TOURISM KWAZULU-NATAL

Peer Review

of the Pre-Feasibility Study undertaken for the Proposed Cableway Development in the Mnweni Valley (October 2000)

Prepared by:

ingérop Africa

Contact: Sybrand v d Spuy
(011) 808 3000

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PEER REVIEW

OF THE PRE-FEASIBILITY STUDY UNDERTAKEN FOR THE PROPOSED CABLEWAY DEVELOPMENT IN THE MNWENI VALLEY

TABLE OF CONTENTS

APPENDICES

APPENDIX A

Curriculum Vitae and Company Profiles

APPENDIX B

Typical Model for Financial Analysis

APPENDIX C

Documents Reviewed

SECTION 1

INTRODUCTION

1 INTRODUCTION

Ingérop Africa has been commissioned by Tourism KwaZulu Natal to conduct a Peer Review on a Pre-Feasibility Report prepared by individuals, commissioned by The Federation of Drakensberg User Groups in October 2000.

The document to be reviewed is:

The Proposed Mnweni Cableway Pre-Feasibility Study – October 2000.

Prepared by:

D. Reinecke. BSc Eng (Civil) Pr Eng
P.G. Stewart. BSc (Agric) MS (Wildlife Management)
S.W. Cooke. BSc Eng (Mech) Pr Eng
I. Lax. B Proc
K.L. Kohler. BA (Hons), MA (Geog)

The main focus points of the review will include, but not be limited to:

1) The validity of the revenue assumptions.

2) Cost assumption(s) on the engineering of the project.

3) Community Issues.

4) Environmental Issues.

5) Legal Issues.

It must be emphasized that Pre – Feasibility Studies do not, as a rule, deal with community, environmental and legal issues, in detail. In this case, however we have commented on what was presented in this particular Pre – Feasibility Study.

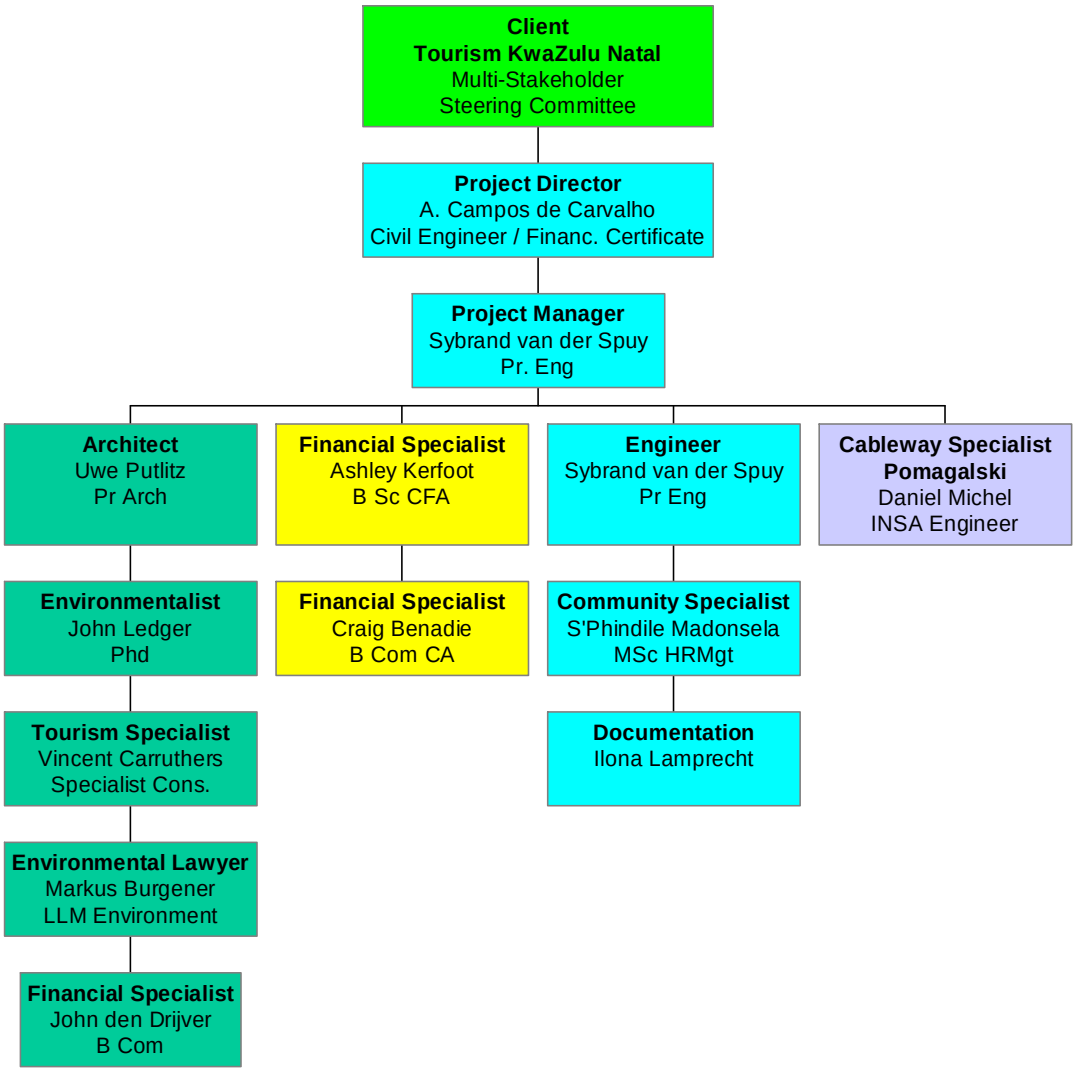
It should be noted that the study team was not provided with a specific brief or a scope of work. The study team comprised of professionals completing a "Pre – Feasibility Study" on a voluntary basis.

