

INANDA DAM RESORT BUSINESS PLAN

**PREPARED FOR THE RURAL ABM PROGRAMME
AND GIFT OF SERVICE**

BY GRAHAM MULLER ASSOCIATES

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Graham Muller Associates
CLOSE CORPORATION CK NO 97/05924/23



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1. EXECUTIVE SUMMARY

Introduction and background

This business plan was formulated by Graham Muller Associates (GMA) in collaboration with the project proponents, Gift of Service, for the eThekweni Rural ABM Programme. The aim of the business planning exercise was to scrutinise feasibility considerations and to provide the necessary information and analysis to facilitate the project towards implementation.

Gift of Service (GOS) is a community-based organisation which has attracted a number of skilled, energetic and entrepreneurial members into its ranks. GOS is pursuing the establishment of Inanda Resort - a tourism, recreation and agri-business destination. The main objectives of the project include creating sustainable and meaningful jobs for the local community, fostering broad base black economic empowerment through participation in the business and creating small and medium enterprise (SME) development opportunities through other business linkages with the resort.

The 20 hectare project site is located on the eastern shore of the dam within the boundaries of the Qadi Tribal Authority and Ward 3 (Amzinyati) of the Municipality. The land in question is under the ownership of the Ngonyama Trust. Msinsi administers and controls the surface of the water and a buffer area between the water's edge and the purchase line. The strengths and weaknesses of the site are summarised below:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Situated on the edge of the main water body of Inanda Dam • Situated on the eastern shore for views of spectacular sunsets • Panoramic views of Inanda Mountain and the Valley • Relatively large (approximately 20 hectares) • Relatively low environmental sensitivity • Suitable aspect and slope for development and agriculture • Abundant water supply • Electricity to site • Road access via KwaMashu Highway and District Road • Close proximity to Durban North, N2 and M4 • Well organised project team • Proximity of local labour • Demarcated site with no conflicting proposals • Support from traditional authorities and municipal agencies • Strong interest and commitment to LED of the Inanda Dam destination • Part of the Inanda Heritage and 1000 Hills tourism routes • Project contributes towards the transformation of tourism industry and broad based BEE. 	<ul style="list-style-type: none"> • Emerging tourism destination that is not known by the market • Complex and unresolved land-legal issues • No financial capacity or resources in the project team • Limited capacity in construction, tourism hospitality operations and marketing • Poor condition of roads and no signage • Disturbed site of moderate attractiveness • No infrastructure on site, especially sanitation system • Perceptions of safety and security • No shared development plan and spatial development framework for the broader destination

Inanda Dam Feasibility Study

The existing policy and planning frameworks for the area should inform the Inanda Dam Resort business plan. The Inanda Dam Feasibility Study identified a number of project concepts that should be prioritised for the Dam (see table below). It argued that there are a number of barriers to entry for private investors that include the emerging status of the destination, uncertainty around land ownership and development rights, complex institutional arrangements, risks to the long term integrity to the surrounding landscape, safety and security and lack of infrastructure.

Key LED projects identified by Inanda Dam Feasibility Study

Project	Location	Description
3 Star lodge	Adjacent to Mahlabatini Resort	Family orientated experience targeting domestic market
4-5 Star lodge	On the eastern shore of Dam. 4 possible sites identified.	Exclusive boutique type lodges. Set at the water edge or in the water.
House boat/ floating restaurant	Mobile	Floating lodge, restaurant or pleasure cruiser. Preferably linked to lodges.
Wildlife Centre	Mahlabatini Reserve	Facilitate visitor interaction with wildlife
Recreational areas	Various	Picnic, boating facilities, entertainment etc
Arts and Craft Centre	Mahlabatini, KwaNgcolosi	Large manufacture and retail centre in the park.
Arts and Crafts Stalls	Various	

Although the feasibility study recommends that the priority development for the destination is a low-volume high spend 4/5-star lodge, this business plan motivates that a more low risk product (in terms of cap-ex value, ROI and market demand) should be pursued in parallel to the high profile project. The low risk project will allow role players to address many of the same barriers to entry, although with less at stake, in a learning-by-doing exercise.

Regarding the proposed 4/5 star hotel development on the same side of the dam, GMA believes the project site is of sufficient quality for a facility of that standard. GMA also contends that it is unlikely that an appropriately managed resort development on the said site will negatively impact on the development options of the more attractive adjacent peninsulas if certain zoning and land use controls are implemented by authorities.

Tourism Product development

The market demand analysis, site potential analysis and the development expectations of the proponents collectively point to a mid-volume, mid-value

destination. In order to maximise revenue yield, GMA recommends a cautious approach of focusing on the proven market demand from the existing water-sports and recreational fishing markets, through the establishment of a water-sports resort. A phased approach is envisaged to the development of resort.

List of product development recommendations

<i>1st Phase</i>	<i>Future phases</i>
Water-sports resort	Open-air theatre and marquee
Bar and retail shop	Arts & craft market
20 camping sites	Additional accommodation
6 Self-catered timber and canvass chalets	Sports Club
Tour Boat cruises and fishing	Catering facility
	Small conference centre

It is envisaged that 29 permanent jobs will be created and at least the same amount of jobs in casual labour.

Agricultural product development

Approximately seven hectares of the project site was for some years used as a productive market garden, under an NGO facilitated project (Valley Trust). Indications are that the land appears to have good potential, although the results of a land capability analysis by the Department of Agriculture are still outstanding. However the Department indicated that the soils are suited to most vegetables including cabbages, potatoes, spinach, carrots, butternut and onions.

Based on the agricultural analysis, it is recommended that a vegetable garden and nursery are feasible and should be established with the close assistance of DoA.

Financial analysis

The total capital expenditure for the project is estimated at R3,422,800.

The financial forecast shows revenue growing steadily over the ten-year time horizon as occupancies and visitor numbers and productivity rise. Total turnover increases from approximately R770,000 in year 1 to R2,300,000 in year 8 showing growth of 300% in the 8 years. The largest line item for expenditure is salaries and wages. Year 1 shows variable labour expenses of at R278 048 and a fixed labour cost of R466,000. Gross departmental profit after variable costs in year 1 is R349,104 and R1,570,542 in year 8. The resort’s consolidated net loss/ profit before tax is – R274,964 in year 1, entering the black in year 3 and reaching R718,514 in year 8.

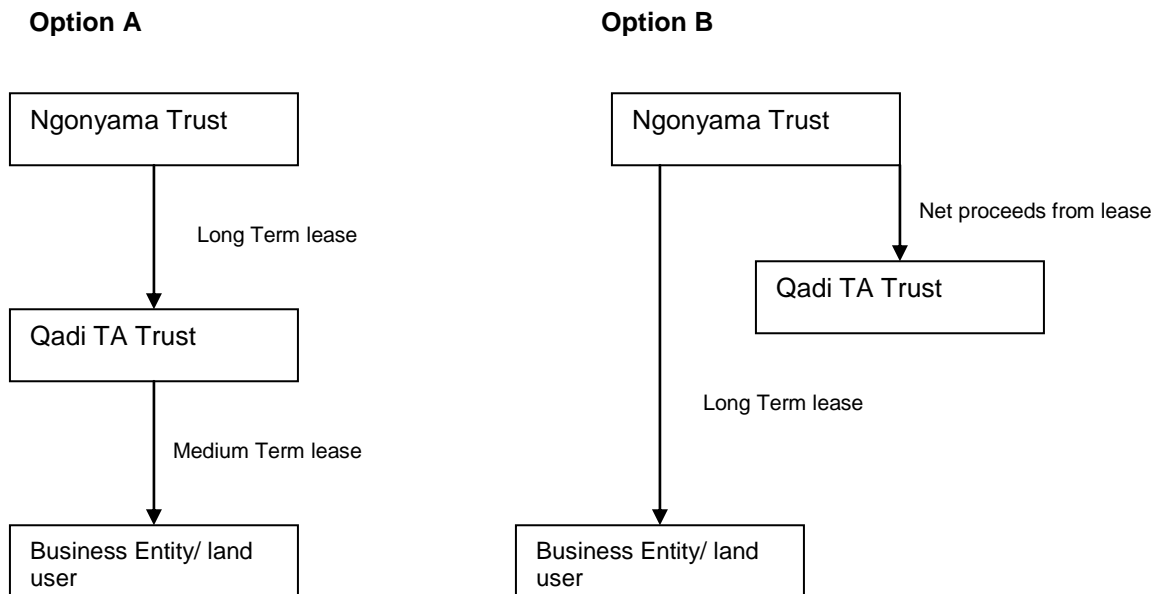
As stated above the financial figures presented here are sensitive to the nature of the involvement of the private investor and the quality of their operational and marketing inputs.

Item	Amount
Landscape rehabilitation and preparation	R142,000
Transport infrastructure	R1,150,000
6 Chalets, 20 camp sites and ancillary facilities	R1,030,500
Other Resort Facilities and Infrastructure	R1,035,500
Water, waste and electricity	R494,000
Resort Equipment	R470,800
Total	R4,322,800
Less: Infrastructure outside of resort (government)	R900 000
Total Project Cost	R3,422,800

Land tenure

It is recommended that for a project of this size, it is prudent to separate land rights, ownership of the assets and facilities and the management of the resort. There are a few different scenarios for establishing land rights (see below). Selection of the appropriate option requires further discussion with Qadi Traditional Authority and the Ngonyama Trust.

Figure : Options for securing land tenure

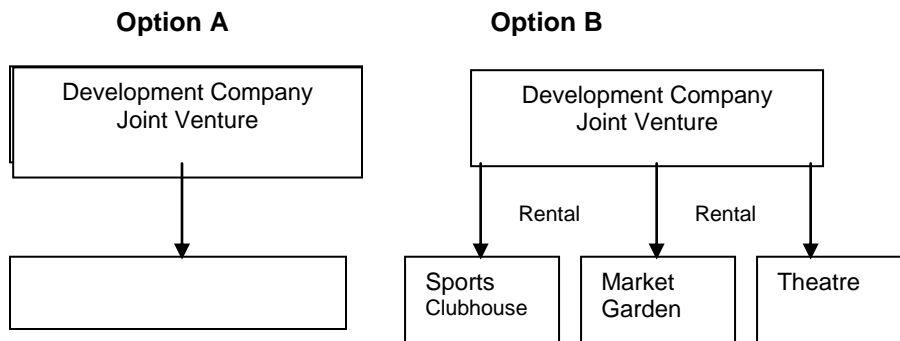


Options for development and management of the resort

There are various possible scenarios for the development and management of the resort. After extensive consultation with GOS and after due consideration of lessons learnt in developments of this nature elsewhere in southern Africa, GMA provides two potential models that could be applied. The first involves the development company (GOS and partners) concessioning out the entire site to a qualified private investor. The second option involves GOS establishing a strategic partnership through either equity sharing in the resort company or through a management agreement with a professional operator (for instance Msinsi).

