows:

“To manage and coordinate the economic development function and strategy as mandated by the Constitution in order to create an enabling environment to ensure the local economy and local businesses can thrive, thus creating job opportunities and growing the local revenue base.”

This scope of this responsibility covers:

1. Improving the business investment climate
2. Providing investment in hard strategic infrastructure
3. Coordinating investment in sites and premises for business
4. Coordinating investment in soft infrastructure (e.g. skills training)
5. Encouraging local business growth
6. Encouraging new enterprises
7. Promoting inward investment
8. Coordinating sector and business cluster development
9. Coordinate area targeting and regeneration
10. Promoting informal economy sector development
11. Overseeing delivery of the local tourism function

The Knysna Economic Development Department should be structured in such a manner as to achieve the above scope as well as the roles and responsibilities outlined Section 7.3. The Knysna Economic Development Department has recently undertaken an internal review of its institutional structure and proposed a restructuring process. The proposed restructured department is outlined in Figure 7.1 below and should be funded accordingly if successful delivery of the above responsibilities and functions want to be achieved.

The restructured Economic Development Department is in line with the national best practice LED department models, and makes provision for the following units:

- Business support and development
- Investment and trade promotion
- Tourism coordination

FIGURE 7.1: PROPOSED STRUCTURE OF KNYSNA ECONOMIC DEVELOPMENT DEPARTMENT
It is, however, important to understand that various budget constraints exist within the Knysna Local Municipality and therefore the ideal structure should be seen as a long-term objective. In the medium term it is proposed that the business development and tourism officer position be filled as a matter of urgency. Filling this position will permit the Knysna Economic Development Department to more effectively stimulate job creation through the provision of hard and soft skills to local businesses and tourism establishments.

Within the medium term it would also be beneficial to optimise the existing capacity within the Economic Development Department. Optimising existing capacity within the department would entail training programmes or capacity building programmes. Training programmes educate and update the knowledge of the Economic Development Department, whereas capacity building programmes are aimed at providing support and guidance for the department.

As part of the proposed structure of the department, specific strategic outcomes and objectives for each respective unit have been identified. Table 7.1 outlines the various strategic objectives of the Knysna Economic Development Department as well as the applicability of the respective objectives to a particular unit.

### TABLE 7.1: STRATEGIC OBJECTIVES OF THE ECONOMIC DEVELOPMENT DEPARTMENT

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>BUSINESS DEVELOPMENT &amp; SUPPORT</th>
<th>TRADE &amp; INVESTMENT PROMOTION</th>
<th>TOURISM COORDINATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve Business Investment Climate</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Invest in Hard Strategic Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Invest in Sites and Premises for Business</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Invest in Soft Infrastructure</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encourage Local Business Growth</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Encourage New Enterprises</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Promote Inward Investment</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Support Sector and Business Cluster Development</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Coordinate Area Targeting and Regeneration</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Promote Informal Economy Sector Development</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Local Tourism Function Delivery</td>
<td></td>
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<td>X</td>
</tr>
</tbody>
</table>

#### 7.1.1 KNYSNA BUSINESS FORUM

The greater Knysna municipal area currently does not have a dedicated forum or chamber by which the private sector, specifically the business community, can engage with and contribute to, the economic development of the area.

The Western Cape Department of Economic Affairs and Tourism describes the purpose of such a forum as: “…the expansion of the scale and scope of economic development projects, by systematically leveraging support from partners in economic development.” This objective is achieved through interactions with organised business, sector development organisations, educational institutions and other support institutions that have a range of expertise, resources, relational capital and networks.
The Knysna Business Forum would thus operate as a mutually beneficial network that permits the joint identification of opportunities that can improve the local economy, and which benefit both the private and public sectors. The existence of a functioning Business Forum can also serve as an important vehicle in assisting the Knysna Economic Development Department in implementing and monitoring/evaluating of the EDS.

