



Part Three



PART THREE

Executive Summaries of 2007 Research Reports



APPENDIX: A

Informal Economy Study: Trade Component

The Western Cape Provincial Department of Economic Development and Tourism (DEDT) launched a Micro Economic Development Strategy (MEDS) formulation programme in 2004 as part of a drive to assist economic development in the Western Cape Province.

Recent MEDS research suggests that there exists a significant layer of informal enterprises within the Western Cape economy with strong growth opportunities. It is thought that 1 in 10 persons are engaged in this sector. However, little has been known of these businesses or the factors that foster or inhibit enterprise development within the informal economy.

DEDT therefore appointed Sustainable Livelihood Consultants (SLC) to investigate the dynamism, growth potential and competitiveness of informal micro-enterprises. The consultant was required to focus on the following outcomes:

- Provide and analyse baseline scoping data on the informal economy participants through undertaking: i) a qualitative assessment of retail businesses within high density consumer nodes and ii) a qualitative assessment of tourism service enterprises that exhibit the potential to attract business into townships / geographic areas in which informal economy participants predominate.
- Identify potential “recipients” of policy.
- Engage with key stakeholders and role players among these recipients to determine their opportunities and constraints.
- Develop a set of policy recommendations for the provincial government and other partners that address the identified opportunities and constraints and discuss the dynamics driving the linkages.

The overall goal of the consultancy is to provide MEDS with a more comprehensive understanding of micro-enterprises in the trade sector to inform DEDT policy direction. The consultant studied micro-enterprises in six sectors:

1. High Street Traders
2. Hair care (salons & barber shops)

3. Hospitality (taverns / shebeens / restaurants)
4. Tourism services (tour guides & tour operators)
5. Township accommodation (B&Bs, homestays, guest houses and backpackers)
6. Craft (handicrafts & art).

These sectors were selected on the basis of their perceived dynamism. The emphasis on tourism enterprises was justified on two accounts: first, tourism is a priority sector in DEDT strategic plans, and secondly, micro-enterprises in this sector were thought to have the capacity to attract investment to the township and generate new opportunities within their value chains.

Field work was undertaken in four stages: i) a rapid appraisal investigation involving site visits, observation and open-ended discussions with potential businesses; ii) a market survey in three high street locations, utilising a survey tool, observation and open-ended discussions; iii) detailed interviews with sector businesses, and iv) sector workshops with potential recipients of policy interventions. A range of businesses were targeted to reflect different levels of trading activity, from survivalist to emerging micro-enterprises and formalised businesses.

The study encompassed 163 high street traders in three locations: i) Site C, Khayelitsha, Kuwait taxi rank precinct, ii) Mitchell's Plain taxi rank precinct, and iii) the Wynberg station / taxi rank precinct. A further 80 sector businesses were interviewed. The consultant engaged with 64 entrepreneurs to gauge their policy requirements in three workshops, one for crafters, one for tourism businesses and one for hospitality enterprises (shebeens and taverns).

The consultant notes that the informal sector is diverse and the enterprises surveyed are not representative of the breadth and diversity of trading businesses. It is also noted that the defining characteristics of informal businesses are themselves elastic and the concept of the informal economy is subject to criticism and objections. The MEDS Informal Economy Report (2006) details the state of knowledge on the informal sector in the Western Cape; the consultant was not required to advance this knowledge of local and international literature.

Study Findings and Conclusions

The research sustains four overriding conclusions:

1. **Informal sector advantages:** Informal sector businesses emerge through entrepreneurial risk taking; a process that involves trial and error as the entrepreneur explores the market opportunities. Once trading, the business evolves, but does not (necessarily) become formalised.
2. **Entrepreneurial initiative and social capital:** Informal business development is not contingent on direct institutional training or enterprise development support.
3. **Reciprocal gestures:** Micro-businesses do not create employment, but instead provide a means for skills acquisition and commonly feed opportunities down-stream, facilitating growth in micro-enterprises.
4. **Business realism:** Informal sector entrepreneurs start their business with seed capital derived mainly from employment or family loans and utilize accessible and affordable infrastructure / equipment, including their homes, running their business on a cash basis. The study concludes that business growth is not fundamentally impeded by the institutional restriction on accessing credit.

Other conclusions on enterprise dynamics in the informal sector, with respect to high street trading, township tourism, hospitality and hair care sectors are:

Enterprise Sustainability

- Enterprise sustainability cannot be viewed simply in terms of growth & expansion, as informal sector businesses evolve through cyclical development processes. In some instances, the business model may lead to divestment while in other cases may result in the subdivision of the existing business into new enterprises.
- For the entrepreneur, enterprise sustainability is often weighed against social considerations, such as lifestyle preferences (especially evident among street traders) and business safety-nets (such as NGO supported craft markets).

Entry Barriers

- The financial barriers to starting business in the informal economy are relatively low. Prior work experience alongside social networks and language skills are important, especially in linking the business to formal sector value chains.
- The study dispels the notion that persons running informal businesses are unable to find employment in the formal sector (or are unemployable due to their skills

shortage); on the contrary, many of entrepreneurs in this study left employment in the formal sector to concentrate on their business ventures.