1.1 PEER REVIEW TEAM

To conduct this Peer Review, Ingérop Africa has assembled a team of experts in their respective fields.

Figure 1 is an organisational chart of the review team. Curricula Vitae of team members, as well as company profiles of Ingérop Africa and Pomagalski, are attached as Annexure A.

Figure 1: Organisation Chart of the Peer Review Team



The peer review team comprises of experts in their respective fields, working independently. The team has been coordinated by the Project Manager to ensure a seamless delivery.

Below is a short description, highlighting the relevant experience of team members. Comprehensive details are provided in the Curricula Vitae.

◊ **Project Manager / Infrastructure Engineer – Sybrand van der Spuy** (Civil/Structural Engineer and Project Manager) has 8 years experience in the Planning, Design, Documentation, Contract Administration and Project Management of Multi-disciplinary Projects, inclusive of Conceptual Studies, Pre-Feasibility Studies, Feasibility Studies and Control Budget Estimates. Sybrand has been involved with projects funded by National, Provincial and Local Government Departments, as well as Major Corporations.

◊ **Architect - Uwe Putlitz** (Pr Arch (SACA Reg No 2444) - B.Arch MSc (Constr Mgt) Dip Fin Mgt Dip Prj Mgt) has designed a range of structures including healthcare, office buildings, shopping malls radio studios and more appropriate to this project, Leisure projects such as bush camps for Wilderness Safaris at Ndumo; Tilodi Wilderness, and Iziyoni Lodge; Projects Huntington Bush Airport, Tembe Bush Camp; Hotels at 4Ways and the Royal Johannesburg Golf Club.

◊ **Environmentalist – John Ledger** (Phd) Consultancy experience includes:

- Eskom from 1977 to present, where the main area of focus has been wildlife (mainly birds) interaction with electrical equipment; also impact assessments, public participation and ecological management issues
- Rand Mines - heavy minerals deposit on Eastern Cape coast and Audit of sensitive biomes and impacts of mining operations on biodiversity
- Consultant to G.H. Marais routing and design of construction powerlines for Lesotho Highlands Water Project;
- Consultant to Lesotho Highlands Development Authority and the World Bank on the environmental impacts of the Lesotho Highlands Project, involving performance audits of the project to check progress against environmental management plans.

◊ **Tourism Specialist – Vincent Carruthers** (Specialist Consultant) is currently involved with Management Consulting in the field of business strategies and organisation, with particular strengths in environmental and tourism matters.

He is a Director of **North West Province Parks and Tourism Board (Parastatal)** and Chairman of the Conservation Subcommittee. The Board is responsible for the tourism development and the management of fifteen provincial parks including Pilanesberg, Madikwe and Kgaswane.

As Director of the **Sustainable Tourism Research Institute of Southern Africa CC (STRISA)** he is involved in research and strategic development services to the eco-tourism industry.

- ◊ **Community Specialist – S'Phindile Madonsela** (MSc - Human Resources Management and Industrial Relations.) joined Ingérop Africa in 1999. She is experienced in general Industrial Relations, and developed the Skills Plan and Employment Equity Plan on behalf of Company for submission to the Dept. of Labour. She is appointed as Skills Development Facilitator, Provides HR service to line management and determines HR strategies, objectives and policies. S'Phindile provides a totally integrated HR/IR function to comprehensively support line management their functions.

- ◊ **Financial Analysts** – **Ashleigh Kerfoot and Craig Benadie**, seconded to Ingérop Africa from Imbani Projects, a Black-owned firm specialising in initiation, structuring, implementation and operation of capital investment projects, they are experienced in project evaluation. Experience includes feasibility formulation, cash flow modelling, value engineering and financing models. Recent projects include the R1 billion Swaziland Millennium Project of Trade Fair, Adventure Playground and Multipurpose Stadium, new headquarters for D.T.I. in Pretoria, and a R150 million commercial development in Maseru, Lesotho.

- ◊ **Assistant Financial Analyst – John den Drijver** (B Com) Experience as audit manager covers a variety of local and listed companies, as well as companies on multi national level. Some of these companies include The Standard Bank of South Africa Limited, NCR Corporation (Pty) Ltd, Berlimed (Pty) Ltd, AEG (Pty) Ltd

- ◊ **Cableway Specialist – Daniel Michel** (INSA – Engineer School of Lyon) is the Senior Project Manager for Specialist Equipment for more than 13 years at Pomagalski, a world leader in cable transportation systems. They have more than one hundred years experience in the construction, commissioning and operation of cableway systems. (Refer to Company Profile)

- ◊ **Environmental Lawyer – Markus Burgener** (LLM Environment) is currently involved in monitoring wildlife trade and the implementation of CITES by collating data, collecting information, conducting research and producing analyses of trade in and utilisation of wild flora and fauna. He also founded the Law and Policy Working Group, a working group of the Endangered Wildlife Trust. The group assists the other working groups of the Trust with legal aspects. One of its main aims is to encourage greater awareness of, and participation in, the development of natural resources, related policies and legislation.

