

## **The Local Economic Development in the Eden District Municipality, Western Cape Province, South Africa: A Case Study of Emerging Entrepreneurs in Tourism Industry**

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Tourism has been seen as a key strategy that can be used for achieving Local Economic Development (LED) objectives, which are employment creation, poverty alleviation, economic growth and sustainability. In essence, there is a strong linkage between tourism and its ability to create sustainable employment which ultimately results in economic growth that leads to poverty alleviation. Due to the link elaborated above, this study looked LED in EDM, in order to establish whether this could be a strategy for emerging entrepreneurs in the tourism sector to contribute to the objectives of LED. Therefore the paper will assess the businesses of emerging entrepreneurs in contributing to LED objectives in the EDM. The methodology used in the study to collect primary data was quantitative using questionnaires as a survey technique. The statistical tool used for the study was T-test and ANOVA using Statistica software version 9. The study found that businesses owned by emerging entrepreneurs in the tourism industry are making a positive contribution to the LED objectives. The implication of the study is that for businesses owned by emerging entrepreneurs in the tourism industry to make a meaningful contribution to LED; there should be sufficient support from the EDM and local municipalities.

Keywords: tourism entrepreneurs, local economic development, economic impact, tourism-led development, poverty alleviation, economic growth

### **Introduction**

Tourism-led development is clearly an emerging theme in the Republic of South Africa (Rogerson; 2001), with Local Economic Development (LED) being on the forefront of promoting tourism in disadvantaged communities (Goudie et al., 1999; Kirsten and Rogerson, 2002; Mahony and van Zyl, 2002). However, despite the prominence accorded to tourism in South Africa's broad development vision and in many local level strategies, tourism-led LED is markedly less supported and little discussed (Rogerson, 2006). Over the last few decades several countries have looked towards tourism as a means of promoting development and economic growth. This is due to the fact that tourism has grown to become the world's second largest industry, directly accounting for 3.8% of global growth domestic product in 2009 according to the World Travel and Tourism Council (WTTC, 2010). In South Africa, the promotion of tourism has been identified as a key strategy that can lead to economic growth, community development and poverty alleviation. This appears to reflect that in the recent years, tourism has emerged as a significant development option in the post-apartheid South Africa. According to Ashley (2006), the tourism sector is becoming an increasingly important in the development of African continent.

Most governments now have included tourism in their national development strategies (Rogerson, 2001). According to this expert, many efforts are under way to increase understanding of how tourism can contribute to poverty reduction and of how to translate this understanding into concrete action.

The objectives of these efforts include increased tourism arrivals and overnights, more out-of-pocket spending, and a bigger share of the tourist economy benefiting to the poor (Ashley, 2006). In direct response to the economic plight of the poorest areas, the South African government now actively encourages the pursuit of local economic development through tourism and local economic development is formulated as a "pro-poor" strategy (Republic of South Africa (RSA), 2000). Related to this approach, the promotion of tourism is now widely recognized in the country as a key economic growth alternative (Rogerson, 2000).

### **Literature Review**

LED is an integrated, multi-disciplinary approach aimed at poverty alleviation through pro-poor economic growth (Rogerson, 2001). According to Rogerson, (2001) LED involves supporting sustainable economic activities in the municipalities and integrating the second economy into the first economy. In many areas of the world, the reality of

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economic crisis has provoked a search for locally driven and innovative growth alternatives, which are frequently referred in the literature as 'Local Economic Development' (LED) (Stohr, 1990; Zaaijer & Sara, 1993; Demaziere & Wilson, 1996). Key features of LED are to encourage economic growth and to diversify the local economic base into sectors that are usually quite different from those in which hardship has been experienced.