Brand and Reputation

- In the development cycle of informal sector businesses, brand and reputation retain separate values. Business support services in the tourism sector have enabled enterprises to develop robust brands. But as brand does not translate into reputation, these businesses have struggled to use their brand to effectively grow their business and lock into formal sector supply chains.

Finance and Capital

- Micro-enterprises in the informal sector run on a cash basis.
- The research found that access to (affordable) capital can enable the business to grow. Several informants grew their business through having acquired a redundancy package. The research found that only 15% of the surveyed entrepreneurs had borrowed money from financial institutions or other formal sector money lenders.
- Most micro-entrepreneurs regard credit as unaffordable (given interest rates and lending requirements); their attitude towards credit is grounded in business realism and thus their assessment of the risks associated with loan finance. The study concludes that micro-entrepreneurs in the informal sector are reluctant to borrow money under commercial conditions.
- There are positive correlations between: i) the length a business had traded and ii) the number of its employees, and the willingness of the entrepreneur to access finance.

Infrastructure

- Shipping containers constitute an especially innovative enterprise model, which currently includes hair salons, phone calling shops and cell phone repair shops.

Book Keeping and Accounts

- Informal sector micro-enterprises maintain rudimentary financial records. The study found that book keeping is neglected and generally perceived as adding little value to the business.

Training and Skills Development

- Most entrepreneurs recognize the value of vocational skills. Institutional support for vocational training, if carefully targeted, could make a valuable contribution towards business growth among informal sector businesses.

Crime and Security

- Most entrepreneurs expressed their concern about crime. However, only 20% of respondents saw crime as a major impediment to their business, with salons, barber shops and taverns most directly affected.

Multiplier Effects

- Informal micro-enterprises have significant downstream multiplier effects through fostering opportunities for other micro-entrepreneurs.
- The clustering of informal micro-enterprises in nodes (such as transportation nodes or commercial zones) enables businesses to establish synergies (which in turn enhances their individual growth) and allows the entrepreneurs to develop collective strategies, such as combating crime.

Recommendations

1. Establish an appropriate policy approach

Informal micro-enterprises that are sustainable and provide a livelihood for the entrepreneur should be seen as a crucial vehicle for broadening economic opportunities, and not (as in the present PER&O) as of marginal significance to Provincial employment and macro-economic policy objectives. The study recommends that the DEDT, through the MEDS, undertakes:

- An analysis to re-assess the economic and social value of the informal sector, scoping the potential range of enterprises in each major sub-sector and quantifying their macro-level impact in terms of employment and economic growth.

DEDT should reconsider the current policy approach of supporting 'mechanisms' for migrating informal enterprises towards the formal sector. Informal enterprises should not be enticed to emulate the formal sector; their viability and sustainability lies in maintaining a balance between income, investment and risk mitigation.

Policy should not endeavour to create new business. By creating an appropriate environment for micro-enterprises, allied with strategic interventions to support emerging businesses, new entrepreneurs will emerge and seed new organically grown businesses.

As part of the requirements for an appropriate policy approach, the study recommends that DEDT:

- Acts upon the findings of the MEDS' IE Study (2006) and endeavours to pursue policy synergy between local, provincial and national tiers of government with respect to its actions and interventions in support of micro-enterprises.
- Redress the negative perceptions of informal enterprises and the township as a business environment.

2. Foster an enabling business environment

DEDT should:

- in the hospitality and tourism sectors, initiate measures to fast-track and simplify the process of business registration for micro-entrepreneurs. These measures should target, for example, shebeen applicants for liquor licensing (Western Cape Liquor Board).
- investigate opportunities for supporting community initiatives to reduce the economic impact of crime and implement actions to safeguard informal businesses.
- initiate actions to strengthen its understanding, within the MEDS process and other programmatic interventions, of the role of foreigners in the informal sector in order to dispel xenophobic notions about their impact on other micro-enterprises.

An enabling environment must allow informal micro-enterprises to advance within business development models that are appropriate to the situations in which they operate, rather than replicate formal sector models.

3. Create opportunities through Local Economic Development

DEDT should:

- assist local municipalities through the LED programme to identify, support and service commercial zones within commuter transportation nodes to increase opportunities for informal traders. The zones will require investment in infrastructure to provide traders with shelter and storage, access to services such as electricity, water, and sewerage, and public ablution facilities.
- encourage local municipalities to integrate informal trading opportunities in new commercial retailing developments.
- build the capacity of local municipalities, through the LED programme and in conjunction with CTRU and the Tourism Enterprise Programme (TEP) & Integrated Tourism Entrepreneurship Support Programme (ITESP), to identify, support and service tourism nodes within the township.