- ◊ **Documentation Specialist – Ilona Lamprecht** (Head of the Documentation and Information Centre) has been employed by Ingérop Africa since 1997. She has standardised the documentation used in tenders and proposals and created a Project Accounting system, currently used in the BoTT Water Delivery Project in Limpopo province. Ilona has also produced various marketing documents used by the company.

SECTION 2

APPROACH AND METHODOLOGY

2 APPROACH AND METHODOLOGY

The general approach to this peer review was as follows:

2.1 FINANCIAL MODEL

This involved the review of the appropriateness of the financial model, without changing any inputs into said model.

2.1.1 Inputs into Financial Model

◊ Review the Cost Estimates.

Special consideration was given to major cost components. The 80/20 principle applied, whereby 20% of the costed items account for 80% of the total cost.

◊ Review of Revenue Assumptions

Methodology principles were examined including assumptions with regard to tourism statistics; potential tourism growth and external influences on tourism.

2.2 COMMUNITY ISSUES

Involved the review of Community Issues.

2.3 ENVIRONMENTAL ISSUES

Involved the review of Environmental Issues.

2.4 LEGAL ISSUES.

Involved the review of Legal Issues.

2.5 OVERALL STUDY TEAM

Review of the Study Team and competencies.

2.6 OVERALL STUDY METHODOLOGY

Involved the review of the Study Methodology.

SECTION 3

FINANCIAL MODELLING

3 FINANCIAL MODELLING

3.1 FINANCIAL MODEL

This section reviews the integrity of the Financial Model.

3.1.1 Introduction and Scope

This section reviews the financial model prepared for the Pre-Feasibility Study: Mnweni Cableway.

3.1.2 Purpose of the financial model

The purpose of the financial model is to evaluate the economic viability of the proposed project. The economic life of the asset is likely to be extremely long, (30 years is not uncommon) although the model reviews only the first 9 years of the project.

3.1.3 Inputs and assumptions

The inputs and assumptions have been reviewed, however the validity and accuracy of these assumptions have not been verified in this section. The objective of this section of the review is to ensure that the stated inputs and assumptions have been correctly utilised in the financial model.

The majority of inputs and assumptions stated have been utilised and implemented correctly in the economic model.

3.1.4 Arithmetical errors

No arithmetical errors were found in the economic model.

3.1.5 Principles to be noted

The following principles need to be noted in terms of their application within the economic model:

- The land lease for Year 1 should be capitalised as a component of the capital expenditure;
- All costs have been escalated by inflation in the first year of operation;
- The study has in effect been calculated over 9 years and not 10 years (since the starting year is Year 1 and not Year 0);
- Capitalised interest has not been included in the capital expenditure budget;

- The economic life of the cableway should be utilised as the term for the economic pre-feasibility model;
- Debt and equity parameters have not been stated and incorporated in the model;
- Funding parameters have not been stated and incorporated in the model;
- Tax, wear and tear and deduction parameters have not been stated and incorporated in the model;
- Working capital funding and the effects of seasonality have been ignored; and
- The model does not assess the downstream economic impact of the cableway operations.

3.1.6 Funding parameters

The financial model presented in the Pre-Feasibility Study does not allow for varied funding parameters with regards to capital expenditure and operational activities. The only input provided is an interest rate of 14%, which is applied to the capital expenditure amount in Year 1 as an interest expense. The model deducts the interest expense from the operating profit and then capitalises the operating loss in the subsequent years. **This principle is flawed in evaluating the return parameters and economic viability of the operations of the cableway.**

Funding parameters need to be addressed in order to evaluate the robustness of the model and therefore the return parameters of the proposed cable way. The following inputs for funding should be considered:

- Level of equity contributions
- Level of debt funding
- Grants
- Cost of funding
- Term of the funding (related to Design Lives of Capital Items.)
- Repayment profile of the debt funding
- Return parameters required by equity stakeholders

The various stakeholders, the most essential being Government, need to address the issues surrounding equity contributions. Various levels of equity can be utilised to facilitate the capital expenditure and possibly fund the capital expenditure in its entirety (i.e. Government contributes the full amount required for the capital expenditure), depending on the economic and social objectives of Government and other proposed stakeholders. Partnering options will have a major impact on the levels of equity, debt and grants. Furthermore, the returns required by the stakeholders from the equity contributions will have an impact on the return parameters of the economic model.

3.1.7 Return parameters

The following return parameters need to be reviewed and tested under different funding scenarios to evaluate the robustness of the financial model:

- Net present value
- Internal rate of return
- Operational cash balance evaluation (working capital implications)
- Dividend yield (if required by equity stakeholders)

The financial model presented in the Pre-Feasibility Study has evaluated the internal rate of return only. **The calculation of this return parameter is flawed due to the principle highlighted under the funding parameters, whereby the operating loss is being capitalised in subsequent years.** Furthermore, the methodology for the calculation of the internal rate of return is flawed, because no allowance is made for interest on overdrawn amounts.