Both options are seen as potentially viable. The first option can guarantee a revenue stream (from lease fees) to the Dev Co to cover its rental and financing obligations. The second option may appear to hold more empowerment opportunities but carries more risk to the investment in terms of capacity gaps and lack of guaranteed lease

payments. The first option is also likely to be more attractive to the private sector due to simpler and better defined governance structures, although the interest of the market in this venture must still be tested once an enabling environment is created. The impact of both options is explored in more detail in the main report.



Whatever option is agreed upon by the role players, a formal process should be pursued to secure a suitable private sector partner. It is important that a "Transaction Advisor" consultancy is appointed to manage the partner selection procedure and an Evaluation Committee be established.

This business plan has demonstrated that the Inanda Resort has high potential in terms of meeting the economic aspirations of the local community and the Local Economic Development objectives of the eThekweni Municipality, the Inanda Dam Management Forum and other role players. The project should be prioritised by all involved to unlock this potential. There are a number of critical actions that need to take place (see list below).

Critical Actions

- This plan needs to be reviewed and commented upon by the relevant role players (which include GOS, Inanda Dam Management Forum (IDMF), Msinsi, DWAF, Qadi Tribal Authority and eThekweni municipality). It should then be updated and endorsed.
- A project steering committee, which could be the IDMF, should be established to monitor the project.
- Secure funding to contribute towards the capital cost of the project and technical support for the next phase of facilitation and planning.
- Procure technical assistance team. Team should include
 - Project manager and co-ordinator
 - Transaction Advisors (concession and legal specialists),
 - Landscape architect (spatial development and conservation plan),
 - Facilitator (development approvals, use rights and institutional development), and
 - Business analyst.
- Facilitate institutional development. Includes stakeholder consultation, establishment of the Development Company and Community Trust and ad-hoc legal work.
- Secure development approvals, leases, land use rights, licences etc
- At the destination level, initiate a programme to clarify the project application and approvals process. Clarify the authority associated with the land and water resources including inter-departmental and operational issues. Support the IDMF.
- Also at the destination level, formulate a spatial development framework for the dam and surrounds as decision-support tool for stakeholders
- Pursue investor/ business partner mobilisation process and identify preferred partner.
- Negotiate agreements and contracts.
- Finalise detailed business management plan and marketing plan based on above agreements and business arrangements.
- Undertake an environmental Scoping Study in collaboration with DAEA.
- Commence skills development programme.
- Undertake engineering studies (roads, water, sanitation and electricity).
- Formulate construction / site development plan (architect, quantity surveyor)
- Commence construction programme.

2. INTRODUCTION

The Area-Based Management and Development Programme (ABM) is a multi-faceted development initiative implemented by the eThekweni Municipal Authority (EMA) with support from the European Commission that aims to enhance service delivery, address spatial and social inequalities and deepen democracy. The Rural Area Based Management and Development Programme office has been approached by a non-governmental organisation known as the Gift of Service (GOS) with a request for support in the establishment of their agri-business and tourism initiative. A business plan has been submitted to the Rural ABM office outlining the objectives and components of the project together with the capital requirements and cash flow projections as envisaged.

On thorough perusal of the submission by Gift of Service, the Rural ABM appointed GMA to provide technical assistance to the initiative through undertaking a detailed feasibility assessment and business planning exercise, with a view to assisting with the finalisation and implementation of the plans for this initiative.

As agreed, the approach of GMA has been to work with the project proponents and their proposals, rather than to provide an isolated assessment of feasibility. A number of site visits and meetings with the proponents and other stakeholders have taken place. Secondary research and a review of the policy and planning framework for the dam have also taken place. A feasibility checklist has been constructed that should allow iterative amendments to the business proposals. GMA has relied on its extensive experience in this field and technical capabilities to assess the feasibility of the proposals. GMA has also consulted with industry role players and has reviewed relevant best practice locally and regionally. The end result is a business plan sufficiently detailed to give the project proponents, other role players and potential funders practical guidance in pursuing the development of this project.

3. BACKGROUND TO THE PROJECT

3.1 Project Proponent

The project proponent is Gift of Service (GOS), a community-based, not-for-profit organisation whose main objective is to initiate community development and skills development programmes in its local area. GOS aims to stimulate civic participation and youth development as well as provide technical support to local community institutions. GOS has thirteen members and carries out its affairs according to its adopted Constitution. Five office bearers make up the management committee. GOS has decided to establish a legal entity to participate in the business venture described in this plan. Institutional arrangements for the business are covered below.

3.2 Description of business proposal

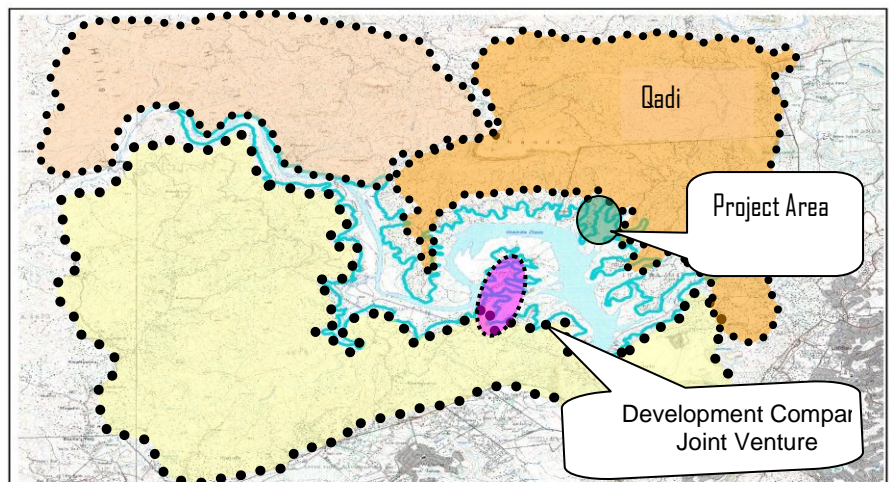
GOS has secured permission from the Qadi Tribal Authority to pursue a local economic development initiative on an 20 hectare site on the south-eastern side of the Inanda Dam. The organisation has obtained a "Recommendation for a Permission to Occupy" from the Tribal Authority and has the support of the community, ward councillor and the Department of Agriculture.

The original business concept for the site, formulated by GOS, outlines the development of an integrated agri-business, tourism and recreational destination. According to the GOS business plan, the agricultural component would focus on organic farming for all kinds of fruit and vegetables and the poultry farm would set out to supply 300 broilers per week. The tourism component would provide an eco-tourism and activity-based experience with facilities to accommodate overnight stays. Recreational opportunities would include tennis and basketball courts, picnic sites and an outdoor theatre.

Following a feasibility assessment of the original business concept, GMA and GOS have collaborated to formulate this revised business plan for a tourism and recreational resort combined with a community-based agricultural production initiative.

3.3 Locality and description of the site

The Inanda Dam is situated in the Valley of a Thousand Hills region in the outer western area of the eThekweni Municipal Authority. The dam was completed in 1989 and has a water surface area of approximately 1,500 hectares and an outer circumference of approximately 100 kilometres. The Dam is



surrounded by 3 tribal authorities, namely Ngcolosi, Qadi and Maphephweni.



The 20 hectare project site is located on the eastern shore of the dam within the boundaries of the Qadi Tribal Authority and Ward 3 (Amzinyati) of the Municipality. The land in question is under the ownership of the Ngonyama Trust. Msinsi administers and controls the surface of the water and a buffer area between the water's edge and the purchase line.

The land-cover of the project site is highly disturbed as a result of previous land uses and is now threatened by an infestation of alien plants such as Chromolena and Lantana. A large part of the land was previously used to grow vegetables under a community project sponsored by the Valley Trust. The project has collapsed and the area is being re-colonised by grasslands and thickets of Acacia. The project site is gently sloping towards the south, with the slopes becoming steeper around the circumference of the peninsula. These steeper slopes are covered in thicket bush dominated by Paperbark Acacia, but invasive vegetation has overtaken the understory. There is no residential settlement on the site as it has for some time been fenced off for agricultural purposes. The site is currently used by the community for the collection of wood for fuel and for grazing.

3.3 Stakeholder consultation

GOS and GMA have together consulted all the relevant stakeholders to obtain their input, guidance and support to the project. Some of these interactions are summarised below:

Project representative	Stakeholder	Discussion Points
GOS	Dep of Agriculture	PTO, land capability, soil survey
GOS	Tribal Authority	Land use rights, project progress
GOS	eThekweni Parks	Development process, assistance
GMA	Local Farmers Association	Production, co-operative selling
GMA	TKZN	Route Development, Inanda Product Development, future support
GMA	1000 Hills Tourism	Marketing and promotion. Product support opportunities
GMA	Valley Trust	Previous agriculture project on site. Information gathering.
GMA	Inanda Dam Feasibility study consortium	Feasibility Study, Inanda Dam Management Forum
GMA	Msinsi	Mahlabatini Node performance, mandate, business objectives, business linkages
GMA	Inanda Dam Management Forum	Unable to contact

4. POLICY AND PLANNING FRAMEWORK

There are a number of considerations that should inform the Inanda Dam Resort business plan. Existing policy and planning frameworks as well as government-driven interventions provide context and structure within which to develop local economic development opportunities. For the purposes of this report the planning and development context will be briefly summarised.