4. Re-focus business support services

DEDT business support services should prioritize:

- micro-enterprises that have been in operation for at least three years and entrepreneurs with strong social capital in terms of education and past work experience in the formal sector.
- For established micro-entrepreneurs, training support should focus on enabling businesses to better integrate into formal sector value chains, through improving their understanding of the market (and hence demand for their product or services). Business mentoring should help entrepreneurs establish their reputation.
- RED Door should investigate the feasibility of developing (in partnership with institutional service providers, the City of Cape Town and corporate entities) home-based training tools, including audio-visual material.
- Assist local municipalities to mainstream access to information technologies, through initiatives such as the Digital Centre, in prioritized commercial zones and high-street trading nodes. Similarly DEDT should investigate the potential for assisting micro-enterprises to access open-source IT software for improved business management through business support programmes.

- Explore opportunities to establish Public Private Partnerships to link vocational training initiatives for micro-enterprises.
- Revise assistance towards micro-enterprises in terms of facilitating their access finance, recognizing the apprehension entrepreneurs have towards dependence on external or formal sector lenders and their need to minimize risks.

5. Integrating micro-enterprise development within sector programmes

DEDT should recognize the importance of micro-enterprises in the value chain of trade and industrial sectors in distributing goods / services, developing markets and creating new products and building skills:

- Investigate options to incentivise formal businesses, through BBBEE and industry-own initiatives, to incorporate informal businesses within their value chains.
- Redress negative perceptions towards the township and integrate township tourism products into the major destination routes.
- In conjunction with existing programmes (TEP and ITESP), support the conceptualization of a programme to foster community support for tourism.
- CTRU should encourage industry initiatives (such as Fair Trade in Tourism).

DEDT must establish benchmarks for these policy levers, through further conceptualization to ensure harmonisation with institutional capacity, human resources and budget allocations.

APPENDIX: B

Music Sector

The music industry has important and growing economic power. In the Western Cape, this economic potential is visible in three areas:

- local (live) performance
- music and heritage tourism and
- recording (especially to reap the opportunities presented by digital music distribution).

In each of these areas, the region displays both market imperfections and potential areas of improvement.

1. Live performance

Live music performance is the starting point of most careers in the music industry. Live performance is a profitable offering in its own right and also functions as:

- a pathway to a recording career
- a quality-controlled developmental tool for the recorded music product.

In addition to its substantial economic benefits, a strong local music industry has numerous benefits in terms of cultural expression. Given the inequalities that are the legacy of apartheid in music, live performance is especially valuable in aspects other than economical. Where music traditions serve relatively poor communities, the primary economic benefit of a local industry is perhaps not measured in direct financial terms, but rather in the fact that it serves to create an incubating environment spawning innovations in music-making that can be leveraged in other, more lucrative contexts.

An important aspect of live performance is the need for a platform to move up the “hierarchy” of professionalism. Amateur musicians who sponsor their own music making, may develop into semi-professional musicians, who are paid for part-time music making (or scrape by as full-time professionals). The aim is to enable as many of the musicians in this group as possible to develop into professional musicians who deliver a high quality product and manage to make a comfortable living out of music. However, interventions are needed to restore the incremental elements in this hierarchy.

In terms of infrastructure, the key constraints are a lack of both resources and information. Where resources already exist in some form (e.g. multi-purpose community centres) the recommendation is to explore more efficient utilisation. Where they do not, the Province should not strive to become an entrepreneur; but to facilitate the debate and spread of information to encourage private/public partnerships or funding from agencies such as the IDC.

The constraint of insufficient information can be addressed by establishing one-stop music information centres. These music information centres presuppose digital inclusivity, and if that important precondition is realised, they could play a key role in:

- supporting and extending the 'Cape Mic' industry networking initiative
- brokering employment opportunities
- creating benchmarked career profiling processes for musicians
- hosting focused capacity development initiatives for musicians and promoters.

Such centres could also act as a focal point for efforts to lobby for more effective implementation of local music airplay quotas.

The next two categories – tourism and the music industry and digital recording opportunities – are mostly about opportunities for musicians who have reached an adequate level of professionalism.

2. Tourism and the music industry

Tourism is a large income earner for the Western Cape, and music and heritage tourism can actively do more to get a bigger slice of the pie. Research by South African tourism has shown that a significant percentage of holidaying tourists have an active interest in cultural, historical and heritage tourism. Local heritage tourism can be leveraged through:

- live music (especially festivals)
- custom developed music themed tours
- the Cape Minstrel Carnival.

The first key element in underpinning heritage tourism as a driver of music industry growth is marketing information. Improving the music focus of website, leaflet and map information, and information presented at tourism events is neither expensive nor difficult, since the tourism infrastructure exists and the information is available. This can be done in several ways:

- A centrally coordinated information system could be established

- Music promoters and musicians should be trained on how to send information to such portals
- Tourism authorities can also compile tourist information that showcases music, culture and heritage, with background information, suggested music trails, etc.

The second key element in making music and heritage tourism a success has to do with skills building. Community-based and formal training in basic marketing skills such as identifying a target audience, choosing marketing channels and understanding the costs/benefits of different marketing options will benefit both local communities and tourists. Training for township-based tour guides and service providers is also important. Training should not only include subject knowledge, but also logistical skills like transportation arrangements and time keeping.