In South Africa, the current devolution of authority and development leadership to local governments, as reflected in the country's recently stated commitment to 'developmental local government', has obliged local governments to seek innovative growth options to address the development backlog and plug the employment gap that more traditional economic sectors seem unable to do (RSA; 1998). Within this context, LED utilizes the local resources and skills in order to bringing about economic change and alleviating poverty (RSA, 1998; Binns & Nel, 1999; Nel, 1999; Rogerson, 1999b; Nel & Binns, 2001). In the South African context, local action and LED, specifically, have been encouraged by a range of government policy documents and acts of parliament, including amongst others, the Reconstruction and Development Programme (RDP), launched before the first democratic elections in 1994 (ANC, 1994; Rogerson, 1997).

The White Paper promotes the development of responsible and sustainable tourism which includes the fundamental premise that communities should be involved in and benefit from tourism (DEAT, 1996). Tourism has come to be widely recognized by local municipalities in South Africa as a mechanism through which development can be attained, yielding benefits for the host community (Binns and Nel, 2002). In response to development challenges and their relatively new mandate to pursue LED, local municipalities in South Africa are clearly embracing a range of tourism projects.

### ***Defining local economic development***

Before delving into the complexities of LED in South Africa, it is important to gain some clarity on what LED in its essence aims to be. When one considers any definition of local economic development, reference is made to issues of partnership, ownership, empowerment, and participation amongst others. References to elements, such as the above are to be found in several authoritative definitions of LED. Local economic development (LED) is defined as a process whereby partnerships between local governments, community-based groups and the private sector are established – to manage existing resources, to create jobs, and to stimulate the economy of a well-defined territory (Rogerson, 2000). It emphasizes local control, using the

potentials of human, institutional and physical resources. Local economic development initiatives mobilize actors, organizations and resources; develop new institutions and local systems through dialogue and strategic actions (Stohr, 1990). LED is seen as a multi-actor affair and rarely one single stakeholder holds all the stakes, or has all the resources to achieve LED goals. There are important investment complementarities within the private and community sectors and between the public and private agents, which when properly managed, could result in important economic gains and external benefits that otherwise would not have been forthcoming (Nel, 2001).

According to Zaaijer and Sara (1993: 129), LED is essentially a process in which local governments and/or community-based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area. According to Helmsing (2003), the World Bank defined LED in the following manner:

The purpose of local economic development (LED) is to build up the economic capacity of a local area, in order to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.

### ***The emergence of local economic development: A global overview***

Local economic development, which is a relatively new development strategy in South Africa, has been practiced for a while in wealthy countries around the world (e.g. the United States of America and the United Kingdom). While the reasons for the adoption of local economic development strategies in both wealthy and poor countries are many and varied, Nel (2001: 1004) traces this move to "the so-called development impasse". More specifically, this came about as a direct result of the slump in the economic growth of industrialized countries after World War II (Geddes, 2004).

The downward spiral of the economies of these industrialized countries placed a lot of pressure on governments, especially local government, to become more innovative in trying to attract investment. According to the Municipal services project (2001), the decline in economic growth in the global economy, which started in the 1970s, necessitated local authorities to become more entrepreneurial. This resulted in a phenomenon that is referred to as "place marketing". "Place marketing" generally encourages local government structures to compete with one another, in order to

attract investment from outside, by promoting their respective economic advantages. The Municipal services project (2001) further argues that, since the traditional top-down planning policies and initiatives of government have failed to achieve meaningful national development objectives, a shift in policy has changed the focus to target the disadvantaged, underdeveloped areas. The intention of the policy shift was to create favorable conditions, such as subsidies and grants, aimed at luring investors to areas that were once deprived of direct investment, economic growth and development.

This approach became commonly known as “smoke-stack chasing”. However, this approach failed to achieve its intended objectives. Instead, according to Ewers and Allesch (1990, in Nel, 1994), it left behind “cathedrals in the desert”. In addition to the above, Nel (1994) indicated that private investors remained reluctant to invest in poor areas, resulting in a situation where these local governments had to make a further policy shift. This shift focused on local leaders and members of the communities playing a more pro-active role in determining the form and content of local economic development initiatives.