It is important to note that LED encompasses the tasks and actions of government as well as the private sector and civil society. Stakeholder competencies and capacity are therefore equally, if not more important, than the internal capacity of the Knysna Economic Development Department.

A fully-inclusive approach that sees all stakeholders represented within the Business Forum is unrealistic, as it would be incredibly time-consuming and costly. As such, it is recommended that only those stakeholders that are willing and able to participate do so. There is a risk inherent in this approach, however, of the Business Forum’s approach taking an “elitist” and therefore skewed direction. As such, certain groups representing business, government and civil society should be lobbied and encouraged to participate.

Table 7.2 highlights important stakeholders that should be involved in the Business Forum as well as the contribution to the forum.

**TABLE 7.2: BUSINESS FORUM STAKEHOLDERS**

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>CONTRIBUTION TO BUSINESS FORUM</th>
</tr>
</thead>
</table>
| **Public Sector**                  | • Analysis of the local economy  
• Provision of leadership on local economic development  
• Administration of local economic development projects  
• Provision of basic services  
• Provision of financing and other incentives to promote LED  
• Establishment and maintenance of an enabling environment that stimulates business growth  
• Facilitate structured engagement between business community and municipal leadership |
| • Knysna Local Municipality        |                                                                                                                                                                |
| • Garden Route District Municipality|                                                                                                                                                                |
| • Western Cape Department of Economic Development and Tourism |                                                                                                                                                                |
| • Wesgro                           |                                                                                                                                                                |
| • Relevant sector departments      |                                                                                                                                                                |
| **Private and Community Sector**  | • Provision of a wide range of specialised knowledge and resources  
• Support local business growth and development  
• Help to de-politicise LED projects, thus allowing for their long-term sustainability  
• The increase in trust, resources and sustainability bolsters the confidence of potential investors  
• Develop mobilisation and consensus-building skills for the challenges that emerge as participation increases and different perspectives emerge |
| • Local community groups           |                                                                                                                                                                |
| • Industry bodies                  |                                                                                                                                                                |
| • Taxi Associations                |                                                                                                                                                                |
| • Local traders and SMME’s         |                                                                                                                                                                |
| • Business groupings               |                                                                                                                                                                |
| • Tourism representatives/forum     |                                                                                                                                                                |
| • Agricultural representatives/forum|                                                                                                                                                                |

Stakeholders that are targeted for participation in the Business Forum should be involved in the review of the local area and in the consideration of specific projects identified in the Knysna EDS. Once the relevant
and appropriate stakeholders have been identified, the procedures, requirements and terms of reference of the Business Forum need to be established. Specific goals of the Business Forum should include:

- To coordinate and ensure effectiveness of economic development in the greater Knysna municipal area
- To monitor and evaluate the performance of the Business Forum with regard to local economic development oversight
- To encourage the broad participation of all institutions and agencies in the greater Knysna municipal area and to ensure that they cooperate and work together towards local economic development
- To ensure that implemented projects are in line with the Knysna IDP, SDF and EDS
- To foster cooperation and coordination between the Knysna Local Municipality, the district municipality, government departments and the private sector
- To integrate Knysna LED projects with those conducted by various government departments and the district municipality
- To embark on an annual review of progress achieved and challenges by ensuring a monitoring and evaluation framework is developed
- To coordinate the implementation of all LED projects and/or activities within the greater Knysna municipal area so as to identify overlaps, duplication and misalignment of national, provincial, district and local strategies
- To mobilise internal and external resources, capacities and skills required for the implementation of LED projects
- To promote sharing of strategies, priorities, activities and information with other departments, municipalities and service providers

Although the Business Forum will have a wide scope it will have no capacity to implement projects. This will instead be the responsibility of the Knysna Economic Development Department, district, provincial and national government departments. The forum should instead focus on the integration and coordination of economic development activities and programmes in the greater Knysna municipal area. At the same time it should aim to improve communication between the various economic development organisations that operate in the greater Knysna municipal area.