3. Recording music and the advent of the digital age

The business model of the industry has for decades been based on complete vertical integration, where the main labels made or heavily influenced decisions on distribution and airplay. The music industry internationally was dominated by four giant labels who dominated the industry (85% market share in the USA, 70% in the rest of the world). They therefore had the power to 'create' hits and artists.

The advent of digital music has completely challenged this business model, and this has led to the steady erosion of the power of the major labels worldwide. Both unit sales and dollar revenues of the majors are showing a steady downward trend. While international organisations representing the big labels actively fight against digital downloads of music, and lament the digital age. However, although main beneficiaries from the new industry model have changed, the industry remains viable and indeed more profitable for:

- individual artists
- new gatekeepers who control wireless access and aggregate music for onward sale to digital music shops.

Digital distribution of music has not yet fully affected the South African market. In fact, contrary to international trends, sales of recorded music in South Africa are growing. Indigenous repertoire is the main driver behind this growth. However, models of technological change indicate that it is only a matter of time before the impact of digital music will hit the South African market. It is therefore prudent to prepare for the digital age. For the

local market, the penetration of digital music technology and the development of the digital market will probably take place at the same pace.

However, the industry has to rapidly act to make use of the export opportunities that the digital age has brought about. As it is no longer necessary to carry physical inventory, a far broader export marketplace has opened, and there are tremendous opportunities to niched 'world music' products. In particular, South African music has – due to the international rise of interest in what is broadly called 'world music' – increased in its attractiveness to potential buyers of music.

One of the key aspects in making viable the exporting of music digitally involves ensuring that rights and royalties issues are clarified on an international basis. Currently industry organisations such as AIRCO are negotiating with international bodies on rights issues. However, so far the Western Cape has been not been included in those discussions.

This is partly the responsibility of the Western Cape music industry itself. It is currently not well organised, and does not speak with a united voice. In isolation, the various players are not able to address the rights and royalty issues crucial to making digital music downloads profitable for local musicians and independent labels. The industry needs to organise locally and participate nationally with a united voice.

Another element in positioning the industry to take advantage of the rise of digital distribution is to ensure digital inclusion, even in underdeveloped communities in the Western Cape. Inculcating a culture of rights registration and claiming at all levels of the industry is needed to get revenue from music in future. Therefore it is necessary to:

- (As mentioned before) invest in one-stop music information centres to support *inter alia* artists' access to rights registration
- Provide support to Western Cape musicians' accessing of existing royalties, e.g. Samro.

Improved industry organisation will also create a platform for Western Cape representation in international music export forums, e.g. WOMEX.

4. Conclusion

The Western Cape music industry is vibrant, original and full of potential. However, the economic earning potential of the industry – and the economic conditions of the players in the industry – could be dramatically enhanced by addressing these three main points:

- focusing on indigenous music as a niche for commercial development
- viewing digitisation as an immediate opportunity for exporting, and a medium term imperative for maintaining the growth in the South African music market,
- setting up a music body with three roles:
 - creating a hub for information exchange of events in the music industry
 - negotiating on behalf of Western Cape musicians and independent labels in especially issues of rights and royalties
 - integrating the industry at all levels, e.g. artists, labels and services/support industrie.

Since a major challenge in writing the report has been the shortage of reliable data, it is also recommended that the initiatives outlined above are accompanied by data-gathering processes that can support future economic planning.

APPENDIX: C

Spatial Dimensions of the MEDS

This report sets out the findings of the study on the *Spatial Dimension of the Western Cape Provincial Micro Economic Development Strategy*, with the focus on a cluster of municipalities in the Southern Cape, namely Eden District Municipality; Knysna Municipality; Bitou Municipality and George Municipality. The purpose of the study was to identify the growth potential areas/sectors of the pilot municipalities; identify the requirements for these sectors to realize their growth potential; identify the barriers to entry in these sectors; identification of the value chain to realize the growth potential of the region; and to identify the comparative advantages of the pilot municipalities.

The research included a desk top analysis of Eden's trade data for the period 1995 to 2006, and Regional Gross Domestic Product (GDPR) data for Eden, Bitou, George and Knysna from 1995 to 2005. A literature review was also conducted, which included an assessment of the relevant Municipal LED and Growth Management Strategies. The analysis of the GVA and trade data concluded that Eden District Municipality has a Revealed Comparative Advantage in agri-processing and wood processing activities. Following presentation of the findings and consultation with the *Spatial MEDS Project Oversight Committee* and other key role players, it was decided to focus on these sectors. Businesses active within these sectors were identified and engaged through a questionnaire and interviews. A total of 123 questionnaires were sent to firms, and 29 of these were completed and returned, equalling a 24 percent response rate. The validity and corroboration of the study conclusions reached were therefore increased through the use of multiple sources of information and enquiry.

It was initially anticipated that this research would include a spatial mapping of the firms using GIS. However, it was subsequently discovered that this was a technical impossibility, due to various data limitations, which are outlined in Section 2.2.6 of the report. An alternative methodology was used in order to map the number of firms in the agri and wood-processing industries in Bitou, George and Knysna.