In countries such as Britain, the notion of community-based bottom-up LED became more prominent and widely acceptable in the early 1980s (Turok, 1989 in Nel, 1994). According to Geddes (2004), local economic development in the United Kingdom and the European Union emerged in the 1980s as a response to the growing problems of unemployment caused by economic restructuring and industrial decline in old areas. This took the form of closer interaction and co-operation between local government, community-based groups, and trade unions. He further suggested that this interaction was premised on the notion that greater government and social interaction would promote sustainable job creation.

As a result, co-operatives and community businesses were established. A number of enterprise zones, urban development corporations and enterprise councils were established. These initiatives were all underpinned by comprehensive training for community members in various disciplines of business and skills development. In the early 1990s these LED initiatives were further entrenched by the establishment of government funds, such as the “Single Regeneration Budget and the City Challenge” (Geddes, 2004).

Thus, Geddes (2004) continues to argue that the European LED approach focused on three key principles. Firstly, it emphasized the stimulation of community-based enterprises. Secondly, it envisaged government having the particular role of providing resources for these local initiatives.

Thirdly, extensive training underpinned most of these community-based initiatives. According to Dewar (1998), LED emerged and became fashionable in the USA in the early 1970s, as a response to a decline in economic growth, and also as a tool to stimulate economic growth. These initiatives were especially directed at areas situated outside large cities. Intervention programmes initiated by government took the form of loans, grants and tax breaks. While LED in African countries has taken very much the same evolutionary route, as in the wealthy countries (Nel, 2001) – where the lack of external investment and declining economy necessitated an inward-looking approach, the African experience of LED is premised on the strategy of self-reliance. Nel and Binns (1999) add that the importance of local control and empowerment, together with a reliance on local initiative and resourcefulness, are some of the key characteristics of LED initiatives in African countries.

#### *Local economic development in South Africa*

Local Economic Development is a recently adopted approach to creating more equitable economic growth in South Africa. It is an integrated, multi-disciplinary approach aimed at poverty alleviation through pro-poor economic growth. It involves supporting sustainable economic activities in the municipalities and integrating the second economy into the first economy (Rogerson, 2001).

In many areas of the world, the reality of economic crisis has provoked a search for locally driven and innovative growth alternatives, which are frequently referred to in the literature as ‘Local Economic Development’ (LED) (Stohr, 1990; Zaaier & Sara, 1993; Demaziere & Wilson, 1996). Key features of LED are that it seeks to encourage economic growth and to diversify the local economic base into sectors that are usually quite different from those in which hardship has been experienced.

In South Africa, the current devolution of authority and development leadership to local governments, as reflected in the country's recently stated commitment to ‘developmental local government’, has obliged local governments to seek innovative growth options to address the development backlog and plug the employment gap that more traditional economic sectors seem unable to do (RSA; 1998). Within this context, LED, in utilizing local resources and skills, is recognized by government as a key vehicle for bringing about economic change and alleviating poverty (RSA, 1998; Binns & Nel, 1999; Nel, 1999; Rogerson, 1999b; Nel & Binns, 2001).

**The Study Area**

The Eden District Municipality covers the Kannaland, Mossel Bay, George, Oudtshoorn, Plettenberg Bay, Hessequa and Knysna local municipalities, together with Uniondale as a District Management Area (DMA). In South Africa, District Management Area (DMA) is the name given to areas within a district municipality that did not fall within any local municipality, and received municipal services directly from the district and has a population of less than 20 000. The district municipalities administer and make rules for a district, which includes more than one local municipality. The purpose of district municipalities and local municipalities is to share the responsibility for local government in their areas, as well as to ensure that all communities, particularly disadvantaged communities, have equal access to resources and services. This idea is of particular importance with reference to some local municipalities who do not have the capacity (finances, facilities, staff or knowledge) to provide services to their communities. It also helps to cut the costs of running a municipality by sharing resources with others.