Although no Business Forum is currently in place in the greater Knysna municipal area, it is recommended that one be established with the mandate and functions outlined above. This forum would not only help with facilitate economic development in the greater Knysna municipal area, but it would also act as a mechanism to enhance social cohesion and cooperation between various stakeholders in the local LED environment. Critical to the success of this process, however, will be ensuring Business Forum represent a diverse range of businesses within the greater Knysna municipal area (i.e. taxi associations, informal traders, SMME’s, cooperatives, organised labour etc.).

7.2 ROLES AND RESPONSIBILITIES

In terms of the operationalising of the Knysna EDS, it is important to have an understanding of the role that each of the various stakeholders will have in the implementation process. In terms of the implementation of the Knysna EDS, the main stakeholders are the municipal councillors, municipal offices and the private sector. This relationship is illustrated in Figure 7.2 below.

From Figure 7.2 the following relationships are evident:
3. **Municipal council and Administration**: This relationship forms the core of the Economic Development Strategy. In this relationship each stakeholder has their role to play in order to ensure the effective implementation of the Economic Development Strategy. Under the proposed relationship, the Knysna Municipal Council are the decision makers and the Administration is responsible for implementing the decisions made by Council.

4. **Administration, Business Chamber and Other Stakeholders**: This relationship is seen as a linear relationship.
   - **Administration and Business Chamber**: The Economic Development Department (which forms part of the Planning and Economic Development Directorate) is the primary link between the Administration and the Business Chamber. The Economic Development Department needs to ensure that decisions made by either the Administration or the Business Chamber are communicated to one another.
   - **Business Chamber and Other Stakeholders**: The proposed Business Chamber is envisioned as the primary link between the Administration and other stakeholders. It is important that the Business Chamber communicates decisions made by themselves to the Administration (e.g. Economic Development Department) and vice versa.

**FIGURE 7.2: INSTITUTIONAL STRUCTURE**

In terms of the implementation of the Knysna EDS, it is important to recognise that it is an ongoing process which involves a number of diverse stakeholders and initiatives that need to be integrated in a dynamic manner.

In terms of the South African Constitution, local government is given the objective of promoting social and economic development. Local government’s developmental mandate therefore encourages the Knysna Local Municipality to seek methods of addressing poverty, joblessness and redistribution in their local areas.

The following sub-section considers the specific roles and responsibilities of the two primary implementing agents of the Knysna EDS, namely the broader Knysna Local Municipality and, more specifically, the Economic Development Department.
7.2.1 LOCAL MUNICIPALITY

Critical to the success of the Knysna EDS is ensuring that the perceptions and operations of the entire municipal administration (not just the Economic Development Department) shift from being perceived as an inhibitor of growth to that of an agent of economic development. It is envisaged that the broader Knysna Local Municipality will adopt the recommendations of the EDS and endeavour to:

- **Create an environment conducive to investment**
  The Knysna Local Municipality is responsible for creating an environment conducive to investment in the local area. This has been identified as a cross-cutting issue that is critical for economic growth and development. This relates to a number of matters that need to be addressed in order to create an enabling environment for development, including:
    
    o Providing hard infrastructure (e.g. good roads, reliable electricity and water supply, etc.) and soft infrastructure (e.g. education, skills and training programmes, crime prevention measures, etc.).
    o Ensuring timely approval of development proposals, land re-zoning applications and other such measures to cut down on red tape and bureaucratic inefficiencies
    o Providing relevant information to the private sector.
    o Ensuring efficient service delivery through measures such as performance management measurement.
    o Conducting forward planning to account for future development (e.g. support measures for future growth drivers, such as housing developments and making considerations of sustainable development programming).
    o Providing an aesthetically pleasing environment in which to do business.

- **Allocate resources to local economic development**
  The Knysna Local Municipality should allocate sufficient financial and human resources to implement the strategic initiatives and projects, in line with the recommendations set out by the Knysna EDS. Where financial resources are constrained, the municipality should investigate the potential of sourcing funding from other development partners.