Wood processing activities are largely related to the manufacturing of furniture, boards for domestic and office cupboards, desks and fittings as well as construction material. The agri-processing activities are largely related to food processing and more specifically live animals

and animal products, vegetable and fruit products, prepared foodstuffs and beverages, natural products as well as a range of other agricultural products, such as composts and peat production.

A number of factors contribute significantly to the George municipality's comparative advantage in relation to the RCA sectors identified for Eden. These include the presence of a well-established wood cluster, from growing to the processing and retail of timber. George also has a competitive advantage within the food processing area. This includes the production and processing of vegetables such as potatoes, broccoli, cauliflower, brussels sprouts, and green beans; fruit such as berries; and dairy products such as cheese and milk. The town's competitive advantage is underscored by the conducive environment, suitable soils, experienced businesses, skilled management, infrastructure, required technological investments as well as market branding within the wood and food processing sectors. George is also the administrative and economic hub in Eden and the second fastest growing town in the Western Cape (after Stellenbosch, excluding Cape Town). George also has the potential as a hub for *original equipment manufacturers (OEM)*. Although the role of manufacturing in the local economy is declining, there are a number of potentially new niches worth considering. These include quality niches in clothing/textiles; IT software and call centres; pharmaceutical products; and specialised machinery-repair facilities.

Knysna has a comparative advantage in wood processing, reflected through the contribution of manufacturing to total growth. The area is also well known for the manufacture of hardwood high quality furniture, supported through the availability of good quality raw materials, conducive climatic conditions, the required skills, expertise, infrastructure and established markets that enable key furniture producers to export their products. Furniture manufacturers in Knysna consist of both large businesses as well as numerous small operations focussing on antique restorations and retail. Traditional and unique furniture using local wood is priced and aimed at the international and tourist market. Other wood related activities with growth potential include boat building and related water vessels (kayaks, etc.). Also prevalent is the arts and crafts industry linked to art galleries and framers in Knysna and Sedgefield. Knysna is also a well known tourism destination, enhanced by its abundance of natural resources, skilled local tourism personnel and local firms, and its well-planned festivals and events strategies.

Bitou's comparative advantage rests within the food processing sector, and this is possible through the area's conducive climate and favourable soils as well as the experience and expertise of farms and producers within the dairy industry that produces high quality produce,

including that for multi-national companies. Other activities contributing to agri-processing in the area include the breeding of ponies, exotic birds and reptiles. The well-endowed natural resources of Plettenberg Bay enable this area to be a well-known international tourism destination. Although a few sawmills exist in Bitou, these principally service the local construction industry.

There are a number of recommendations emanating from the agri-processing research, and these were in alignment with the relevant national programmes. The need to increase access to agricultural land and participation in agri-processing activities, in particular for historically disadvantaged individuals and communities, is a critical national directive. Assistance is required with investment with infrastructure, in particular in technology, to maintain the cold chain, and should include localised cold storage facilities, packaging and refrigerated trucks. Improved handling of perishable agricultural products out of Eden, through measures such as preferential airfreight, is also recommended. A recent initiative in this regard involves proposals to upgrade the Oudtshoorn airport such as its cargo facility. Also proposed is legislation to allow the use of chemicals registered in the destination country in agriculture. Alternatively, providing incentives to local chemical manufacturers to develop and market chemicals for minority crops.

Further skill development and training is required, in particular those aimed at high-end skill development, to ensure more productive labour participation within a context of a highly mechanised and increasingly technologically advanced agri-processing context. This is achievable through partnership with the local academic and research institutions. A new local fresh produce market, possible in George, is proposed. Greater co-operation between growers in Eden, through optimal use of available production infrastructure, thus benefiting from economies of scale, is proposed. The opportunity exists for greater co-operation and joint ventures between producers in order to increase the quantity and quality of production. Areas of joint interest include packaging, marketing and transport of produce. Agricultural land within Eden must be secured for the future. This could be achieved by clearly differentiating between the market for agricultural land and land for urban/peri-urban activities through a clear land use policy and consistent approach to applications to acquire land use rights.

The recommendations emanating from the wood processing study were also aligned with the relevant national programme. These include supporting furniture representative organisations, in particular the local Furniture Manufacturers Association, and facilitating networking with the provincial and national furniture organisations. The introduction of quality

control, perhaps through SABS and European certification, is also suggested as well as measures to assist with establishing new export markets (e.g. rest of Africa), given the highly competitive traditional markets such as Europe and competition from other regions with significantly lower costs. Also required is the need to secure the availability of timber and stabilising pricing through the identification of land for forestation and the replanting of existing forests land to produce saw logs required by the existing forestry/timber industry. This should be coupled with the identification of other sources of raw materials nationally and internationally.

Skill development and training, in particular significantly improved coordination between organisations such as FIETA, Furntech and NMMU, is required as well as a supportive public sector environment for wood processing. The latter requires municipalities to deal with land use applications in a manner that recognises the importance of wood processing in the local economy. DTI grants and support programmes should also be made more accessible to local firms. The ability of firms to increase productivity and competitiveness should be supported, in particular through investment in new machinery, technology, modus of operation, and knowledge of export product requirements. The sustainability of the furniture-manufacturing sector could be secured through firms co-operating and focussing on the production and joint assembly of various components of domestic and office furniture. This will be to maximise economies of scale; undertake joint marketing and exporting in order to improve management; reduce costing as well as the quality of the end products. This should include a turnaround strategy focussing on product-market differentiation and cluster formation, as recommended through the Eden LED Strategy. The opportunity also exists to export construction material, if sufficient supply is secured, given the capacity of the two major sawmills in George.