Utilising the inputs and assumptions presented in the Pre-Feasibility Study a financial model was re-constructed taking into account the adjustments required in terms of some of the principles noted. The following results should be noted:

- With the capital expenditure contained in the Pre-Feasibility Study the project return parameters over a true 10-year cycle remain negative. It should be noted that the design life of the cableway has to be evaluated and incorporated into this calculation.
- With a 100% equity contribution (i.e. Government funds the entire capital expenditure) the operations are cash flow positive from Year 1 and sustainable thereafter (note that this assumption ignores the equity return requirements of Government).
- At equity contribution levels below 81% the funding requirements result in the project being caught in a debt trap over the 10-year term and the cash balances remain negative (this assumes an amortising loan over 10 years with a 16% finance charge and also ignores the equity return requirements).
- An analysis of the operations over a period greater than 10 years improves the return parameters of the project.

3.1.8 Conclusions

Based on the financial model, the inputs and assumptions provided and contained in the Pre-Feasibility Study, the project does not prove viable. However, it must be noted that the financial model utilised in the Pre-Feasibility Study does not accurately reflect or allow for complexities, associated with an accurate financial analysis. A sensitivity analysis was completed for a few scenarios, such an increase in passenger volumes and increases in ticket prices. A major factor influencing the financial viability is the term of evaluation. No analysis was completed allowing for a longer term. A

financial model typically used for projects such as these is attached as **Annexure B.**

To make an informed decision with regard to the financial viability of this project, the financial model needs to be modified to allow for the following, at a minimum:

- The nature and mix of the funding (equity, debt and grants).
- The return requirements of the stakeholders (social and economic).
- Economic life of the asset and funding needs until cash generation.
- Sensitivity and scenario analysis.

3.2 INPUTS INTO FINANCIAL MODEL

This section reviews the inputs into the Financial Model.

3.2.1 Introduction

Design lives for capital cost items have not been provided or assumed. This is a serious omission and should be addressed in detail. Major cost items such, as the cableway needs to be qualified by this information/ assumption. Design lives have major impacts on the financial model, especially with regard to the term of economic evaluation.

It must be noted that this study was completed in 2000 and, at the very least; costs should be escalated to 2003.

3.2.2 Capital Costs pertaining to Cableway

A specialist cableway supplier (Doppelmayr) was engaged to provide information in this regard. Capital Costs have been estimated to a degree of accuracy, but no company profile of Doppelmayr is attached. The capital cost of the cableway and ancillaries, account for almost 44% of the total capital cost of the project. A cost estimate obtained from our specialist, Pomagalski, indicates a capital cost of $6 082 000 (Base year 2003). This compares favourably with the cost of $6 000 000 (Base year 2000) provided by Doppelmayr.

	Base year 2003	
	Exchange Rate R8=$1	
Basic Cableway Material / Equipment	$4,014,000	R32, 112,000
Civil Foundations etc.	$905,000	R7, 240,000
Transportation / Shipping	$242,000	R1, 936,000

Erection and Commissioning	$921,000	R7, 368,000
Total	**$6,082,000**	**R48, 656,000**

3.2.3 Capital costs (Cableway excluded)

1) Access Road to Parking Area

- Capital costs are adequately estimated for the Pre - Feasibility Phase.
- Capital cost accounts for 21.86% of the total Capital Budget.

2) Shuttle road to Lower Station

- Capital costs are adequately estimated for the Pre - Feasibility Phase.
- Capital cost accounts for 7.55% of the total Capital Budget.

3) Parking Area

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

4) Shuttle buses.

- Backup information for this cost item is not adequate.
- It would be advisable to obtain a faxed quote from a recognised manufacturer/supplier.
- Capital cost accounts for 5.65% of total Capital Budget.

5) Lower Station Facilities

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

6) Upper Station Facilities

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

7) Standby Generators and Switchgear

- Input from the cableway supplier was not obtained in this regard. The consulting electrical engineers provided a cost, assuming a demand of 2 MVA. Information received from Pomagalski indicates that the demand may be as low as 1 MVA.

8) Electrical Supply

- Input from the cableway supplier was not obtained in this regard. The consulting electrical engineers provided a cost, assuming a demand of 2 MVA. Information received from Pomagalski indicates that the demand may be as low as 1 MVA.

9) Water Supply

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

10) Computers, Telephones etc.

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

11) Fees and Disbursements @ 12% of items 2-10

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

12) Feasibility Study

- This amount is not sufficient in, our opinion.

13) Site Supervision

- This amount is not sufficient in, our opinion.

14) Geotechnical assessment

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

15) Land Survey and GIS

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

16) Environmental Impact Assessment

- Given the environmental sensitivity of this project, this amount is not sufficient, in our opinion.

17) Social Development

- This cost will be considerably higher if certain socio-economic objectives need to be met.

18) Legal Costs

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

19) Advertising and Marketing

- Capital costs are adequately estimated for the Pre - Feasibility Phase.

<u>Recommendation</u>

Provision should be made for:

- **Costs associated with obtaining the necessary land-use rights.**
- **Costs for capital items, considering design lives.**

3.2.4 Maintenance Costs (Expenses)

1) Staff Wages

- Input from the cableway supplier was not obtained in this regard. This should be costed to greater accuracy.

- This cost accounts for 21% of the Total Operating Cost (expenses).

2) Maintenance of Buildings

- Maintenance costs of 2.5% are very low over a 9-year period. A higher (more conservative) percentage is recommended.

3) Maintenance of Cableway

- Operational costs are adequately estimated for the Pre - Feasibility Phase.
- Information obtained Pomagalski estimates this cost to be in the region of R 240 000.

4) Maintenance of Water Supply

- Maintenance costs of 3% are low.
- A higher (more conservative) percentage is recommended.