- **Work effectively with other stakeholders**
  Stakeholder relationships, in the form of strategic partnerships, have been identified as a critical success factor for economic development. The relationships between different stakeholders within the greater Knysna municipal area present considerable opportunity to be strengthened and improved. Local stakeholders frequently indicated that they experienced challenges when engaging with the municipality. This should be addressed as a matter of urgency to ensure the effective buy-in for future development initiatives. This involves two-way communication with all stakeholders so as to:
    
    o Facilitate business and community participation in the development process, engendering a sense of ownership and accountability
    o Encourage partnerships and coalitions
    o Inform them of relevant developments
    o Consult for their opinion and input on matters of mutual interest
    o Monitor their actions and advise accordingly
7.2.2 ECONOMIC DEVELOPMENT DEPARTMENT

The role of the Economic Development Department will vary based on the nature of the LED projects undertaken. Not all projects will require full, active participation by the Economic Development Department, although the ultimate responsibility of the success for the project will rest with the department. As such, the Economic Development Department is seen primarily as driving and lobbying for LED project implementation.

• **Implementation of LED projects**
  Activities involved include funding (through its own budget or public sector grants/allocations), designing and project managing. The actual implementation of the respective projects may be done internally or be outsourced to an external service provider. These projects will generally be related to the strategy/policy framework in which economic development is implemented, provision of infrastructure or to create a more conducive environment for investment.

• **Facilitation of LED projects**
  This relates to projects that are not primarily funded or implemented by the Economic Development Department. They may be projects that are planned, funded, designed, implemented and managed by other LED partners (e.g. Department of Economic Development and Tourism). The role of the Economic Development Department in these projects will be to assist in potential funding applications, illustrating and facilitating opportunities in the greater Knysna area and assist in removing restrictions, providing infrastructure and facilitating the project as effectively as possible.

• **Oversight of LED projects**
  Certain LED projects will fall outside the direct mandate of municipality, but will have an impact on the promotion of LED within the greater Knysna municipal area. In such cases the Economic Development Department will play an oversight role as it related to the:

  o Motivating for funding for the project
  o Monitoring of the project
  o Coordinating development thrusts through integration of the project with other ongoing initiatives
  o Liaising with the relevant departments/organisations implementing the projects to understand potential spin-offs and linkages with other initiatives.

• **Monitor and evaluate the Knysna EDS**
  In order to gauge success and failure, the Economic Development Department must monitor progress in the implementation of the Knysna EDS. Evaluation of this implementation must also be undertaken so that lessons can be learnt from successes and corrective measures used to confront challenges.

7.3 IMPLEMENTATION PROCESS

The implementation of any LED projects by Economic Development Department will vary based on the specific needs and requirement of the project. Table 7.3 sets out the general step-by-step process that will be followed. It should however be noted that steps followed are not limited to those outlined in Table 7.3.
### TABLE 7.3: LED PROJECT IMPLEMENTATION GUIDELINES