It is recognised that more detailed firm-focussed strategies are required in order to enhance their competitiveness. This can, however, only be achieved through an interactive and ongoing process of engaging with industry specific role players, i.e. dairy, vegetables, construction, etc. The approach followed by the furniture industry, through the preparation of a national customised sector strategy, followed by the establishment of a steering committee and a baseline study, is a good approach as is evident by the progress already achieved. A similar approach for the other products is proposed, that also incorporates the efforts and initiatives of firms, produce representative organisations, government and research institutions.

APPENDIX: D

World Cup

This report provides an assessment of the potential impact of the 2010 FIFA World Cup™ for the Western Cape and recommends an approach to supporting small businesses to access these opportunities.

Estimates of impact on the Western Cape

Existing research on previous FIFA World Cups and other mega-events (sporting events and large summits) shows the following economic impacts:

	FIFA World Cups	Other mega-events
GDP contribution	R84.7 billion – R158 billion	R850 million – R6 billion
Additional visitors during the period/year of the event	33% increase in overnight stays	20,000 - 110,000
Average visitor spend per day	R1,525	R854 – R2,244
Employment generated (job year equivalents)	50,000 - 570,753	3,000 – 60,000
Longer-term impacts	Significant perception changes due to country branding	Increase in city business ranking.

Note: There are methodological differences between the various estimates; event impacts may therefore not be directly comparable.

Accurate forecasts of the economic impact on the Western Cape are not available. Insufficient information on visitor numbers, length of stay and profiles is available at this stage to inform an accurate forecast. While relatively good data is available on the expected spend on construction (over R3 billion is expected to be spent) and provincial government programmes, limited data have been identified that provide greater detail on the profile of likely demand for other goods and services by visitors. No forecasts have been found that project the long-term stimulation of investment and trade.

Based on available information, the following rough estimate has been made of World Cup's potential impact on the Western Cape economy:

- GDP contribution: R 13 billion over the period 2006 to 2010, of which around R2 to R3 billion will occur during 2010; this would make a contribution of just under 1% to forecast annual provincial GDP during these years
- Employment: 160,000 direct job years could be supported during the 2006 to 2010 period, with an estimated additional 100,000 indirect job years supported
- Geographic spread: Most benefits in the build-up to the event and during the event will accrue to the host city (Cape Town); some benefits can be spread through accommodation rental, seeking to host base camps, extending visitor stays, and developing unofficial public viewing areas.

Despite data gaps on specific opportunities, our analysis indicates that procurement opportunities are likely to segment into the follow purchasing channels:

Channel	Nature of procurement process	Potential areas of support
FIFA and Local Organising Committee, including MATCH and Global Brands (e.g. events, vendors, catering, merchandising, hospitality services for VIPs, media, accommodation and transport for FIFA officials, VIP and teams)	<p>Strict requirements around protection of the brand and of sponsor/partner interest</p> <p>Required to follow principles of government procurement in terms of transparency, accountability and equity</p> <p>SMME opportunities are more likely at the subcontracting or contract unbundling level</p>	<p>Link in to OC and dti initiatives to lobby for SME subcontracting to Global Brands</p> <p>Sharing of information with business on opportunities and requirements</p> <p>Encouraging registration on OC supplier database</p> <p>Support for collaboration by suppliers to meet larger contracts</p>
Government (e.g. construction, public transport infrastructure and services,	<p>Within Preferential Procurement Policy Framework and Supply Chain</p>	<p>Database building</p> <p>Information sharing</p>

events, language and translation services, hospitality, marketing and communications, ICT infrastructure and services)	Management principles, possibly using expanded supplier registration	Potentially supplier development
Corporate purchasing (e.g. events, PR, marketing and communications)	Likely to be less centralised and formally structured SMMEs may need to collaborate to meet scale requirements of contracts	Potentially providing a single “portal” or supplier database Information sharing Potentially supplier development and support for collaboration by suppliers to meet larger contracts
General visitor consumer demand (likely to be purchased through existing retailers and existing/new traders)	N/A (other than that FIFA-related branding will be prohibited unless licensed)	Information sharing on likely visitor demand patterns, trading areas, by-laws/regulations and available support Potentially supplier development

Key aspects of the recommended support instrument

Based on a review of related activities, stakeholder and enterprise focus groups, as well as lessons from international benchmarking, the following approach to supporting small businesses is recommended:

- A support centre should be established, referred to for now as the *2010 Cape Business Connection*
- The centre’s **primary function** should be information sharing and coordination for local small businesses relating to:
 - Information on opportunities
 - Requirements to access these opportunities