4.1 Rural Development Framework

According to the eThekweni Municipality Rural Development Framework (2003), the main economic principles that should be respected are:

- Respecting key policy issues such as gender equity, youth development and poverty alleviation and BEE
- Following a market orientated approach, relating to well-defined and accessible markets.
- Economic development should take place in a structured and planned manner, based on a municipal analysis of available resources, threats, and opportunities.
- The municipalities' role in economic development is to facilitate, support and promote rural economic development, rather than implement. The municipality needs to form partnerships with both the private and public (other government departments) sector to support development.
- Economic development cannot be a top-down process, but needs to be initiated and driven by local communities. The municipality supports the community driven nature of economic development and the importance of partnership formation.
- The municipality actively promotes LandCare that focuses on developing demand-driven, community-based approaches to resource management, in which those who occupy the land actively participate in the management and sustainable utilisation of their local resources for multiple purposes

According to the spatial development framework section of the RDF:

- More efficient utilisation of the agricultural opportunities in the rural periphery must be one of the foremost aims of rural development. Depending on appropriate detail investigations, it is expected that the agricultural development should cover a variety of products, both common and niche products, that wherever possible beneficiation should take place locally and the development should allow for both larger scale commercial, smaller semi-commercial as well as subsistence individual activities.
- The RDF highlighted a great variety of tourism and recreation opportunities, which are severely under-utilised. Of relevance is the assertion that many of the opportunities identified in the RDF will only have a limited success if they remain as isolated events. It appears

therefore important that the opportunities in the rural periphery be integrated into a wider metropolitan tourism system and routes. Both sides of Inanda Dam were identified as the main tourism opportunities in the RDF.

- The RDF discusses repeatedly the importance of appropriate protection, management and utilisation of the environmental resources of the rural periphery, and its integration into the development of the rural areas forms one of the structuring elements of the SDF.

This business plan has been formulated under the guidance of all of the above principles and guidelines.

4.2 Inanda Dam Community Based Tourism Feasibility Report

A tourism feasibility assessment and development plan of Inanda Dam has been formulated for the Economic Development unit of the eThekweni Municipality (2004). The main aims of the project were to involve and organise stakeholders, identify and package tourism initiatives and attract investment and donor funding. The report was based on market research. Tourism product concepts were developed and the feasibility of two of the concepts, namely 3-star and 4/5-star hotels, were assessed in some detail.

The market research showed potential for Inanda Dam with market surveys indicating that Inanda could provide options to address gaps in the existing tourism market. The research and analysis concluded that the product opportunities around the dam are numerous and that the area has the potential to attract a wide spectrum of markets. The results did motivate for a focus on low volume high yield concepts in order to raise the profile of Inanda Dam and establish it in the market as a tourism destination.

Key LED projects identified by Inanda Dam Feasibility Study

Project	Location	Description
3 Star lodge	Adjacent to Mahlabatini Resort (Msinsi)	Family orientated experience targeting domestic market
4-5 Star lodge	On the eastern shore of Dam. 4 possible sites identified.	Exclusive boutique type lodges. Set at the water edge or in the water.
House boat/ floating restaurant	Mobile	Floating lodge, restaurant or pleasure cruiser. Preferably linked to lodges.
Wildlife Centre	Mahlabatini Reserve (Msinsi)	Facilitate visitor interaction with wildlife
Recreational areas	Various	Picnic, boating facilities,

		entertainment etc
Arts and Craft Centre	Mahlabatini, KwaNgcolosi	Large manufacture and retail centre in the park.
Arts and Crafts Stalls	Various	

The project involved extensive consultation with all role players and stakeholders. Because of the number of different role players having either jurisdictional or land management responsibilities in the destination, a co-ordinating structure based on the membership of the project steering committee was promoted.

The report concluded that although the Inanda Dam destination held significant potential, the financial feasibility analysis illustrated that it would at this stage be difficult for the private sector hotel operators to receive the required return on investment. Some of the barriers to entry for investors include the emerging status of the destination, uncertainty around land ownership and development rights, complex institutional arrangements, risks to the long term integrity to the surrounding landscape, safety and security and lack of infrastructure.

The report strongly recommended that the land/legal and associated institutional issues needed to be resolved as a critical first step in the process of developing the destination and suggested that without their resolution no project could be initiated and private sector participants were unlikely to make any commitment. The report impressed that the relevant decision making authorities needed to initiate a programme to clarify the approvals process and authority associated with the land and water resources including inter-departmental and operational issues.

Although the eThekweni feasibility study recommends that the priority development for the destination is a low-volume high spend 4/5-star lodge, the GMA business plan motivates that a more low risk product (in terms of cap-ex value, ROI and market demand) should be pursued in parallel to the high profile project. The low risk project will allow role players to address many of the same barriers to entry, although with less at stake, in a learning-by-doing exercise. With much shorter development time-lines than the hotel development, the project will also rapidly demonstrate pro-poor tourism development, improve the profile of the destination and create positive investor sentiment for the destination as a whole. This project can tap into existing market demand for water sports and recreation facilities on the Inanda Dam (as demonstrated by congestion at Mahlabatini) without the risk of relying upon latent demand for new products in the destination.

This motivation notwithstanding, it is understood by the proponents that the project should not foreclose other high benefit yielding projects in the area. GMA has advised GOS that is unlikely that an appropriately managed resort development on the said project site will negatively impact on the development options of the adjacent peninsulas on the east bank of the dam if certain zoning and land use controls are implemented by authorities.

4.3 KwaZulu-Natal Product Development Strategy

Relevant to this project, the strategy indicated that attention needed to be given to adding significant secondary attraction and visitor facilities within the Heritage and Culture and Wildlife sectors. The nature of the majority of Durban's tourists, usually for reasons of time and/or cost, means that they cannot travel northwards to enjoy the Game Reserves and Zululand areas. The opportunity therefore exists to provide such facilities within closer proximity to the Durban Beachfront. In this regard, support is recommended for certain product development areas that include the Inanda Community Tourism destination and Heritage Route. The strategy recommends public sector funding for, *inter alia*, Valley of 1000 Hills and the Inanda Tourism Route. The dual objectives of these focused interventions are to grow tourist numbers and their length of stay, and most importantly to develop tourism into the previously disadvantaged areas around the periphery of Durban.

The product development proposed in this business plan is closely aligned with the KZN Product Development Strategy as it will create visitor facilities and provide access to a number of secondary attractions in an emerging rural destination in close proximity to Durban. The product development should augment both the Inanda Heritage Route and the 1000 Hills Experience Route.

4.4 Land and legal context

A preliminary analysis of the development applications and authorisations that may be required by the project follows below:

The Ingonyama Trust owns the land under the dam water as well as the terrestrial surrounds. According to the Ingonyama Trust Act (Act 3 of 1994 as amended), written approval from the relevant traditional authority is required before it can pledge, lease or encumber land or rights to land. At present, the Board favours granting development and tenure rights through the conclusion of long term, common law leases of 40 years. The lease is concluded between the Ingonyama Trust and lessee, but with the written consent of the affected traditional authority. It is also advised that a resolution supporting development is also obtained from the community in terms of the Informal Protection of Land Rights Act.

The Department of Water Affairs and Forestry has been granted permission by the Ingonyama Trust to store water on the land covered by the dam. DWAF hold the dam under the requirements of the National Water Act and Umgeni Water has the water utility mandate. Msinsi Holdings has been contracted by Umgeni Water to manage all its estates including the Inanda Dam. Msinsi therefore administers and controls the surface of the water and the surrounding areas within the surveyed estate of the dam.

Although it appears that Umgeni Water and Msinsi do not have the right to grant or refuse development rights around the dam, it would still be

necessary to have their support for the project and an agreement that deals with issues such as access, use rights, zoning and co-operative management of shared areas. Further permissions may be required from DWAF in terms of the National Water Act.

4.5 Environmental authorisations

The most significant legislation for environmental authorisation requirements is the Environment Conservation Act. Regulations 1182 and 1183 were promulgated in terms of Sections 21, 22 and 26 of the Act and subsequently revised in Government Notices R 1355 of 17 October 1997, R 448. According to the regulations, an Environmental Impact Assessment (EIA) process is a legal requirement for certain scheduled activities, which "could have a substantial detrimental effect on the environment".

With reference to the further development of the preferred options, Regulation 1182 lists amongst others the development of public and private resorts and associated infrastructure as a scheduled activity. Thus, the envisaged project would require authorisation from KZN's Department of Environmental Affairs and Agriculture (DAEA) via the EIA process outlined in Regulation 1183. The EIA process consists of the following:

- The completion and submission of an Application Form. On reviewing this the authority may indicate that the proponent should apply for exemption from the requirements of the Act, which would entail the submission of a brief motivation for exemption or indicate that there is insufficient information with which to make an informed decision.
- The Scoping Stage, which entails the identification of appropriate alternatives, the identification / assessment of potential environmental impacts and appropriate opportunity for public input. On submission of the Final Scoping Report (FSR) DAEA may:
 - Refuse the activity;
 - Authorise the proposed activity with specific conditions;
 - Indicate that there is insufficient information with which to make an informed decision and request that the proponent proceed to the EIA Stage.
- The EIA Stage, which entails the investigation of specific aspects (as directed by DAEA) in more detail and the compilation of an Environmental Impact Report (EIR). On review of the report DAEA may:
 - Refuse the activity;
 - Authorise the proposed activity with specific conditions.
- At all stages during this process, where a Record of Decision is issued by DAEA, there is a 30 day period during which appeal can be made to the Minister of Environmental Affairs.

Section 24(1) of the National Environmental Management Act provides that all activities that may significantly affect the environment and require authorisation bylaw, must be assessed prior to approval.

Accordingly, the proponent has the responsibility to ensure that the proposed development as well as the EIA process conforms to the principles of the National Environmental Management Act. Accordingly, the EIA process should be designed in accordance with the principles of the National Environmental Management Act.

The EIA process outlined in this overview is based on the Regulations promulgated under the Environment Conservation Act. The new EIA Regulations, which are to be promulgated under the National Environmental Management Act, are currently being finalised. Should this occur, the environmental process outlined would need to be tailored in terms of these new legal requirements.

Under the new EIA regulations under section 24(5) of NEMA, category 1 activities require an initial *environmental screening*¹ before a decision is made on whether further studies are required. Category 1 activities include:

The construction of new tourism or hospitality facilities where -

- more than 20 guests can be accommodated overnight;
- there are more than 10 guest units;
- the facility will cover an area in excess of 1 hectare; or
- there is no connection to a municipal sewerage system.