5) Maintenance of Sanitation System

- Maintenance costs of sanitation systems are generally quite low, depending on specification. This percentage seems to be in order.

6) Maintenance of Electrical Reticulation

A cost of R1, 291,721 in year 2 has been allowed for in the Economic Analysis on page 32 (escalating by 5%/year). This cost is based on:

A monthly charge (Assuming 2MVA)	:R 190.24
A demand charge (R/MVA)	:R 42.38
An energy charge (R/kWh)	:R 0.088

Input from the cableway supplier was not obtained in this regard. Operational costs were calculated, assuming a demand of 2 MVA and energy requirements of 200 000 kWh per month. Information received from Pomagalski indicates that the demand may be as low as 1 MVA and the kWh as low as 44 000 kWh per month.

It is recommended that there be differentiation between:

i. Maintenance of the electrical network.
ii. Monthly electricity costs, based on expected demand.

This expense accounts for 35% of the total operating cost expenses in year 2 (see page 32). Variations in this cost will have a major impact on the Economic Analysis and therefore also on the “Profit/Loss before tax and financing”.

7) Insurance Costs

- Costs are adequately estimated for the Pre - Feasibility Phase.

8) Land Costs (fixed)

- Costs are adequately estimated for the Pre - Feasibility Phase.

9) Land Cost (as % of turnover)

- Costs are adequately estimated for the Pre - Feasibility Phase.

10) Consumables (as % of turnover)

- Costs are adequately estimated for the Pre - Feasibility Phase.

11) Advertising (as % of turnover)

- There is no back-up information substantiating this cost assumption.
- This cost accounts for 17% of the total operating cost (expenses).

12) Other

- Costs are adequately estimated for the Pre - Feasibility Phase.

13) Variable Maintenance

- Costs are adequately estimated for the Pre - Feasibility Phase.

Recommendation

Provision should be made for additional costs associated with:

- **Maintenance of the shuttle road.**
- **Maintenance of busses.**
- **Maintenance of electrical equipment.**

3.2.5 Revenue Assumptions (Tourism Growth)

This section reviews those sections of the Pre-Feasibility Study that impacts on tourism estimates and revenue assumptions. It also takes cognisance of other aspects of tourism, where these could have a material impact on tourism demand or the social benefits and impacts of tourism.

In several instances, recommendations are given as to how the data may be improved. These recommendations may only be undertaken in a full Feasibility Study, but acknowledgement that they need to be completed, must be recognised at the Pre-Feasibility stage.

For easy reference comments and recommendations are given under the paragraph numbers and headings used in the Pre-Feasibility Study.

1) Introduction

The Pre-Feasibility Study itemises previous studies and reports.

Since the publication of the Pre-Feasibility Study, a large part of the Drakensberg was declared a World Heritage Site in Cairns in November 2000. Under the formal name of the uKhahlamba-Drakensberg World Heritage Site it is now recognised globally, under the auspices of the World Heritage Commission (an arm of UNESCO).

There is a strict procedure for World Heritage status and the World Heritage Site inscription brings great tourist value to any site, because

its protection and evaluation is recognised by the international community. Each inscription needs to be accompanied by an integrated management plan, compiled by the relevant Government.

Recommendation

It is necessary that the terms and conditions of the World Heritage Site Nomination and the Management Plan be considered in the Pre-Feasibility Study, because they will determine conditions for tourism and revenue generation. The exact boundaries of the World Heritage Site also need to be determined. It is accepted that this was not possible at the time of the compilation of the Pre - Feasibility Study.

2) Background

No comments from a tourism perspective.

3) Location Of Site

See Section 8.3 below.

4) The Mnweni Community, and

5) Existing Infrastructure and Activities

Sections 4 and 5 are evaluated together.

The assumptions and observations regarding impacts on local culture are common to many rural South African communities and can be accepted as correct.

There are, however, important tourism issues that the Pre-Feasibility Study fails to address:

The effect that a core anchor project such as the cableway can have on stimulating auxiliary tourism development, including community-based tourism is not sufficiently stressed. Rather than evaluating the feasibility of the cableway project in isolation, the local benefits (and negative impacts) should be addressed. A strong, innovative project like the cableway can reconfigure the entire tourist map, drawing visitors into new and existing accommodation, experiences and facilities. Community-based tourism opportunities, employment opportunities, partnerships and appropriate SMMEs need to be identified and assessed.

Recommendation

Since the preparation of the Pre-Feasibility Study, the Department of Environmental Affairs and Tourism has published a critical document entitled: *Guidelines for Responsible Tourism*. These state clear economic, social and environmental objectives. The Pre-Feasibility Study should evaluate the project against those objectives and estimate the cumulative benefits and impacts.

6) Regional Context of Current Tourism and Conservation Developments

6.1) Tourism Context

Tourism figures provided in the Pre-Feasibility Study are presently out of date. Statistics concerning the number of foreign tourists in South Africa (and other details about their activities, itineraries and interests) are available from SA Tourism on a quarterly basis. They are currently available up to the first quarter of 2003.

Updated domestic tourism statistics are also available from KZN Tourism and other sources.

See Section 8.3 for comment and recommendations on the extrapolation of tourist data in the Pre-Feasibility Study.