<table>
<thead>
<tr>
<th>STEP</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDP integration and LED prioritisation</td>
<td>LED projects identified in the Knysna EDS are integrated into the IDP as well as the Economic Development Department’s operational plan. Project integration into the IDP should not be limited to just those projects that are immediately implementable, but rather to all those LED projects that are likely to stimulate other opportunities in the future.</td>
</tr>
<tr>
<td>Identification of location</td>
<td>Once the project to be implemented has been identified and integrated into the IDP process, the next step is identifying where it will be located within a spatial context (if applicable). This necessitates the identification of suitable and available land based on those identified in the Knysna Local Municipality’s SDF.</td>
</tr>
<tr>
<td>Pre-feasibility and detailed feasibility studies</td>
<td>Prior to implementing a LED project, a feasibility study should generally be undertaken to determine the viability of a project. In some cases, it may be necessary to conduct a pre-feasibility study, which would serve as the pre-cursor to a feasibility study. Based on the outcomes of the feasibility (or pre-feasibility study), the development concept is then refined, and concrete designing and planning is done.</td>
</tr>
<tr>
<td>Partnership identification and project matchmaking</td>
<td>During this process, stakeholders, potential partners and funders as well as project leaders/drivers are identified. For each identified project, a project leader/driver is required that will drive and coordinate the implementation process. It is also possible at this stage to begin to engage investors and match them with existing or potential projects.</td>
</tr>
<tr>
<td>Development of a business plan</td>
<td>In order to outline how a LED project will be executed, business plans for prioritised projects should be developed. These plans should include: 1. A description of the proposed project 2. An operational plan 3. Impact Assessment (optional) 4. A Financial Plan set out capital and operational costs 5. An Action Plan to guide implementation</td>
</tr>
<tr>
<td>Municipal budgeting and funding</td>
<td>The Knysna Local Municipality needs to ensure that information from the business plan stage is used to feed into the municipal budgets where a LED project is to be funded from municipal resources. This is to ensure that project budgets and planning are in line with municipal budgetary protocols. The Economic Development Department can also play a role here in sourcing external funding for LED projects.</td>
</tr>
<tr>
<td>Enabling environment and labour market</td>
<td>Investment in projects by the private sector does not occur independently of broader factors relating to the readiness of an area for that particular investment. During this stage of implementation process, the Knysna Local Municipality should identify gaps in the readiness and undertake interventions to ensure that these gaps are mitigated and that an enabling environment for LED projects is created.</td>
</tr>
</tbody>
</table>
Initially the Economic Development Department, will assist with the initialising of LED projects. As the implementation of the EDS crosses a number of departments, the initialising of projects should be the responsibility of not only the Economic Development Department but all departmental areas which the projects will incorporate and benefit. This will require interdepartmental coordination and cooperation to ensure the effective undertaking and implementation of the various LED projects.

Once these projects have been initialised, it will be the responsibility of the Economic Development Department to identify private sector stakeholders who will take over the project once completed. Included here would be the provision of mentoring services to affected stakeholders.

### 7.4 IMPLEMENTATION PLAN

The following serves to guide the implementation of the economic development projects identified as part of the EDS process. The implementation of economic development projects is primarily driven by strategic actions and should be carefully planned and executed. Project implementation is not as clear-cut as the strategy documents itself, due to external influences and the consistently changing environment. Strategic thought should therefore occur prior to every project, in order to ensure the successful development of the greater Knysna municipal area’s economy. This section covers the identified projects from the opportunities scan, which includes general step-by-step guidelines for project implementation.