According to the environmental law reviewed above, the change in land use from agriculture to a mixed-use tourism and agriculture is a listed activity and will require approval from the provincial DEAA. It is recommended that once a decision is made to proceed with the project, that DEAA be invited to site and a formal project application be submitted to the department. It is likely that the Department will request an independent scoping study which will have to assess significant issues such as sanitation, waste management, water quality and economic sustainability. As indicated in the earlier feasibility statement for the project (December 2005), it is our view that there should be overall net benefits accruing from the project due to its relatively low biodiversity value.

4.7 Development approval

The KwaZulu-Natal Planning and Development Act and the Development Facilitation Act provide the framework for guiding development applications. The two acts overlap and complement each other in several ways i.e. in the establishment of both the KwaZulu-Natal Planning and Development Commission and the Appeals Tribunal.

¹ Screening has been defined by the Regulations as "the assessment contemplated in regulation 9 to determine whether there is a likelihood of significant impacts that require further investigation or whether a decision can be made, based on the information provided as a result of the screening process".

Although the Planning and Development Act and the Development Facilitation Act are designed to dovetail with one another, there are certain classes, or types, of development applications which will be subject to the provisions of the DFA rather than the Planning and Development Act, and vice versa. In recent years RDP projects and residential estate projects have occasionally been pursued through the DFA in rural areas outside of cities and towns.

Table 2: Summary of authorisations required

Department/ Authority	Approval/ Authorisation
Ngonyama Trust	Lease or PTO
KZN Planning & Development Commission	Development Permit
Traditional Authority	Recommendation for PTO/ lease
Department of Agriculture & Environmental Affairs	PTO Environmental Record of Decision
Community	Community Resolution
eThekweni Municipal Authority	Registration of business
Inanda Dam Management Forum	Political endorsement
DWAF	User Licence (land below purchase line)
Msinsi	Agreement (boat launch site)

5. BUSINESS OBJECTIVES

GOS have listed the following business objectives for the development initiative on the project site:

- Foster local economic development in the Lower Bantunguna sub-ward through the establishment of a sustainable anchor business adjacent to Inanda Dam,
- To better utilise the inherent development potential of the site in order to derive broad based socio-economic benefits for the adjacent communities
- To create sustainable and meaningful jobs for GOS members and the local community,
- To develop local skills and capacity in the business over time,
- To foster broad base black economic empowerment through meaningful participation in the business initiative and in the local economy,
- Provide SME development opportunities through creating demand for upstream and downstream economic linkages,
- Contribute towards the socio-economic development of the local community through a social responsibility programme.

6. Market Analysis

5.3 Tourism Market demand

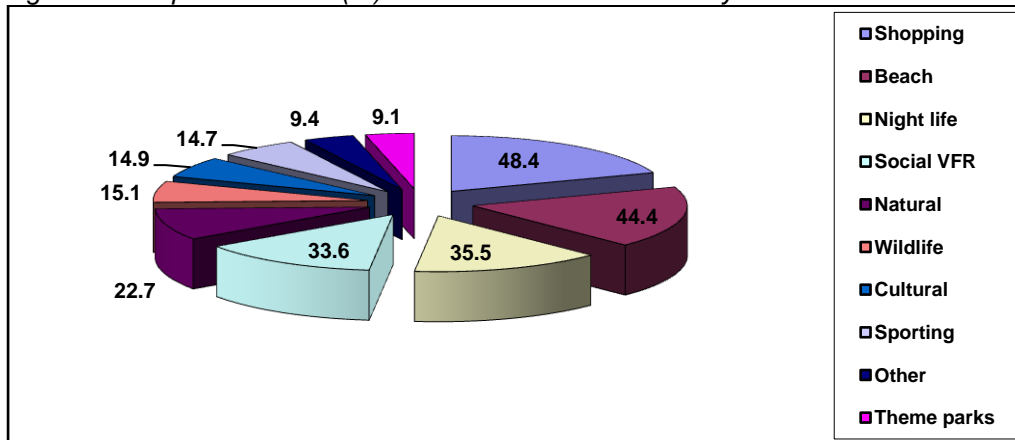
Over 85% of KZN's foreign air arrivals market visits Durban, which is seen as the Gateway to the province. Although overseas visitor numbers are relatively small in comparison to the domestic market in South Africa, the contribution to the total tourism spend is significantly larger (at an estimated R54 billion). The total spend estimated for the domestic market amounts to R47 billion with an average spend per trip of R1,400. Gauteng and KwaZulu Natal are traditionally the main destinations for domestic tourism trips (approximately 28% of all trips were to KZN in 2002). Interestingly, by far the majority of tourists for any given province originate within the province itself. The average length of stay for domestic holiday trips in KZN is 6 days. TKZN studies looking at domestic accommodation usage illustrate that the preference for self-catering accommodation and camping and caravanning continues to distinguish the domestic holidaymaker from the foreign overseas traveller, who has a strong preference for catered accommodation.

The KZN Product Development Strategy informs that the main draw-card for domestic and foreign visitors to the province is the beach. However, there was also strong demand measured for heritage and culture and wildlife experiences. The report recommended that development of these products closer to Durban could attract many Durban tourists who were for various reasons unable to travel to Game Reserves and cultural facilities in the Zululand area. It recommended that the Durban tourism experience be augmented by secondary attractions and visitor facilities in rural areas with high potential.

According to the market research for the Inanda Dam Feasibility Report, there was high latent demand for the Inanda Dam destination. It stated that there was an international trend to diversify beach holiday products to include wildlife, cultural and adventure experiences. The report suggested focusing on both the domestic and foreign market sectors. For the foreign market, the scenery of the Valley of a Thousand Hills was described as primary attraction for the market. Culture, nature-based tourism, adventure activities and sport were regarded as important secondary attractions.

In terms of local demand for recreational facilities, reports indicate that the Msinsi Inanda Resort is already overcrowded on weekends and holidays. The resort receives approximately 50 000 visitors per annum, the large majority of them being day visitors. The Resort is popular with the Durban water-sport and fishing market segments. In December 2006, there were approximately 5,500 day visitors and 1,600 overnight stays.

Figure 0-1: Top 10 activities (%) - domestic tourists on holiday



7. Tourism site analysis

7.1 Tourism development potential of site

The project site is an 20 hectare plot of land on the eastern shores of the Dam, in the Bantunguna Tribal Ward of the Qadi Tribal Authority. The site is located approximately 12 kilometres off the Kwa-Mashu Highway, about 25 minutes from Durban North.

It is located on a prominent peninsula that overlooks the main body of the dam. An expansive vista is found with views of Inanda Mountain and large stretches of the dam south to the dam wall and northwest past Msinini resort. The peninsula is bound by large inlets on either side and is endowed with 3 small coves with sandy beaches. Although the vegetation cover on the project site is highly disturbed and infested with alien plants, the key physical attributes described above and location make this project area one of the prime sites on the Dam. The site is very well suited for water-based adventure and recreational activities. The wooded slopes around the circumference of the peninsula are suitable for nature-based accommodation facilities, once rehabilitated.

The site offers easy access to the dam water body. The 23km long stretch of water offers numerous recreational opportunities including motor boating, water skiing, sailing, canoeing, jet-skiing, swimming and fishing. Inanda is known as an excellent fresh-water fishing destination and a national bass fishing competition is held here. The Inanda Dam is also part of the annual Dusi Canoe Marathon, which attracts over 5000 people to the overnight stop at the Msinsi Resort directly opposite the project site.

The site is a 15-minute drive away from the Inanda Dam Wall with its views of the rugged Umgeni River gorge and is also a short drive to the foot of the Inanda Mountain, which offers a spectacular hike to the summit. Being in the heart of the Valley of a Thousand Hills, the surrounding terrestrial landscape is picturesque with dispersed settlements of traditional homesteads creating a uniquely African experience.

Analysis of strengths & weakness

The following strengths are associated with the project site:

- Situated on the edge of the main water body of Inanda Dam
- Situated on the eastern shore for views of spectacular sunsets
- Panoromic views of Inanda Mountain and the Valley
- Relatively large (approximately 20 hectares)
- Relatively low environmental sensitivity
- Suitable aspect and slope for development and agriculture
- Abundant water supply
- Electricity to site
- Road access via KwaMashu Highway and District Road
- Close proximity to Durban North, N2 and M4
- Well organised project team
- Proximity of local labour
- Demarcated site with no conflicting proposals
- Support from traditional authorities and municipal agencies
- Strong interest and commitment to LED of the Inanda Dam destination
- Part of the Inanda Heritage and 1000 Hills tourism routes
- Project contributes towards the transformation of tourism industry and broad based BEE.

The following weaknesses are associated with the project site:

- Emerging tourism destination that is not known by the market
- Complex and unresolved land-legal issues
- No financial capacity or resources in the project team
- Limited capacity in construction, tourism and hospitality operations and marketing
- Poor condition of roads and no signage
- Disturbed and moderate
- No infrastructure on site, especially a sanitation system
- Perceptions of safety and security
- No shared development plan and spatial development framework for the broader destination

8. Product Development

8.1 Tourism product concept

The GOS business proposal defines a broad product concept that for the large part can be aligned with tourism market demand. The concept revolves around establishing a nature-based tourism destination with rustic accommodation and camping facilities. A number of recreational facilities were also mooted from tennis courts to an open-air theatre. Links to the agriculture project on the same site was also conceptualised through the sale of organic foodstuffs to visitors.

GMA recommends that the product concept be refined to focus on maximising tourism revenue yield and to target specific target markets. Social responsibility projects such as sports facilities for the community should be pursued as an initiative separate to the tourism business. The tourism and leisure markets that appear feasible to target are illustrated in the table below:

6.2 Matching product to market

Table 3: Tourism resources and product development potential

Inherent Potential	Related Demand	Market	Existing/potential markets	Product Opportunity
Situated adjacent to Inanda Dam on peninsula with coves and waterway.	Water sports (skiing, jet-skiing, pleasure boating).		Durban water-sport and water recreation market	Boat launch sites Picnic areas and lawns Kids entertainment (trampolines etc) Club-houses (eg canoeing/ skiing) Camping accommodation
Dam well stocked with fish	Freshwater fishing (bass, flyfishing)		Domestic fishing market	Jetties Boat launch sites Self catered accommodation Camping accommodation
Set in a traditional rural and cultural environment	Cultural interaction and experiences. Cultural events (eg Shembe pilgramge). Heritage interpretation		Foreign independent travellers Foreign tour groups.	Zulu/ Shembe-themed resort Cultural tours Add-on attraction to Inanda Heritage Route Cruise boat for water tours
Natural landscape with spectacular scenery	Hiking. Leisure vacations and recreational escapes.		Domestic fishing market Water-sports market Domestic	Hiking trails Nature-based resort and accommodation design All hospitality

		camping and outdoor market Local residents (Mzinyati, Inanda, Phoenix)	structures to maximise natural sense of place and panoramic views Picnic areas Wedding and theatre facilities
Proximity to Durban (30km) and northern suburbs/townships	Secondary attractions to the beach and shopping. Culture, scenery and entertainment.	All tourism and leisure markets in the Durban area.	Facilities for cultural, scenic, adventure and outdoor experiences.