6.2) Conservation and Environmental Context

The cumulative benefits of World Heritage Site status on tourism numbers need to be considered. Importantly, the Pre-Feasibility Study needs to assess the possibility that construction of a cableway may jeopardise that status, or require international reassessment, and this may impact on tourism demand. The assessment should be based on the WHS Nomination documents.

Recommendation

A desktop survey of World Heritage Commission reports, conditions and management plans should be undertaken.

7) Current Development Proposals for Mnweni

The Pre-Feasibility Study considers alternative options for increasing the number of tourists to the area and for enlarging the tourist experiences in a phased process. These phased, less disruptive tourism developments need to be quantified in a manner that allows for proper comparison with the cableway proposal. They should also be considered as integral with, rather than alternatives to, the cableway proposal.

Recommendation

Comparative tourist numbers, revenue generation and IRR computations should be modelled for the alternative, phased developments to allow direct comparison or integration with the cableway.

8) The Cableway

8.1) Background review and comparison of past cableway proposals

These proposals are not under review in this report.

8.2) Land and legal issues

Insufficient attention has been given to the variety of new and old legislation that bears upon the tourist aspects of the cableway project.

Recommendation

Comment on the impact and/or applicability of the following laws and bills relating to the proposal needs to be included in the Pre-Feasibility Study.

- **Convention concerning the Protection of the World Cultural and Natural Heritage 1972 (and later amendments or augmentation of the Commission or UNESCO).**
- **White Paper on Tourism 1997**
- **World Heritage Convention Act 49 of 1999**
- **National Heritage Resources Act 25 of 1999**
- **Extension of Security of Tenure Act 62 of 1997**
- **Protected Areas Bill. This legislation is currently before Parliament.**
- **Biodiversity Bill. This legislation is in final draft stage.**

8.3) Proposed site

The Pre-Feasibility Study refers to a range of alternative sites that were considered for the cableway, but only assesses the feasibility of one - Mnweni. If other sites are evaluated, market accessibility must be considered because this will influence tourist demand.

Recommendation

Both domestic and foreign tourists to the Drakensberg come, principally, via Gauteng or Durban. The distance and accessibility of alternative cableway sites from these centres must be taken into account.

8.4) Proposed facilities

8.4.1 General

The Pre-Feasibility Study recommends a shuttle service from off-site parking.

From a tourist perspective, this concept is sound, but it may present problems at peak periods. The inconvenience factor also needs to be evaluated.

A road, appropriately designed for the fragile environment could provide easy access to the resident communities

Recommendation

The impact on the capital cost necessary to cater for peak periods needs to be assessed.

(See comments on peak period factors under paragraph 8.5.4).

8.4.2 – 8.4.10 Tourist facilities and infrastructure

The construction of the cableway and the tourism infrastructure that will follow it will bring about economic and social improvements that need to be taken into account. They will also

play an important part in general economic upliftment of the area that follows the construction of good roads, the introduction of electric power, services, retail outlets etc. This 'hidden income' is especially important in the evaluation and support of public-funded initiatives.

Recommendation
Spin-off benefits to local communities of tourism infrastructure need to be estimated / quantified.

8.5) Design parameters

8.5.1 Introduction.

The study emphasises the need for international standards. This is unquestionably correct.

8.5.2 Estimate of expected users

It is agreed that comparison of tourism *numbers* with the Cape Town Table Mountain cableway is invalid, because of the fundamentally different factors that apply in each case. However, comparison of *seasonal fluctuations*, the effects of public holidays and long weekends, etc. should be considered.

Another important point: there is a major new ski destination under construction at Oxbow in Lesotho, involving a lodge development with snow machines to extend the ski season. There is a tar road linking Mokhotlong to Oxbow. Skiers would be able to ride up from the KZN side on a cableway to link up with tour operators who would pick them up on top and take them Oxbow. Special consideration should be given to this mode of transport in this regard, because road construction could prove problematic as a result of construction problems experienced in "alpine zones". (See 5.3.6 under the Environmental section) The alternative route by road is from Fouriesburg and Buthe Butha, which is a long trek for people from Durban.

Recommendation
Seasonal patterns from a range of short-duration tourist attractions, such as the Table Mountain cableway, Hartebeespoort cableway, Sun City Valley of the Waves etc, should be used to estimate and substantiate short-term fluctuations.

More recent and accurate visitor numbers are available. (See Section 6.1 above.) However, the process of determining future demand for the cableway by extrapolating current visitor numbers is fundamentally flawed for the following reasons:

- There is no reason to think that the entire pool of cableway users will be drawn from current visitors to the Drakensberg. They are no more, or no less, likely to use the cableway than current non-visitors. 'Traditional' or 'existing' visitors are seeking experiences and expectations that do not include a

cableway – they *do* visit the Drakensberg and there *is* no cableway. However, many of those who do not currently visit the Drakensberg may be attracted by a cableway.

- Most foreign tourists visit destinations, because they are included in the itineraries of tour operators or because travel agents promote them. World Heritage Site status may considerably increase the tour operator/travel agent market segment, as may the effective marketing of the cableway through these channels.

- The extent to which the cableway is marketed through agencies and operators will determine the number of visitors.

- Major shifts in tourism expectations are developing. They include adventure tourism, authentic community culture tourism etc. Studies of these developments are available.

Recommendation

Valid forecasts of tourist numbers to the cableway must be based on market research using samples that include:

- **Tour operators (foreign tourists)**

- **Travel agents**

- **Gauteng and Durban/Pietermaritzburg in LSM 7 and 8 market segments (local visitors).**

Although such research may only be worthwhile when a full Feasibility Study is undertaken, any other demand estimates for this venture, which has no comparable project in South Africa, would only be guesswork.