Table 7.4 below provides the Implementation Plan for the Knysna EDS.
<table>
<thead>
<tr>
<th>SECTORAL THRUST</th>
<th>PROJECT</th>
<th>GUIDING ACTION/TIMEFRAME</th>
<th>ROLE PLAYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>Public</td>
<td>Public (Short to Medium Term)</td>
<td>Economic Development Department</td>
</tr>
<tr>
<td></td>
<td>• Green Construction</td>
<td>• Obtain council buy-in</td>
<td>• Technical Services Directorate</td>
</tr>
<tr>
<td></td>
<td>• Sports and Recreational Facilities</td>
<td>• Draft green building by-laws</td>
<td>• Department of Transport</td>
</tr>
<tr>
<td></td>
<td>• Municipal Infrastructure Upgrading/Development in Urban and Rural Areas</td>
<td>• Table by-laws in council</td>
<td>• Department of Sport and Recreation</td>
</tr>
<tr>
<td></td>
<td>PPP</td>
<td>• Resource mobilisation for infrastructure upgrading</td>
<td>• Taxi Associations</td>
</tr>
<tr>
<td></td>
<td>• Transport Framework Plan</td>
<td>• Appoint service provider through tender process</td>
<td>• SANRAL</td>
</tr>
<tr>
<td></td>
<td>• CBD Renewal Programme</td>
<td></td>
<td>• Emerging contractors</td>
</tr>
<tr>
<td></td>
<td>• Heidevallei Redevelopment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Private</td>
<td>Private (Medium to Long Term)</td>
<td>• Economic Development SMME’s</td>
</tr>
<tr>
<td></td>
<td>• Knysna Business Forum</td>
<td>• Develop TOR</td>
<td>• Local businesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Undertake feasibility studies and business plan development</td>
<td>• Informal traders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Appoint developer</td>
<td>• SMME’s</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>Public</td>
<td>Public (Short to Medium Term)</td>
<td>Economic Development Department</td>
</tr>
<tr>
<td></td>
<td>• Retail Space Development</td>
<td>• Assess existing informal trading space</td>
<td>• Local businesses</td>
</tr>
<tr>
<td></td>
<td>• Informal Trading Management</td>
<td>• Allocate funding for informal infrastructure redesign</td>
<td>• Informal traders</td>
</tr>
<tr>
<td></td>
<td>• SMME Development</td>
<td>• Appoint implementing agent</td>
<td>• SMME’s</td>
</tr>
<tr>
<td></td>
<td>Private</td>
<td>Private (Short Term)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Knysna Business Forum</td>
<td>• Identify interested and affected parties</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establish Business Forum</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hold Business Forum meetings</td>
<td></td>
</tr>
<tr>
<td>SECTORAL THRUST</td>
<td>PROJECT</td>
<td>GUIDING ACTION/TIMEFRAME</td>
<td>ROLE PLAYERS</td>
</tr>
<tr>
<td>----------------</td>
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<td>-------------</td>
</tr>
<tr>
<td><strong>Tourism</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Public (Short to Long Term)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Implementation of projects and interventions outlined in Tourism Destination Plan</td>
<td>Economic Development Department</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Develop and formalise tourism products and experiences</td>
<td>Local tourism stakeholders (LTO’s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Clean-up signage and improve walkways with high visitor footfall</td>
<td>Wesgro</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Introduce urban design elements</td>
<td>SANParks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Link to Knysna CBD Renewal Programme</td>
<td>Cape Nature</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operation and concept management of film and events website</td>
<td>Tour operators and travel agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review relevant film by-law</td>
<td>ACSA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Conduct film hosting awareness workshops</td>
<td>Department of Tourism</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Develop electronic and printable map routes</td>
<td>Car rental companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Engage stakeholders to obtain buy-in for routes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Roll out signage along routes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Private (Short to Medium Term)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Undertake feasibility study and business case to test concept</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Identify private investor(s)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Locate suitable land for multi-purpose events centre(s)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Source investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Complete precinct plan for Knysna Central Park</td>
<td></td>
</tr>
<tr>
<td>SECTORAL THRUST</td>
<td>PROJECT</td>
<td>GUIDING ACTION/TIMEFRAME</td>
<td>ROLE PLAYERS</td>
</tr>
<tr>
<td>----------------</td>
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<td>--------------</td>
</tr>
</tbody>
</table>
| **Agriculture & Agro-Processing** | Public  
  - Sustainable Agriculture and Organic Food Production  
  - Vegetarian and Vegan Investment Attraction  
  - Dairy Industry Development  
  - Niche Agriculture | Public (Short to Medium Term)  
  - Source existing research  
  - Draft TOR  
  - Conduct feasibility studies and business plan development  
  - Present to council  
  - Establish agricultural study group  
  - Organise study group meetings  
  - Identify partnerships | Economic Development Department  
  - Southern Cape Economic Partnership  
  - Department of Agriculture  
  - Department of Rural Development & Land Reform  
  - Local farmers  
  - CSIR/ARC  
  - Wesgro  
  - Land Bank  
  - Plaas  
  - Furntec  
  - Knysna Timber Initiative (KTI) |
|  | Private  
  - Alternative Natural Products  
  - Bioenergy Production | Private (Short Term)  
  - Conduct feasibly feasibility studies and business plan development  
  - Engage with sectoral stakeholders  
  - Joint marketing of KTI | Economic Development Department  
  - Southern Cape Economic Partnership  
  - BioWise  
  - National Treasury  
  - The dti |
|  | PPP  
  - Timber Sector Support | | |
| **Manufacturing** | Public  
  - Industrial Area Development  
  - Training and Vocational Development  
  - Niche Manufacturing Growth Strategy  
  - Manufacturing Incentive Package | Public (Short to Medium Term)  
  - Develop TOR  
  - Allocate municipal budget  
  - Appoint service provider  
  - Develop strategy and development plan  
  - Test financial implications of incentive package  
  - Develop manufacturing incentive package  
  - Implement | Economic Development Department  
  - Southern Cape Economic Partnership  
  - BioWise  
  - National Treasury  
  - The dti |
|  | Private  
  - Waste Beneficiation | Private (Short Term)  
  - Identify stakeholders/partners | |
|  | PPP  
  - Agro-processing Expansion | | |
<table>
<thead>
<tr>
<th>SECTORAL THRUST</th>
<th>PROJECT</th>
<th>GUIDING ACTION/TIMEFRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public (Short to Medium Term)</td>
<td>- Expand Invest Knysna Initiative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Identify sector investment projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Support investment projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Identify local education stakeholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Establish education working group to promote technology skills training</td>
</tr>
<tr>
<td></td>
<td>Public</td>
<td>- Invest Knysna</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Smart Community Concept</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ROLE PLAYERS</th>
<th>Economic Development Department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Technical Services Directorate</td>
</tr>
<tr>
<td></td>
<td>Private Sector</td>
</tr>
</tbody>
</table>
7.5 MONITORING AND EVALUATION