The table above demonstrates that there are a number of product concepts that can be matched to existing market demand in the greater eThekweni metropolitan area. The stated objectives of the proponents and principles of good business practice need to be observed in selecting a suitable product mix. Essentially, these can be summarised as:

- The need to maximise revenue yield from tourism in order to optimise and sustain economic benefits to the local economy.
- To develop products that fit within existing planning and development frameworks of the Municipality and other authorities.
- The need to focus on a core business to optimise the use of human and financial resources and to achieve the required service and performance levels,
- To select markets with due consideration of marketing effort and revenue generating potential.

In order to maximise revenue yield, GMA recommends a cautious approach of focusing on the proven market demand from the existing water-sports and recreational fishing markets, through the establishment of a water-sports resort. GMA believes that good volumes of this market can be achieved if appropriate facilities are provided and if the resort successfully develops and promotes features unique from Mahlabatini Resort and Hazelmere Dam. Revenue generation from entry fees could be augmented by complimentary products and services, such as boat-lockers, overnight accommodation and food and beverages.

The water-sports resort will have good quality and well serviced infrastructure and facilities that include landscaped lawns and picnic sites, slipways, jetties, boat garages, kids playground, shade boma and bar, toilets and showers and office and staff quarters.

It is expected that there will be some demand from recreational fishers and a segment of the water-sports market for overnight accommodation at the resort. The market analysis indicates a preference of these markets for camping and self-catered accommodation. It is recommended that in the first phase of development six rustic chalets are established (16 beds), with provisional plans to increase the number of units to eight if demand dictates that. It is also recommended that 20 camping sites are established in the first phase, with at least 10 of them having electrical reticulation. The participation

of an experienced management company in operations is deemed as critical to the viability of the hospitality operation.

According to studies approximately 70 000 visitors per annum use the Inanda Heritage Route, although it is understood that high spend tourists (tour groups and foreign independent travellers) only make up a small proportion of this number. Tourism KwaZulu Natal is putting much effort into growing the profile of the Inanda Route and this creates a strong opportunity for the Resort to become a major stopover on the route. The splendour and history of the dam and the 1000 Hills are very marketable attractions. A boating tour could be offered to the heritage route visitors.

The open-air theatre has been inspired by the passion and experience of GOS in the performing arts as well as their observance of the great success of music festivals at Mahlabatini Resort and Hazelmere Dam. GOS members run a community radio station and are reported to have network of links with event managers and performers in the Durban area. GMA supports this product development opportunity if certain critical success factors are adhered to. These are that music events are held only 3-4 times a year when the novelty factor will still appeal and when resources and sponsorship can be mobilised to secure high quality acts. The event company must hire out the whole resort at least 3 months in advance, as visitors from other market segments are unlikely to want to use the resort during these events. The theatre could also be used for wedding ceremonies and photo shoots, but wedding functions (parties) should not be permitted as it will likely clash with the recreational experience of other visitors to the resort.

In summary, market demand, site potential and the development expectations of the proponents collectively point to a mid-volume, mid-value destination. A phased approach is envisaged to the development of resort. Products with the highest probability of yielding revenue flows, and which are compatible with the other products planned, should be pursued initially, whilst products that have some market uncertainty and higher risk should be earmarked for future phases of development.

Table 4: List of product development recommendations

<u>1st Phase</u>	<u>Future phases</u>
Water-sports resort	Open-air theatre and marquee
Bar and retail shop	Arts & craft market
Camping site	Additional accommodation
Self-catered accommodation	Agri-depot and local beneficiation
Irrigated Vegetable Garden	Sports Club/ Operator sub-lease
Tour Boat cruises	Catering facility
	Small conference centre

Figure: Potential design for self-catered accommodation

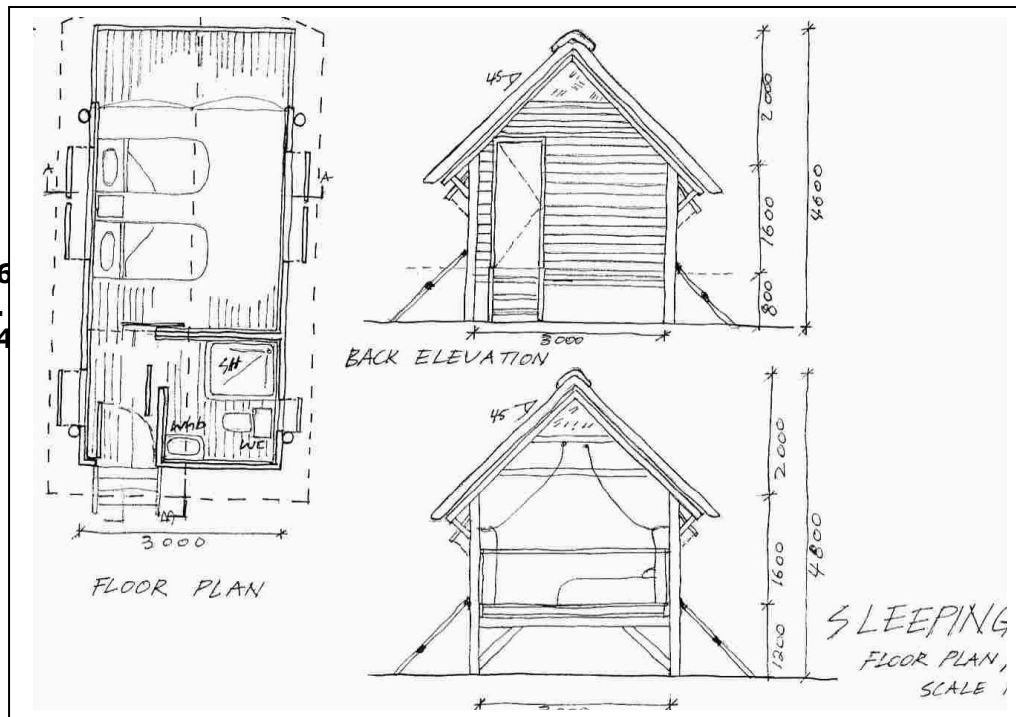


Table 5: Direct employment opportunities associated with the first phase of business

Job description	Jobs
Resort	
General Manager	1
Operations managers	2
Front office receptionist/ reservations	1
Gardening/ landscaping leader	1
Gardening/ landscaping team	4
Maintenance	2
Security and water safety	4
Tour boat driver	1
Chalets and camping	
Head housekeeper	1
Housekeeper staff/ cleaners	4
Vegetable gardens	
Production manager	1
Labour	5
Food and beverage	
Barman and store-manager	2
TOTAL DIRECT JOBS	29

In addition to the 29 permanent jobs, a number of part time positions are forecast for peak periods of the resort, accommodation and the market garden. It is envisaged that the staff complement could double in peak periods as a result of part time and temporary labour.

Supporting infrastructure

The project site is located approximately 10km off the KwaMashu Highway via the D1613 which terminates in the project site (The Kwa Mashu Highway is part of the Inanda Heritage Route). The last 4km of the road is gravel and in fairly good condition. It is recommended that the Municipality prioritise the upgrading and frequent maintenance of the road as sedans and trailers with expensive boats will use the road.

The roads and tracks within the project site are poor and must be upgraded at the developer's expense.

One building, a concrete room once used for storage, is the only physical infrastructure on site at the moment. Eskom electricity has been established in the area and is reticulated to the entrance of the project site. Electrification of the resort is required to offer the necessary product and services for the target markets. The site also required an appropriate potable water supply and sanitation system (employing a septic tank/ package plant system).

An irrigation system was previously used on site for the agricultural project. However this has fallen into disrepair with the pump and much of the piping having been pilfered.

9. Agribusiness Development

Background to the agri-business concept

Approximately seven hectares of the project site was for some years used as a productive market garden, under an NGO facilitated project (Valley Trust). The market garden was well resourced and had a reticulated irrigation system and water pump. The main crops were cabbages, potatoes, spinach and madumbe, which were used for local consumption and sale within the community. The project came to a halt a few years ago, apparently largely due to local politics pertaining to the benefits from the project.

As part of the original business proposal for the site put together by GOS, a large agri-business initiative was suggested, consisting of all kinds of fruit and vegetables, a poultry unit producing 300 broilers a week and a nursery that would operate as the site's agric-shop.

Site analysis

According to the Rural Development Framework, the bio unit of the immediate catchment of the Inanda Dam was rated as moderate with a score of 3 on a scale of 1- 5 in terms of land capability. It is likely that the soils will only be suited to specific crops. The Department of Agriculture is currently assessing soils samples from the site. However the Department indicated that the soils are suited to most vegetables including cabbages, potatoes, spinach, carrots, butternut and onions.

In terms of available infrastructure, there is access to electricity, but little else. Abundant water is available, but pipes and pump have been stolen and need to be replaced, and the pump enclosed in a secure structure. There is no fencing (essential for security and for protection from grazing animals) or any space for storing equipment, or for administrative activities. Access to the transport infrastructure is good, though there is no vehicle at present. The garden currently has no equipment.

In terms of human resources, an active and well motivated group, GOS, is in existence. Labour resources are in close proximity due to the number of settlements in close proximity.

Market analysis

An analysis of what other local gardens produce at present (see annexure) identifies a range of produce being produced in a fairly informal way to meet mainly local demands. There is no evidence of local supply meeting current demand but some evidence of occasional over-production of some vegetables.

There is thus a real opportunity for a new player to enter the market, particularly if it can organise production to target local niches (e.g. schools, currently supplied from outside the area), as well as looking further outwards towards Durban. Large vegetable market places exist at Warwick Street Triangle, Clairwood, Kwa Mashu, Hillcrest, Verulam and Tongaat. There are a number of small vegetable garden projects in Ward 3 that receive support from Department of Agriculture. It is envisaged that a co-operative initiative could be organised to shared resources and to obtain critical mass of produce for the markets.