The Eden District Municipality (figure 1) is a coastal corridor on the western coast of South

Africa, where ancient forests, rivers, wetlands, dunes, stretches of beach, lakes, mountain scenery and indigenous fynbos all merge to form a landscape of restorative beauty. This is a strip of land like no other in the world in terms of beauty, natural attractions and unique flora and fauna. Three of South Africa’s top hikes take place here, namely the Otter Trail, the Tsitsikama and Dolphin trails and man’s footprint has made little impact on the rugged and sometimes inaccessible coastline. The Eden District Municipality is a paradise for eco-lovers, bird watchers and solitude seekers and one of the most beautiful parts of the Western Cape. It lies sandwiched between the Outeniqua Mountains and the Indian Ocean.

The Eden District Municipality is a popular holiday destination during summer and a tranquil hideaway during the winter months and both seasons are equally beautiful and attractive due to the largely Mediterranean climate of the Eden District Municipality. Between July and December each year, the scenic and tranquil areas of the region form a spectacular backdrop for a multitude of blooms, such as the Proteas, Ericas, Vygies, Bluebells, Pin-Cushions, Aloes, Tubers and various other species of Fynbos, as it is a matter of record that the floral kingdom of this area is the most varied in the world.

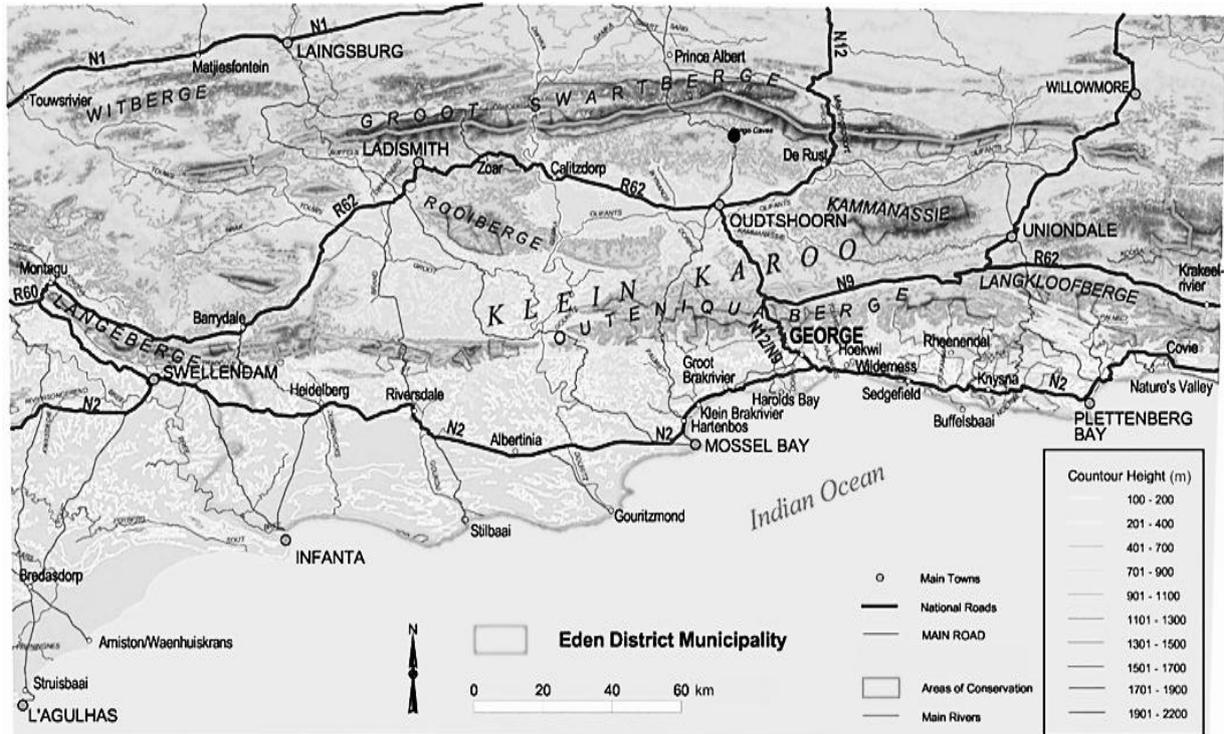


Figure 1. Garden Route, Western Cape, South Africa (Eden Spatial Development Framework, 2003).