Monitoring and evaluation is essential to the management of all LED projects undertaken or initiatives by the Knysna Local Municipality. If LED projects are to be effectively and efficiently managed in a dynamic manner that permits adapting procedures to unanticipated changes, feedback is required. In the greater Knysna municipal area this is true for project participants, and staff of research institutes and development organisations, both state and non-state. In relation to the Knysna EDS, monitoring and evaluation permits the process to be documented and the success of the interventions tracked. Monitoring and evaluation are thus an integral part of participatory research.

Monitoring and evaluation are distinct activities related to the project implementation cycle. Having identified, planned and initiated an economic development project, the Knysna Local Municipality (in the form of the Economic Development Department) will need to monitor the implementation process and evaluate its achievements. Monitoring therefore refers to the ongoing examination of a project to establish whether the project activities are occurring as planned. Monitoring is part of project management and occurs during the life of the project, whereas evaluation is the comparison of the actual impacts of the project against the agreed targets (objectives). Although evaluation may begin during the project, it will likely extend beyond the project’s life.

The following section will set out the proposed Monitoring and Evaluation Framework for the Knysna EDS in line with the municipality’s SDBIP system.

7.4.1 MONITORING AND EVALUATION FRAMEWORK FOR THE KNYSNA EDS

The SDBIP, as a detailed plan for implementing the municipality’s service delivery outcomes as outlined in the IDP and budget, includes service delivery targets and performance indicators for each quarter, which should be linked to the performance agreements for senior management. The performance criteria contained in the SDBIP are designed to achieve good governance and regulatory reform, as well as facilitate the accomplishment of Council’s other strategic focus areas e.g. local economic development.

Through this integration, the Economic Development Manager will be able to monitor and evaluate their department’s performance with regards to the implementation actions to be followed to successfully implement a project. At the same time, the municipal manager will be able to evaluate the overall performance of the Economic Development Manager and the Economic Development Department as a whole.

This monitoring and evaluation approach for the Knysna EDS will utilise the SDBIP framework, which will directly link to the service delivery targets and performance indicators of the IDP and budget. This integration will allow for:

- An EDS based on the economic reality and potential of the greater Knysna municipal area
- IDP and SDBIP alignment as well as aligning these to the budget
- Municipal and individual scorecards and staff accountability
- Performance management processes and systems
- The Knysna Local Municipality to implement performance management so as to support, track and improve implementation
- The Knysna Local Municipality in linking performance management to specific LED project and programme management so as to ensure effective implementation of the IDP and SDBIP objectives
Table 7.5 provides an example of a monitoring and evaluation framework for one of the projects identified in Chapter 6.