There is also the opportunity for this site to become a depot and transformation unit for the local garden network, to enable surplus production to be dried and transformed into (for instance) powdered soup.

Product development analysis

Product	Recommendation
Poultry	Not recommended due to vulnerability on price compared with local and more distant competition. Relatively high risk to return on investment. Incompatible with nature-tourism destination.
Vegetables	Recommended. Proven land capability. Site is good size for market garden. Existing local demand. Potential for growth to supply Durban markets
Vegetable nursery	Recommended. High market demand. Closest supply source for Department of Agriculture is Pietermaritzburg.
Agri-shop	Not recommended. Insufficient local customers. No evidence of demand from recreational visitors and tourists.

Based on the analysis, it is recommended that a vegetable garden and nursery are feasible and should be established. The local markets will be targeted with the assistance of DoA. DoA has also indicated that it would purchase seedlings to supply to other projects in the greater area.

The project site has sufficient space for both agriculture and tourism initiatives to take place. It should be noted that although the agriculture initiative and the tourism initiative should be able to co-exist, neither enterprise should rely upon the other for sustainability. In fact if either one is poorly managed, it could impact negatively on the other.

Financial considerations

Calculations of production and revenue yields per hectare are dependent on further information still outstanding from Department of Agriculture. This includes guidance on the vegetable varieties to be grown at which periods, rotation cycles, pricing and distribution. The agri-business project should continue to liaise with DoA in obtaining and applying this data.

To provide an indication of potential, an experienced market garden operation with good production resources and technical know how can produce 40 000 to 60 000 cabbages per hectare, which could be sold to markets in the greater Durban area. At approximately R1.50 per unit, this could earn gross revenue of approximately R75 000 per hectare.

Emerging market gardens are usually inadequately resourced, take time to build capacity and have problems accessing markets. Therefore a conservative approach has been taken in estimating revenue yield at R5,000 per hectare for the vegetable gardens and increasing at 20% per annum as production and market access improves. The revenue yield for the nursery is calculated at R40,000 per hectare. A high percentage of production cost is made up of labour, but input costs such as seedlings, manure and fertiliser and equipment maintenance must also be covered. The indicative estimates of the financial analysis in the annexure, show a net loss of R25,000 in year 1, entering into the black in year 4 and making a profit of R26,680 in year 5.

It must be noted that these figures are speculative due to the information still outstanding and a more accurate analysis should be undertaken as soon as the data becomes available from the Department of Agriculture.

Feasibility considerations

There are a number of challenges that need to be addressed for the market garden and nursery project to be successful. The challenges and interventions are listed in the table below.

<i>Challenge</i>	<i>Intervention</i>
Information outstanding on production capability and strategy.	Further research and analysis required. DoA to provide information. Detailed financial analysis to be undertaken.
Lack of finance	Seek grant and/or loan finance for this initiative based on positive viability findings.
Previous gardens in poor condition.	Prepare soils for production. Install appropriate infrastructure, including fencing, tools and irrigation system.
Low capacity and technical know-how	Establish skills development initiative and mentorship from DoA Extension Officer.

<p>Problems accessing markets</p>	<p>DoA and committee to negotiate with local feeding schemes and schools. Learn to ensure that the right crops are grown for the right markets at the right periods. Link to emerging farmer initiative of the Dube International Freight Airport project, easily accessed from Ward 3. DoA to facilitate establishment of co-operative with other gardens in the area with a shared growing, storage and distribution strategy.</p>
<p>Profitability</p>	<p>Committee and DoA to explore value-adding opportunities, such as powdering vegetables for soups. Generate seedlings in nursery for own gardens as well as for sale to other gardens and intermediaries.</p>

10. Institutional Arrangements

10.1 Support for the project

Members of the local community have pro-actively organised themselves to drive the proposed business venture. A registered not-for-profit organisation (GOS) has been established for the purpose comprising members largely from the area. The organisation has succeeded in obtaining permission from the Tribal Authority to proceed with planning for the project and the project site has been set-aside for the purposes of the proposed venture. The councillor of Ward 3, Mr Frances Mqwathi, as well as the local Induna, Mr Ngcobo, have given in principal support to the project. The Department of Agriculture and Environmental Affairs endorsed the PTO application to the Traditional Authority in June 2005.

The Board of the Ngonyama Trust has not yet been approached with this business proposal.

The eThekweni Rural ABM Programme has received the business proposal from the stakeholders and has expressed its support for the project, notwithstanding its need to first understand the feasibility and prospects of the project.

As the manager of the Inanda Dam water-body and surrounding land, Msinsi has been approached about the development proposal and has expressed interest in exploring business linkages as the project unfolds. Like many stakeholders, Msinsi appears to be somewhat cynical of new project proposals due to the fact that they have been engaged in so many over the past few years which have not got off the ground.

Tourism KZN is actively promoting the development of the Inanda Dam destination within the context of the Valley of a Thousand Hills and Inanda Heritage Routes. Inanda Dam is specifically prioritised in the Tourism KZN Product Development Strategy. Staff indicated that support could be made available in including the product into their route promotion programme, but informed GMA that TKZN has moved away from funding new product development and facilitating tourism skills development.²

GMA was unable to get hold of the newly constituted Inanda Dam Management Forum, which was mandated by its members to co-ordinate development around the dam and to review and approve project proposals in the Inanda Dam area.

10.2 Main roles and responsibilities

It is important to understand the role players involved in the project area as well as their mandates and obligations before attempting to design potential

² Pers Comm. AB Bentzel 23 January 2006

institutional arrangements for this business venture. The main role players are listed below:

Inanda Dam Management Forum

Under the leadership of the Municipality, a co-ordinating and facilitating structure known as the Inanda Dam Management Forum has been established. The role of the forum does not extend to matters affecting the autonomy of the relevant Tribal Authorities. It is envisaged that final decisions affecting each tribal authority would be left to the authority concerned.

It has been proposed that the forum should be consulted with development proposals within 1km, and should provide an approval in terms of development within 500 metres from the dam. It is not clear on what legal basis the forum could assume this responsibility. Any EIA requires a consultative process anyway, and the Forum would likely be registered as a party with significant interest in any application around the dam.

Proposed representatives of the forum include those from the Qadi Trust, Ncolosi Trust, Mphephethwa Trust and the Amakosi from these tribal authorities, eThekweni Municipality, Msinsi, DWAF and councillors from the relevant wards.

Ngonyama Trust

The Ngonyama Trust owns the communal land in the Inanda Dam environs and the Ngonyama Trust Board administers this land in accordance with the Ngonyama Trust Act (1994 as amended). The Board appears to favour granting development and tenure rights through the conclusion of long term, common law leases of 40 years. The lease is usually concluded between the Ingonyama Trust and lessee, but with the written consent of the affected traditional authority, in terms of section 2(5) of Act 3 of 1994.

Qadi Tribal Authority Trust

The project site is located in the Amzinyati ward under the Qadi Tribal Authority. The Inanda Feasibility Plan and the Forum propose that Trusts are established to represent each of the three Tribal Authorities around Inanda Dam. The Trust would be a legal entity representing the authority that could enter into lease agreements and other commercial transactions and carry out necessary functions to foster sustainable development. These functions could include:

- Securing land for development and preventing land invasions
- Entering into lease agreements and sub-leases with the relevant authorities, community enterprises and the private sector
- Community facilitation and organisation to participate in projects
- Political championing and support of development projects
- Monitoring of site development, business development and operations
- Management of funds received from land rentals and re-investment in the community

The interests of the local community should be represented by the Qadi Tribal Authority Trust. A sub-committee could be formed to monitor the project and

co-ordinate some of the Trusts responsibilities described above. Alternatively a separate legal entity could be established at the local community level to obtain land use rights for the site and administer the land in question.

Gift of Service

Gift of Service (GOS) is a not-for-profit, community-based organisation that was established to initiate and provide support to local economic and social development. GOS comprises a variety of members that represent different groups in the local community, such as the youth, a radio-station initiative and a capacity building and mentorship initiative. The organisation is registered as an NPO but is not yet organised into a recognised legal entity although.

GOS is aware that the future direction and function of GOS will be influenced largely by the unfolding business model of this project. GOS envisages a hand-on role in the development and management of the resort business, although it accepts that strategic partnerships and support will be required.

eThekweni Municipality and other government departments

Where partnerships are set up on communal land, government agencies usually retain a monitoring and policy implementation function. This includes ensuring environmental legislation is properly implemented and ensuring that other laws concerning local economic development and proper labour conditions are adhered to. Local authorities and municipalities in South Africa are specifically tasked with providing technical support to communities that want to enter into local economic development initiatives. In many cases, various government agencies are expected and willing to bring in the bulk infrastructure – roads, water, electricity, sewage and telecommunications – that these businesses depend on. However the precise role that government agencies are expected to play and the costs they are expected to bear in this regard also varies from place to place.

Private sector³

It is acknowledged by the tourism industry that the management of tourism and recreational facilities usually requires the capacity and experience of a specialist firm or company. The potential role of the private sector in this business initiative should therefore be considered. In general the private sector is expected to take on the following functions in recent tourism partnerships in southern Africa:

- To run commercially viable and competitive profit making businesses,
- To provide efficient and effective marketing strategies for attracting tourists to the businesses concerned,
- To make a healthy rate of return on the capital invested in such businesses but also to pay market-related rentals to owners of the land on which the enterprises are developed, either government or community,

³ Sourced from Wild Coast Tourism Development Manual, 2005

- In return for the profits made, to carry much of the risk including operational costs that are associated with the start up and operation of nature tourism businesses of this nature,
- To adopt procurement policies that outsource many non-core activities of the tourism enterprise – such as security, laundry, vegetable gardens, building maintenance, tour guiding and cultural tourism activities – to local small businesses,
- To pay responsible wages and implement basic conditions of employment and other labour legislation that exists in the country concerned,
- To conduct appropriate skills transfer programmes that allow local people to take up posts at all levels of the enterprise including in middle and senior management and not to simply work as menial labourers in the business,
- To provide mentoring and support to local entrepreneurs whose small businesses receive contracts for outsourced business activities,
- To ensure that all environmental policies, guidelines and impact mitigation measures are properly carried out.