**Research Design**

Surveys are a common used for collecting data within the field of tourism and hospitality. For purposes of this research, a descriptive survey was conducted. According to Altinay and Paraskevas (2008), descriptive surveys are concerned with particular characteristics of a specific population and are predominantly used gather information about what people do or think. In terms of this research this strategy proved most useful to determine the role of businesses owned by emerging entrepreneurs in the tourism industry to local economic development.

The survey units extended across the businesses owned by emerging entrepreneurs in the tourism industry in the EDM. The sample consisted of business in the tourism industry which is owned by emerging entrepreneurs and the criterion was that the annual turnover of the business should not exceed \$ 131034.1213. Requirements were thus set prior to completion of the questionnaire at a particular business, namely a record indicating that the business annual turnover is less than \$ 131034.1213.

A structured and pre-tested questionnaire was completed by 10 well-trained interviewers who lived in the survey areas and who know the location of the businesses well. The questionnaire consisted of two sections. The questionnaire was developed using both literature review and interviews with selected individuals who are experts in small business operations. Socio-demographic information, including type of business, number of years in business, number of employees was requested in section A. Section B consisted of items representing economic profile of the businesses.

Questionnaires were physically dropped at the business premises and they were collected later when they were completed. In total 40 questionnaires were completed. The processing of the data, ranging from checking to coding, data capturing and analysis was undertaken using the Statistica software programme version 9.

**Findings**

In this section, the results of tourism stakeholder participation in EDM are discussed in terms of the type of company, number of years in business, number of employees and annual turnover.

Table 1 reports on the frequency of business categories in the EDM. The results showed that there was equal number of businesses owned by emerging entrepreneurs in the arts, craft and culture

and the accommodation, food and tour services. Both the categories were presented by 50% (20 each). This may infer that the emerging entrepreneurs are maximizing the opportunities that are offered in the various sub-sectors of the tourism industry to their advantage. The number of these businesses also gives an indication that the emerging entrepreneurs are willing to take a business risk and are not waiting for government to create employment for them. In this way they are creating employment for themselves and other community members which ultimately leads to improved standard of living for some community members.

Table 1. Frequency table of types of companies of emerging entrepreneurs

Category	Frequency table: Type of company			
	Count	Cumulati ve count	Perce nt	Cumulati ve percent
Arts, craft & culture	20	20	50%	50%
Accommodati on, food, & tour services	20	40	50%	100%
Missing	0	40	0%	100%

Table 2 reports on the number of years the businesses have been in operation and number of employees. It was important to analyze the number of years that the businesses have been in operation as this may influence the ability of the business to create employment. Comparisons were made between businesses less than five years in operation and those with five years and more with the number of employees they have.

The results infer that businesses with less than five years of operations have more employees (70%) as compared to those with five and more years in operation (30%). This may mean that those businesses with less than five years of operation are able to create low paying jobs while trying to create stability in the market place; while those with more than five years have found better ways of running their businesses through experience rather than many employees.

While those businesses with less than five years contribute to employment creation, the sustainability of the jobs may be in question while those with more than five years' experience may offer long-term sustainable jobs.

It is therefore clear that both types of businesses in terms of number of years in operation, are contributing to LED objectives in a different scale.