Growth trends based on single-year variances are not relevant. Short-term tourism fluctuations are notoriously volatile and can be radically affected by random incidents such as political violence, SARS virus, 11 September, currency exchange rates etc.

Recommendation

Tourism growth forecasts should be based on long-term smoothed, growth trends and complementary market intelligence.

8.5.3 Access roads

It is imperative that roads and parking facilities be designed to allow for tour buses, as proposed in back-up information for the Pre- Feasibility Study.

8.5.4 Main design and evaluation inputs

Certain assumptions are unsubstantiated in the Pre-Feasibility Study and need to be based on empirical evidence or qualified estimates. Assumptions that require substantiation are:

- **Annual growth rate of 10%.**

  Studies of other new tourism attractions may reveal non-linear bell-curve growth patterns during initial years that will materially affect financial feasibility.

- **Adult-children ratio 7:3.**

  Research or comparisons with other, similar projects are available to substantiate this.

- **Peak factor of 4.**

  This is a critical factor that will materially influence capital and operating costs and must be more definitely predicted. Because of the long distances of this project from visitor bases in towns and hotels, failure to meet peak demand will have particularly severe repercussions. An off-peak factor may also useful to enable fixed costs to be allocated over non-productive time.

- **Pricing at R70 for adults and R30 for children.**

  This requires some rationale. Price-demand sensitivity also needs to be determined.

Recommendation

The above assumptions should be substantiated through extensive consumer research, by examining available statistics or information from other tourism facilities.

SECTION 4

COMMUNITY ISSUES

4 COMMUNITY ISSUES

4.1 INTRODUCTION

The original Pre-Feasibility Study completed in October 2000 suggests that:

◊ Affected communities were consulted about the proposed development and;

◊ Affected communities agreed to the proposed development, because of its potential to create jobs and alleviate poverty.

The report also suggested that this development should be implemented in a phased manner in order not to radically change the communities' traditions and culture, and to allow communities to buy into each stage of development.

Given this background, the following needs clarification:

a) How were the communities consulted?

b) Who were consulted – organizations, key individuals etc?

c) What was the extent of the consultations?

d) How representative of the community were the parties consulted?

e) Were parties fully aware of the impact of the proposed development i.e. social, environmental and economical?

f) Did consulted parties make informed decisions?

g) Why the Mnweni out of other similar communities?

4.2 GOVERNMENT POLICY WITH REGARD TO TOURISM

Government policy has recognized that visitor satisfaction is closely connected with the conservation of South Africa's social and physical diversity. On the one hand Government recognizes that the asset base of the country, comprising its cultures, game parks, scenery and infrastructure of tourism services, must be conserved in order to be marketed. On the other hand, Government policy is very specific about empowering the previously disadvantaged, who need training and resources to enter tourism in order to make the best of what the country has to offer. The 1996 White Paper on Tourism issued by the Department of Environmental Affairs and Tourism (DEAT, 1996) sets out the key objectives of policy as follows:

- Generating economic growth, specifically job creation and opportunities for small entrepreneurs.

- Ensuring that the tourism industry is sustainable and, in particular, that it aids rural communities.
- Making tourism a national priority and encouraging a tourism investment climate.
- Encouraging tourism "with dignity", meaning both responsible tourism and participation in capacity-building programmes.
- Developing eco-tourism with a focus on cultural tourism as a means of creating a national identity, which is both dignified and marketable.

In this context the following needs to be clarified as a matter of urgency:

a) Does the community of Mnweni still support the development of a cableway?

b) Is this proposal included in the Local Authority's Integrated Development Plan (IDP)?

c) The proposed development is not only about job creation and alleviation of poverty; it is also about changes in their lifestyle. Is the community fully aware of the social impact of the proposed project e.g. influx of tourists, demarcation of land for development etc?

d) How does the community currently participate in the Ward Committees and Integrated Development Plan (IDP)? Is this participation satisfactory?

e) What are the anticipated economic activities for the community e.g. community guide hikes, township tourism, arts and culture outlets, bed and breakfast places etc?

f) What are current tourism development initiatives and how do they impact on the community?

4.3 OPPORTUNITIES AND CONSTRAINTS FOR TOURISM DEVELOPMENT

Primary constraints to tourism development in the Okhahlamba Local Authority include:

- High poverty levels making basic services a key priority.
- Limited human capacity.
- Poor infrastructure (also a positive factor).
- Security.
- Relatively small and unpredictable tourist market.
- Lack of funds and risky investor climate.
- Land tenure issues.

4.4 KEY DEVELOPMENT FACTORS NEEDED FOR SUSTAINABLE TOURISM DEVELOPMENT

- Substantial private sector involvement and investment.
- Establishment and co-operation of partnerships among key stakeholders.
- Effective community involvement and empowerment.
- Sustainable environmental practices.
- Appropriate and responsible infrastructure provision.
- Protection and responsible management of the natural and cultural heritage of local people.
- Concept of "responsible tourism" is the most appropriate form of tourism development.
- Effective marketing strategies.
- Preventing "income" leakage (the concept of money leaving the municipal area before contributing to economic activity locally) from the local municipal area.