**TABLE 7.5: SAMPLE MONITORING AND EVALUATION FRAMEWORK**

<table>
<thead>
<tr>
<th>NO.</th>
<th>PROJECT NAME</th>
<th>KPI DEFINITION/DESCRIPTION</th>
<th>KEY PERFORMANCE INDICATOR (KPI)</th>
<th>KPI OWNER</th>
<th>DELIVERABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Niche Manufacturing Growth Strategy</td>
<td>This indicator focuses designing and implementing manufacturing incentive programme</td>
<td>Designed incentive package</td>
<td>Officer: Investment &amp;Trade Promotion</td>
<td>Manufacturing Incentive Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Number of incentives granted</td>
<td>Private Sector Representative</td>
<td>Signed and completed Incentive Agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This indicator seeks to promote additive manufacturing amongst local businesses and attract new additive manufacturers to the area</td>
<td>Number of promotion meetings held</td>
<td>Officer: Investment &amp;Trade Promotion</td>
<td>Signed attendance register</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Number of additive manufacturers attracted</td>
<td>Officer: Investment &amp;Trade Promotion</td>
<td>Signed investment agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This indicator measures the development of a strategy to promote niche manufacturing</td>
<td>Approved Niche Manufacturing Growth Strategy</td>
<td>Manager: Economic Development</td>
<td>Niche Manufacturing Growth Strategy</td>
</tr>
</tbody>
</table>

The above monitoring and evaluation framework will need be developed for each project that the Economic Development Department plans to implement. This framework will form part of the more detailed action plans developed for the respective project prior to its implementation.

### 7.6 CONCLUSION AND WAY FORWARD

A critically important aspect for the successful implementation of the Knysna EDS is the need to ensure that all stakeholders and parties involved in the economic development process take ownership of the programmes and projects identified.

Based on the formulation of the strategy with the numerous potential products and projects, the following is recommended to achieve optimal sustainable local economic development, employment creation, and a reduction in poverty and inequality:
• Start by focusing on the sectors with the highest development potential, followed by those sectors that exhibit less potential. Ensure balanced stimulation of growth and development within all sectors by not focusing solely on one sector.
• Before embarking on the implementation of specific projects, ensure that adequate funding sources and management capacity are in place
• Start by implementing those projects with the highest potential for stimulating economic growth and development first
• Make sure that the projects that stimulate economic growth do not adversely affect the environment or human living conditions and are likely to be sustainable over the long-term
• Set reasonable time frames for implementation and ensure effective and continuous monitoring of project progress and impacts

The role of the Knysna Local Municipality should be on strengthening and capacitating the municipality’s Economic Development Department so as to permit it to coordinate and integrate all LED projects within the municipal area, as well as facilitate stakeholder participation and the formation of public-private partnerships.

In addition to strengthening and capacitating the Economic Development Department, focus should be placed on establishing a Business Forum within the greater Knysna municipal area. A well-functioning and effective Business Forum will not only help with facilitate economic development in the greater Knysna municipal area, but also act as a mechanism to enhance social cohesion and cooperation between various stakeholders in the local LED environment.

Incentives should be considered to attract the private sector to invest in the greater Knysna municipal area. The achievement of local economic development will be made easier when there is participation from all sectors within the greater Knysna municipal area.

For economic development to function effectively, all LED stakeholders should receive regular training. There are various ways in which the staff members can be trained and be capacitated to do LED. Firstly, training can be done by using in-house training material and on-the-job training, secondly, by attending courses at universities/colleges.

It is also important that the monitoring and evaluation elements of the EDS are incorporated into the performance management system of the Knysna Local Municipality. This will ensure accountability and responsibility for the implementation of the EDS and its programmes, and will mitigate any potential conflict.