Table 2. Cross table between number of years in business and number of employees

Summary frequency table: number of years in business with number of employees					
	Number of years in business	Between 1 & 5 employees	Between 5 & 10 employees	10 & above employees	Row totals
Count	Less than 5years	13	8	7	28
Column count		68%	57%	100%	
row percent		46%	29%	25%	
Total percentage count		33%	20%	18%	70%
Column count	5years and above	6	6	0	12
row percent		32%	43%	0%	
Total percent		50%	50%	0%	
count	All Grps	19	14	40	40
Total percent		48%	35%	18%	

It was important to analyze the annual turnover of the businesses as this may influence the ability of the business to create employment. Table 3 indicated that currently majority (40%) of business with less than five years of operation are having an annual turnover of less than \$ 26206.8243 whilst 28% have an annual turnover of between \$ 26206.8243 and \$ 65517.0606 with only 3% having an annual turnover of between \$ 65517.0606 and \$

131034.1213. In comparison, those businesses with more than five years of operation; their annual turnover seems to be evenly distributed with 13% both having annual turnover of below \$ 26206.8243 and between \$ 65517.0606 and \$ 131034.1213. Only 5% in this category had an annual income of between \$ 26206.8243 and \$ 65517.0606.

Table 3. Cross table between number of years in business and annual turnover

Summary frequency table: number of years in business with annual turn over					
	Number of years in business	Below \$ 26206.8243	Between \$ 26206.8243 & \$ 65517.0606	Between \$ 65517.0606 & \$ 131034.1213	Row totals
Count	Less than 5years	16	11	1	28
Column count		76%	85%	17%	
Row percent		57%	39%	4%	
Total percentage count		40%	28%	3%	70%
Column count	5years & above	5	2	5	12
row percent		24%	15%	83%	
Total percent		42%	17%	42%	
count	All Grps	21	13	6	40
Total percent		53%	33%	15%	

The findings in this section appear to indicate that the more years in operation, the better the annual turnover. The increased annual turnover may be a result of stability of the business and reputation in the market place. The stability of the business and increased annual turnover bodes well with possibilities of employment creation and poverty alleviation which are important in LED. The stability of the business may also be closely link with sustainable contribution to economic growth of the region.

### Conclusions and Recommendations

The findings of this study infer that there is an even distribution of businesses (arts, craft and culture and accommodation, food and tour services owned by emerging entrepreneurs in tourism industry of the Eden District Municipality. The key objective

of the study was to investigate whether the businesses owned by emerging entrepreneurs in the tourism industry can be used as a strategy for achieving local economic development objectives. The study found that, indeed the businesses owned by emerging entrepreneurs are making a positive contribution to LED objectives, mainly; employment creation. It is well understood that if community members are able to find employment, then there will be reduction of poverty in the area and the standard of living of the community members will improve. The numbers of years of businesses in operation by the emerging entrepreneurs give hope of the long-term sustainability of the economic growth of the EDM. Such stability is needed if there needs to be future sustainable employment by these businesses in tourism industry of the Eden District Municipality. Whilst many of these businesses annual turnovers is not that high, there seem to be

enough evidence that they are coping just fine on the basis of their number of years of their operations. Given the current state of the nature of contribution that these businesses are making to LED, there is enough evidence to suggest that this can be an adopted strategy for local economic development in the EDM. It is important to note that the success of these businesses in the market place is crucial to the contribution to employment creation and poverty alleviation which are major challenges in South Africa. These businesses need more exposure of their products in the market place both in the national and international markets and therefore, they need support from both the district and the local municipalities in which they are based, for marketing and promotion. The total annual turnover of many of these businesses reflect that they may not have enough funds for marketing and promotion and hence it may be important to selecting a few them with good products and services and sponsor them to attend international tourism exhibitions (indaba).

The study recommends continued support of these businesses from the EDM in various forms, including marketing and promotion. The effectiveness of the assistance from both the district and local municipalities may only be possible if there are open communication channels between the businesses and the municipalities departments charged with the responsibility of tourism and local economic development. On the basis that these businesses are emerging with few years of experience in their operations; it is recommended that EDM and local municipalities, through initiatives and sponsored training programmes provide special training in basic business management and in financial management. Other possible assistance to ensure continued contribution of these businesses to LED objectives may include amongst others, business linkages and strong networks, liberalizing import of raw materials and machinery, marketing assistance through formation of a Small Business Market Agency, provision of information and advice to small businesses through business chambers, sector associations, municipal centres, private consultants and business service suppliers.

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