- Available support services to meet buyer requirements
- The **services** may include one or more of the following:
 - Referrals
 - Provision of guidelines
 - Assistance with supplier registration
 - Coordination and matchmaking of supply and demand, as well as facilitation of consolidation of smaller suppliers to serve large contracts
 - Advocacy on behalf of suppliers e.g. around structuring of procurement opportunities and communication processes of key buyers
- Both industry preferences and international experiences point towards the use of **multiple channels** to reach potential users of support, with a particular focus on outreach to industry (workshops, breakfasts, speaking engagements and content for newsletters), a networking venue, as well as a website

Given the time constraints, it is **recommended that a one-year pilot project should be tendered by DEDT**, with:

- Clear performance targets
- Weekly reporting to the Department of Economic Development and Tourism
- Monthly meetings with a wider Steering Committee

In order to justify establishment of a support centre solely for the purposes of 2010-related support, our view is that it would need to be operational by mid-2008. If the key role players feel that these timings are not realistic, it is recommended that the pilot should be de-linked from 2010, and is rather established as a pilot to support SMME access to government and corporate contracts more generally.

APPENDIX: E

International Experience with Respect to the Creative Industries

Over the last decade, creative industries have become increasingly significant in the global economy. Creative industries encompass a number of different sectors, and debate continues over what exactly these comprise, but one of the most commonly cited definitions refers to activities *“which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property.”*¹

With technology being a key focus, the industries generally encompass the following:

*“music, film, broadcasting, handicrafts, design-based activities, to computer software and games that are based in culture but are commercially oriented.”*²

The dominant message is that creative industries have the potential, and in many cases are already showing that they can, stimulate economic growth and employment. 7% of world gross domestic product (GDP) can be accredited to the creative industries³ and future annual growth rates are expected to be significant. A further indication of the creative industries potential for economic growth is evident in the global increase of export of core cultural goods from (US\$36 billion) in 1994 to (US\$54 billion) in 2002.⁴ The more advanced economies are at the forefront of this growth trend with growth in the United Kingdom and the United States outperforming most other countries. Both countries are generating significant revenue and demonstrating impressive employment potential in the sector.

Large emerging economies are catching up, however, particularly in Latin America and in parts of East Asia. Two developing countries that are demonstrating high growth rates within their creative industry sectors are India and Sao Paulo, Brazil. Owing to the recent introduction of the creative industry within other developing countries, specific data on the economic impact and annual growth for these countries does not yet exist. For the more developed economies such as the United Kingdom, Singapore, Hong Kong, Auckland, New Zealand, and Berlin Germany, information on the economic growth and the impact of their policy approaches is more readily available.

A number of developed economies have active policies and strategies for their creative industry and sub-sectors. Strategies are often effected at a regional or city level. One example is Berlin. Berlin's policy approach focuses on facilitating support for SMEs, including

infrastructure projects and support for young entrepreneurs, as well as communicating and marketing the creative industries' potential through trade fairs and other events.

However, the impact of these policies on growth rates is largely untested and uncertain because creative industry policies are in their infancy. Therefore the ability to accurately evaluate policy and measure the progress and/or success of creative industries in various settings is not yet possible.

This report examined creative industry reports, analyses, academic commentaries, policy papers and speeches in order to obtain an adequate overview of general creative industry trends and policies in a select number of countries. Information was more easily obtainable for more advanced economies. Information for less developed countries is harder to come by.


It is important to note that this research does not consider or assess the creative industry interventions and approaches that the Western Cape has undertaken, or is currently pursuing.

A number of questions were posed. The questions and broad summary answers were:

1. *How have the countries characterised their creative industry?*

Creative industry sub-sectors

Most countries characterise the creative industries into a number of different sub-sectors. The United Kingdom has led the way in this process and their sub-sectors are categorised into the following 13 sub-sectors:

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- Music
 - Publishing
 - Arts and Antiques
 - Crafts
 - Design
 - Designer Fashion
 - TV and Radio
 - Architecture
 - Software and computer services
 - Advertising
 - Film and Video
 - Interactive Leisure Software
 - Performing Arts

The research shows that other countries have also followed the United Kingdom's delineation of the creative industry sub-sectors, but adapted the sub-sector categories to suit their country's or cities' requirements.

2. What sub-sectors of the creative industries have the countries focused on?

Flourishing sub-sectors

The focus of many countries has been to combine the creative industry with the information technology sector (IT). Technologically centred creative industries, such as software, advertising, media, design, film and music have been a particular focus in both advanced and emerging economies. Since the IT and the creative industry sectors rely heavily on intellectual capital and people's talent, they therefore contribute significantly to the knowledge economy.

3. What has been the creative industry's capacity to grow output, employment and new business creation?

Output, employment and new businesses

The few statistics that do exist suggest that creative industries have the potential to impact positively on output, employment and business creation. Contributions to national or regional GDP have been noteworthy and there is evidence that the growth of the creative industries has outpaced overall growth of national or regional economies. By 2010, Asia is predicted to

record the greatest global growth rate in the entertainment and media industries, with an increase from US\$274 billion to US\$425 billion between 2005 and 2010.^v

In some instances rates of employment growth in the creative industries have exceeded the national employment growth, particularly in the IT and software industries. One example is the United Kingdom. In the UK, the creative industries employ 1 million people – 2.7% of total employment.^{vi}

The UK has also recorded significant growth in new business start-ups. New businesses contributed to £31.8 billion of the £66.4 billion total turnover growth for the creative industries between 1995 and 2005. Business start-ups have been most prolific in the software and games, the television and radio and the film, video and photography industries.