10.3 Business models

The section above listed the main role players in the proposed business initiative. The structuring or relationships and agreements can take on a number of different permutations, depending on the specific context for each site. However there are a number of fundamental principles or guidelines that can be gleaned from best practice around Southern Africa⁴. These are:

- The roles of government, community and the private sector should be distinct and defined according to their relative strengths.
- The interests of multiple stakeholders in a business venture means that it is often most efficient to ring-fence the ownership of land, ownership of assets and management and operations in different legal entities.
- Mechanisms should be created to transfer as much risk as possible from disadvantaged communities to private sector role players and government.

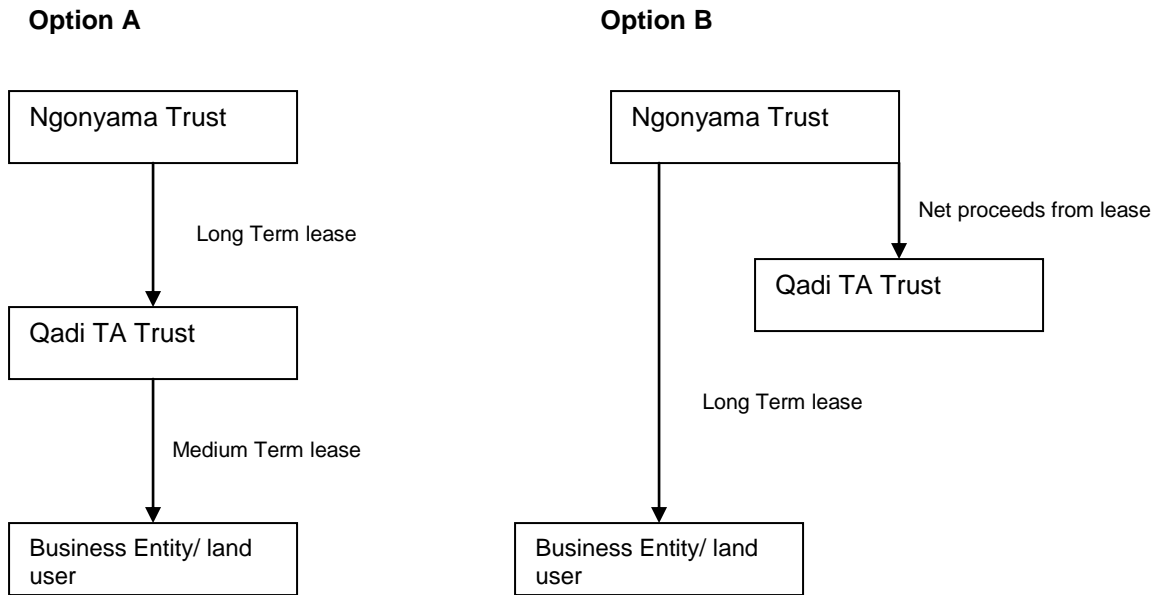
Securing land tenure

As described in above, ownership of the site vests with the Ngonyama Trust, which holds the land on behalf of local communities. The land falls within the Qadi Tribal Authority, which administers the land according to tribal custom. The local community has de facto land rights according to the Interim Protection of Land Rights Act.

⁴ Pro-poor tourism has become a significant mechanism to improve local livelihoods in South Africa and is pro-poor tourism policy has found its way into policy and legislation in all spheres of government. The South African government has recently issued a set of codes and scorecards which require all sectors of the economy, including the tourism sector, to conform to minimum standards regarding “broad based black economic empowerment” (BBBEE).

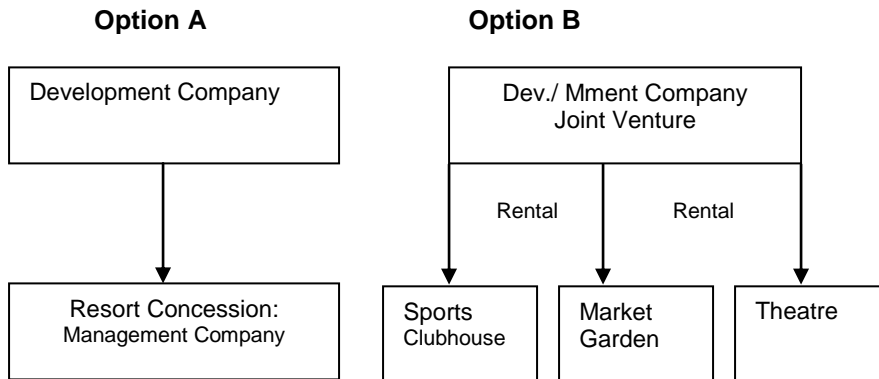
For significant development projects, the Ngonyama Trust commonly issues long term leases (40 years) to organisations or business entities, once they have approval from the relevant Tribal Authority and community (see section 4.4 and Option B in Figure 3 below). In other provinces, long-term leases are usually provided to the community group who hold land rights to the project area, who then subsequently sub-lease the site for a shorter duration to a preferred business entity/ land user (Option A). This reduces risk to the rights holders by not having the land tied up into the business. The Inanda Dam Management Forum has recommended that the Qadi Tribal Authority set up a Trust to administer the land under its jurisdiction. The Trust could therefore be used to represent the Authority and the community as the landowner in transactions. The two options are illustrated below.

Figure 3: Options for securing land tenure



Institutional options for development and management of the resort

There are various possible scenarios for the ownership of the aboveground assets of the agri-tourism resort and the management thereof.



Option A: Separate Development and Management Companies

In this option, the Development Company secures a lease with the Ngonyama/ TA Trust. The Development Company is responsible for developing the site and has responsibilities such as securing finance, obtaining all necessary approvals, removing any encumbrances to the land, procuring and managing services and supplies and ensuring that the site is developed according to the business plan and lease agreement.

The Development Company is also responsible for procuring a management company to run the business operation. The Development Company will expect a suitable concession or lease fee from the management company in order for it to achieve a suitable return on its investment. The management company contract would be competitively procured to secure the best return for the development company, within the context of certain black economic empowerment conditions. It is possible for certain community members or a community organisation to establish a joint venture management company with the private sector. It is also possible for the Qadi Trust or the Development Company to purchase equity in the management company.

GOS has to date positioned itself as the Development Company in waiting. GOS acknowledges that it may not have the capacity or be able to raise the finance to act as such. Technical and management capacity will be required, either through a donor-funded programme, or through GOS becoming a co-shareholder in the development company with a public or private sector entity. Whatever is decided, the development company should be legally established as a private or a section 21 company.

The risk with this business scenario is that the site and/ or the facilities that are developed might not attract a quality management company. Best practice dictates that experienced operators or management companies should play as bigger role as possible in selecting and developing the site in question. This risk of undesirable facilities can be mitigated somewhat by allowing the management company to design the facilities and manage the construction- with development company finance. Nevertheless, if the site does not have the required inherent potential or if the enabling environment is not right, the concession process is still likely to fail.

The potential impact of Option A can be summarised as:

- A Black Empowerment Development Company with community groups holding the majority shareholding,
- Guaranteed rental to Dev Co. from concessionaire to cover Dev Co. lease payments and off-set any loan obligations,
- Low risk income streams to Dev Co. participants (risk to private sector),
- Preferential procurement clause for community members,
- Responsible tourism clauses, such as internal career advancement,
- Skills development and mentorship from management company,
- Broad-based BEE through equity options made available in the management company.

Option B: Consolidated Development and Management Company

In this option, the developer plays a more hands on role in managing the business operation. Rather than concessioning out the whole site, the company could outsource some of the resort's more complex products and services to small businesses and entrepreneurs, whilst still retaining management control. These outsourced contracts could include:

- Security
- Self-catering chalets and campsite
- Vegetable Garden and Nursery

- Sports Clubhouse
- Open-air theatre
- Catering
- Tour guiding

It has been recommended to GOS that it could jointly establish a development/management company with a suitable private sector operator. Alternatively, GOS could establish the company on its own⁵, and enter into a management agreement with a private operator/ land manager, such as Msinsi. In this arrangement, the contractor gets remunerated a fee or a percentage of turnover for providing services such as financial management, reservations and landscape management⁶.

The potential impact of Option B can be summarised as:

- A Black Empowerment Dev- Management Company with a community group having at least a major shareholding,
- Local stakeholders control the strategic business direction and are actively involved in the management of the business,
- Flexibility to enter into a management contract with an experienced management company
- Entrepreneurial activity is promoted. Flexibility to outsource services or lease parts of the resort
- Company not committed to a medium term concession (10-20 years)
- Preferential procurement clause for community members,
- Skills development and mentorship from contracted Management Company or shareholder.
- Increased risk to investment resulting from an emerging management company and lack of guaranteed payments to the developer/ funding agents.

This business plan should be used to guide the main role players in detailed discussions around the most suitable business model for the project.

Partner selection procedure

The main stakeholders must agree on the business model to adopt and the critical steps to implementation. They must establish how much donor and discretionary finance from Government will be secured for the Development Company and how much will be required by an investor/ private sector partner.

⁵ GOS currently is a general-purpose community based organisation participating in a number of projects from youth development to radio station development. It is recommended that GOS nominate members to establish a company that has the sole purpose of carrying out the business activities of the Resort Development and Management Company.

⁶ Msinsi have expressed interest in the possibility of establishing a business partnership with this project but will only consider the opportunity formally once the project has been approved by all role players and has financial support. There are opportunities for Msinsi in both Option A and Option B

Whether a private partner is sought as either a concessionaire, joint shareholder in the a Management Company or as service provider to a Man. Co through a management agreement, the following steps should take place:

- The Dev. Co should appoint a “Transaction Advisor” consultancy to manage the partner selection procedure,
- An Evaluation Committee should be established comprising the Dev. Co, the Inanda Dam Management Forum and any other organisation that the committee decides upon,
- A prospectus describing, *inter alia*, the business opportunity for the private sector, the guidelines, constraints and conditions for business development and the evaluation criteria should be formulated,
- A two-stage procedure could be employed to identify the appropriate partner. The first stage would involve a call for Expressions of Interest and the establishment of a short-list. The second stage would involve a call for detailed proposals, the final evaluation and negotiations with the preferred partner.
- A capacity building and after-care programme should run in parallel to the above process to enable meaningful participation of inexperienced stakeholders in the selection process and the establishment of the business venture.