4. *What are the linkages and impact of the creative industries on other sectors of the economy?*

The wider economy

Data on the linkages and impacts of creative industries on other sectors of the economy is scarce, as well as being difficult to measure. Where this information is available, ‘multipliers’ have been found to be significant. For example, Singapore’s architectural services as well as the broadcasting media and performing arts industries possess both high output (1.66 and 1.68 respectively) and VA (0.70 and 0.62 respectively) multipliers.^{vii} The architectural services industry has a strong demand for other services such as communications, financial services, real estate and consultancies, resulting in a high output multiplier.

5. *What are the policy and strategic approaches of each country’s government with regard to promoting creative industries?*

Challenges and policy efficacy

Knowing ‘what works’ in terms of policies for creative industries development remains unclear, largely due to the recent introduction of the development of policies and strategies in different countries. Based on some of the challenges faced by burgeoning creative economies, it is possible to expound some of the key policy *trends*. These include:

- Devoting time and energy to mapping creative industries to obtain a genuine understanding of the potential scope of the sector for economic development
- Providing business support in the form of infrastructure and finance - in light of the growing number of small businesses that make up the creative industries

- Facilitating better co-ordination across creative industry sub-sectors by setting up a central creative industries body
- Ensuring improved availability and access to programmes which develop generic business skills of small and medium-sized enterprises (SMEs)
- Facilitating a more enabling environment for creative industries by working towards improved intellectual property rights and regulations
- Raising the profile of the creative industries to enhance business buy-in and investment
- Increasing network and partnership opportunities to assist creative industries in wider communication exchange
- Investing in developing 'creative spaces' in CBDs, to serve either as a developmental model for the rest of the country, or developing 'creative spaces' in disadvantaged areas to increase access to creativity and innovation.

In light of this international experience and in the context of the Western Cape's Micro Economic Development Strategy (MEDS) five policies are recommended to the provincial government of the Western Cape:

1. *The commission and facilitation of a comprehensive mapping exercise into each of the Western Cape's creative industry sub-sectors in each of the six sub-regions.*

A mapping exercise would generate a better understanding of the different sub-sectors and the level and potential of employment and economic impact in each. In addition to baseline quantitative data, the mapping exercise could include extensive interviews and surveys with those working in the creative industry sub-sectors to identify specific needs and challenges.

2. *The creation of a formal creative industries body to represent and co-ordinate the interests of the creative industries sector.*

This body could facilitate awareness and co-ordination of activities across the different sub-sectors. A creative industry body could act as a resource to provide industry information, business support, services and training and as an advisory mechanism to provincial government on developments and opportunities in the sector. The composition of the body should be broadly representative of stakeholders within the creative industry sectors and include some government representation.

3. *Raising the profile of the creative industries.*

This would entail conducting awareness campaigns, sourcing sponsorships, arranging high-profile events, producing e-newsletters, and the development of a creative industries directory to understand and promote the strengths and economic potential of the creative industries. Some spin-offs of this would be attracting investment, increasing opportunities for partnerships and improved networking.

4. *Investing in business support infrastructure and other mechanisms.*

Business support is crucial for SME development and infrastructural initiatives could include consistent and accessible internet facilities, finance services, office space, tax incentives and mentorship programmes between business leaders and creative entrepreneurs.

5. *Improving the availability of, and access to, business and entrepreneurial skills development.*

Creative industry actors should have access to flexible methods of training and to programmes that enhance the following types of skills: business management skills, computer and internet skills, marketing, brand awareness and arts administration.

In addition to these approaches, consistent inter-governmental dialogue is crucial for the co-ordination and development of creative industries. Experience also shows that multi-faceted, integrated and longer-term strategies are integral to creative industry development.

¹ Department of Culture, Media and Sport. 1998. *The Creative Industries Mapping Document 1998*. London: HSMO

² Letter from Zeljka Kozul-Wright (UNCTAD) to Jo-Ann Johnston (Department of Economic Development and Tourism. June 2007.

³ UNCTAD. *Creative Industries and Development*. Paper presented at UNCTAD Eleventh Session, Sao Paulo, 13-18 June 2004 (TD(XI)/BP/13). p4.

⁴ UNESCO Institute for Statistics, 2005. *International flows of selected cultural goods and services 1994-2003: defining and capturing the flows of global cultural trade*.

^v Van der Pol, H. 2007. *Key role of cultural and creative industries in the economy*. UNESCO.

^{vi} The Work Foundation. 2007. *Staying ahead: the economic performance of the UK's creative industries*.

^{vii} Economics Division Ministry of Trade and Industry. 2003. *Economic Contributions of Singapore's Creative Industries*. In Economic Survey of Singapore First Quarter 2003.