The following themes are usually evaluated in procuring an investor/ business partner:

- Financial capacity: The ability of the partner to secure adequate finance, provide a viable cash flow model, institute and implement appropriate financial controls and systems etc
- Operational capacity: The capacity, experience or track record in managing logistics and transport, hospitality operations, customer relations, infrastructure maintenance, bookings and reservations, health and safety, landscape management, retail, events management, human resources etc
- Marketing capacity: Evidence that the partner has existing marketing capacity and track record with similar markets. Established marketing infrastructure and access to an existing client base is preferable.

11. Financial Analysis

11.1 Introduction

The financial analysis is based on the market demand analysis and the product development concepts. The analysis took a conservative or at best a middle-road approach to forecasting occupancies, visitor statistics, revenues and expenses. The analysis assumed that there was private sector participation in the venture but did not strictly model itself around either of the two business scenarios described above. Private sector support notwithstanding, the analysis assumed that the company would take some years to discover and gain market share. However if a management company with an existing pipeline of clients was to invest in the venture, then it is likely that results in the early years will be much more positive.

It should be noted that this analysis can only be indicative at this stage, as the envisaged private sector management company should be given some flexibility in configuring the business venture, specifically being able to decide on elements such as visitor facilities, pricing, exclusivity and service quality.

Capital Cost

The forecast capital expenditure associated with the project is summarised below. A detailed breakdown of this expenditure is found in the annexure. Based on our estimates, the total capital cost to project is R3,422,800. This excludes road maintenance outside of the resort as this is deemed a government responsibility. It should be noted that the business plan recommends that some of the facilities be only established in a second phase of implementation, for instance the open-space theatre.

Item	Amount
Landscape rehabilitation and preparation	R142,000
Transport infrastructure	R1,150,000
6 Chalets, 20 camp sites and ancillary facilities	R1,030,500
Other Resort Facilities and Infrastructure	R1,035,500
Water, waste and electricity	R494,000
Resort Equipment	R470,800
Total	R4,322,800
Less: Infrastructure outside of resort (government)	R900 000
Total Project Cost	R3,422,800

Revenue, Expenses and net profit

Revenue, expenses, and net profit figures are summarised below (detailed breakdown in the annexure).

The financial assumptions underpinning the analysis are also listed in the annexure, but can be summarised below:

- The business is structured according to 4 main profit centres, namely the resort estate, accommodation and camping, market garden/ nursery and the theatre.
- Certain variable and direct fixed costs have been attributed to the relevant profit centres or departments.
- Fixed operational costs and administrative costs have been estimated based on industry averages. Some are estimated as a percentage of turnover.
- All income and expense projections calculation at today's rates.
- The maximum annual capacity of the resort is estimated at 25,500 visitors per annum. This was calculated as 150 visitors per day on weekends and holidays (120 days per year) and 20 visitors per day for the remaining days of the year.
- On this basis day visitor occupancy was estimated to start at 15% in year 1 and increase to 40% by year 7.
- Performance of 16 beds in 6 chalets was analysed from years 1 to 3, and 24 beds in 8 chalets analysed from years 4 to 10.

- Based on these bed numbers occupancy was estimated to start at 35% in year 1 and increase to 65% by year 9.
- The camp with 20 sites was estimated to have an average occupancy of 10% in year 1, increasing up to 50% by year 9. With a maximum capacity of 8pax per site, the average occupancy per site was estimated at 40%.
- The Nett rate for the chalets was R170pppn and the rate for campers was R60. The rate depends largely on the quality of the facilities and services, but the market demand analysis recommends targeting the mid-spend domestic market.
- Bar/ retail sales was calculated at R20 per person for all visitors and R40 per person for all overnight visitors.
- Boat launch fees and fishing fees were not factored in as these transactions were understood to be for the account of Msinsi.

The financial forecast shows revenue growing steadily over the ten-year time horizon as occupancies and visitor numbers and productivity rise (See table below). Total turnover increases from approximately R770,000 in year 1 to R2,300,000 in year 8 showing growth of 300% in the 8 years.

The largest line item for expenditure is salaries and wages. Year 1 shows variable labour expenses of at R278 048 and a fixed labour cost of R466,000. Gross departmental profit after variable costs in year 1 is R349,104 and R1,570,542 in year 8. The resort's consolidated net loss/ profit before tax is – R274,964 in year 1, entering the black in year 3 and reaching R718,514 in year 8.

As stated above the financial figures presented here are sensitive to the nature of the involvement of the private investor and the quality of their operational and marketing inputs. Investors with strong marketing capacity and access to existing markets could increase the forecast occupancies by 10 to 20% per annum. The converse is true if the management company does not have the required capacity or experience. Nevertheless, it is recommended that finance for working capital as well for covering the forecasted negative cash flow in the first two years is planned for.

	(R)			
YEAR	1	3	5	8
Entrance Fee Income	57,656	73,698	96,385	152,210
Entrance Fees	80,685	127,545	180,555	261,240
Total Equipment Income	20,358	92,778	126,351	177,452
Chalets and camp site	480,960	766,080	1,075,680	1,434,240
Market Garden and Nursery	130,000	152,000	183,680	183,680
Open air theatre		108,000	108,000	108,000
Total Revenue	769,659	1,320,101	1,770,651	2,316,822

	(R)			
YEAR	1	3	5	8
Total Resort Gross Profit	349,104	754,262	1,126,566	1,570,542
Fixed Costs	624,068	702,116	770,275	852,027

Net Loss/ Profit before tax	-274,964	52,146	356,291	718,514
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12. Way Forward

This business plan has demonstrated that the Inanda Resort has high potential in terms of meeting the economic aspirations of the local community and the Local Economic Development objectives of the eThekweni Municipality, the Inanda Dam Management Forum and other role players. The project should be prioritised by all involved to unlock this potential. There are a number of critical actions that need to take place:

- This plan needs to be reviewed and commented upon by the relevant role players (which include GOS, Inanda Dam Management Forum (IDMF), Msinsi, DWAF, Qadi Tribal Authority and eThekweni municipality). It should then be updated and endorsed.
- A project steering committee, which could be the IDMF, should be established to monitor the project.
- Secure funding to contribute towards the capital cost of the project and technical support for the next phase of facilitation and planning.
- Procure technical assistance team. Team should include
 - Project manager and co-ordinator
 - Transaction Advisors (concession and legal specialists),
 - Landscape architect (spatial development and conservation plan),
 - Facilitator (development approvals, use rights and institutional development), and
 - Business analyst.
- Facilitate institutional development. Includes stakeholder consultation, establishment of the Development Company and Community Trust and ad-hoc legal work.
- Secure development approvals, leases, land use rights, licences etc
- At the destination level, initiate a programme to clarify the project application and approvals process. Clarify the authority associated with the land and water resources including inter-departmental and operational issues.
- Also at the destination level, formulate a spatial development framework for the dam and surrounds as decision-support tool for stakeholders
- Pursue investor/ business partner mobilisation process and identify preferred partner.
- Negotiate agreements and contracts.
- Finalise detailed business management plan and marketing plan based on above agreements and business arrangements.
- Undertake an environmental Scoping Study in collaboration with DAEA.
- Commence skills development programme.
- Undertake engineering studies (roads, water, sanitation and electricity).
- Formulate construction / site development plan (architect, quantity surveyor)
- Commence construction programme.

Prologue: Concluding remarks by Graham Muller Associates

The eThekweni Municipal Authority recognises that the Valley of a Thousand Hills and Inanda Dam area as having been previously disadvantaged and neglected. It has prioritised the region for development. It is one of the key target areas under the municipality's Rural Area Based Management Programme. The eThekweni Rural Development Framework identifies the Inanda Dam area and surrounding hinterland as having high tourism and recreational potential. This view was reinforced by the Inanda Dam Feasibility Study, which called for high value anchor attractions to raise the profile of the destination.

However, despite wide interest and numerous proposals, there has been no implementation of significant tourism or recreational projects to date around the Dam area. As it is, the region is seriously challenged by the fact that, apart from the Msinsi Mahlabatini Resort, there are no anchor developments that can spawn SME activity and raise the profile of the destination. This lack of development urgently needs to be attended to achieve the municipality's targets and obligations and to crowd out unscrupulous and ad-hoc developments.

Although most stakeholders lament over the multitude of barriers to sustainable development in the area, we believe it is only through 'learning by doing' that these barriers will be faced up to by the main role players and systematically dismantled. It is recommended that a limited number of projects that are well supported by all stakeholders, are relatively low risk and that have a good chance of economic sustainability are vigorously pursued as high profile demonstration projects. Financial and technical resources should be concentrated around these projects.

The demonstration projects should also be used to practically address a number of systematic challenges to development in the region, such as:

- Lack of clarity around land rights and use rights,*
- Lack of clarity around appropriate institutional arrangements and distribution of benefits relating to the development and use of land and the water body,*
- Lack of a common vision and development plan for the greater Inanda Dam region,*
- Lack of clarity on the development applications and approval process,*
- Lack of effective co-ordination of development in the area and functioning of the Inanda Dam Development Forum,*
- Lack of capacity in enterprise development and management,*
- Lack of a consolidated project application, approval and financial support programme,*
- Lack of after-care and support to emerging enterprises.*

The establishment of the Inanda Dam Management Forum created much optimism for the development of the region amongst the role players involved. The institutional arrangements were finalised and the mandate and functions agreed and reflected in the Forum's Terms of Reference. A database of projects was established and a short-list of projects prioritised. It seems however, that the Forum has struggled to become operational, with some key tasks not being completed and lack

of engagement of the forum and forum processes by the main role players. Efforts to contact the secretariat or chairperson of the Forum have to date proved unsuccessful. Certain members of the Forum have complained that, although the feasibility study was completed, a shared development plan, zoning plan and decision-making model remain outstanding.

It appears that development initiatives and project planning remain uncoordinated. Pessimism and concern by some role players was in evidence about pursuing new projects that are not aligned with the planning and institutional development process described above. Most called for the institutional arrangements and the planning and decision making framework to be finalised before projects are pursued, or, at the very least, to be finalised in parallel to planning and implementing demonstration projects.

It is recommended that the Municipality procure further technical assistance to support the functioning of the Forum in the short-term and to facilitate the finalisation of the planning and decision-making frameworks for the Inanda Dam area.