A Pre-Feasibility Study should flag these issues, in order to allow for further investigation during the appropriate part of the process. Public participation is an important element around this issue. The community/affected parties needs to be empowered by participating in the decision-making about issues that affect them directly. In that way the community/affected parties will be provided with the opportunity to give informed and meaningful input to the project. The community involvement goals and needs must be considered and balanced with the project's technical, financial, legal and environmental requirements.

SECTION 5

ENVIRONMENTAL ISSUES

5 ENVIRONMENTAL ISSUES

5.1 INTRODUCTION

There is no explanation as to the standing or credentials of the "Federation of Drakensberg User Groups" or FDG. It is also important to note that the team conducting the study received it's brief from a group that really represents only one, of a whole host of interested and affected parties. The Integrated Planning Services (IPS) study in 1998 is purported to have stated that cableways (in the Drakensberg) are "inappropriate". This is not correct – the IPS document used the word "premature", which is quite a different interpretation.

A general impression is that the team compiling the Pre-Feasibility Study was given a mandate to what the outcome of the study should be. In this particular case the Cableway proposal was meant to be "non-viable".

5.2 LOCATION OF SITE

In assuming that the upper station would be on the North Peak of the Saddle formation, the Pre-Feasibility Study has introduced a degree of certainty that one certainly cannot read into the Van Riet report. Indeed, this location is Van Riet's third choice, and even his study was not inclusive of the whole Drakensberg range, as the Pre-Feasibility Study points out later. If indeed the Mnweni valley **"has the potential to add to the significant percentage of managed wilderness zones which exist in South Africa"**, then this would be highlighted in the detailed Environmental Impact Assessment required by law, and possibly constitute a fatal flaw.

5.3 THE MNWENI COMMUNITY

The Pre-Feasibility Study provides a contradiction here in that while the poverty of the community is acknowledged, a greatly increased number of tourists in the valley will destroy its unique wilderness qualities. It is likewise unlikely that hikers are "big spenders", and as long as the area is accessible only to this sector of the community, the depressed economy of the valley will not show any improvement.

5.4 EXISTING INFRASTRUCTURE AND ACTIVITIES

What the Mnweni valley probably needs most is an updated zoning study to determine which areas are best utilized for grazing and settlement, and which not. (It is understood that a Special Case Area Plan (SCAP) exists and essentially fulfils the role of a zoning study, but the legal status of this document is uncertain, at present.) Infrastructure could then be kept below the level where human activities are damaging the environment.

5.5 TOURISM CONTEXT

The method used to estimate how many visitors might use the cableway is flawed. Most current visitors to the Drakensberg appear to be those who stay in the resorts and do only limited walking or none at all. The relatively small number of people who reach the summit are those who are enthusiastic and fit hikers. It is doubtful that Table Mountain would have a fraction of its visitors if they had to climb the mountain. If there were a cableway in the Drakensberg, this would vastly increase the numbers of people who would visit, because they can now reach the summit without being super-fit.

5.6 CONSERVATION AND ENVIRONMENTAL CONTEXT

5.6.1 Values of International Significance

It must be stressed that World Heritage Site status does not preclude development, although it does provide extra protection against destructive development. In Australia's Kakadu National Park, for example, a small section of the park was deproclaimed to accommodate a uranium mine. When its mineral reserve is depleted, the mine will be rehabilitated and re-incorporated into the park. There is nothing in the World Heritage Site regulations that would preclude the construction of a cableway in the Drakensberg.

5.6.2 Values of National Significance

The concept of "wilderness" is a very subjective one, and not all people would subscribe to the notion that there is any true wilderness left on the planet. With proper zoning, it should be possible to maintain areas of so-called "wilderness" in the Drakensberg.

5.6.3 Values of Local Significance

It is important to note that current land uses are largely unsustainable and are causing serious environmental degradation.

The Pre-Feasibility Study then concludes that: **"Construction and operation of a cableway would affect these values."** It is accepted and understood that a project of this nature would require a fully comprehensive Environmental Impact Assessment and associated process(es).

5.6.4 Biodiversity

The Pre-Feasibility Study assumes certainty regarding the exact location of the upper cableway station, which is extremely misleading. If the top of the North Peak of the Saddle is as sensitive as the writers claim, then this site will be deemed unacceptable in an EIA. The Pre-Feasibility Study is anticipating the outcome of the EIA. This is a fatal flaw, because a responsible Pre-Feasibility Study should never presume the outcome of a complicated and involved process, such as that of an EIA. The alleged "impacts on Lesotho" are likewise linked to the site specificity of

the project to this particular area. Some of Van Riet's other recommended sites are apparently far less sensitive.

A general observation on the "alpine zone" from experience in Lesotho is that it is extremely fragile and easily damaged. The northern access road for the Lesotho Highlands Water Project was an environmental disaster, as heavy machinery sank into the alpine bogs while trying to construct the route. Substantial amounts of money have been spent in trying to rehabilitate the Bokong wetland as a result of this insensitivity.

However, given the wisdom of hindsight, it is clear that these alpine wetlands are located some distance away from the highest ground, developing below areas of rain penetration where seeps reach the surface. An upper station for a cableway would be located on the highest ground, usually on the edge of a precipice, where the impact is potentially less. What needs to be avoided at all costs is road construction in the alpine bog zone in order to reach the upper station construction site.

With proper planning and due consideration of the environment, there is no reason why an upper station for a cableway cannot be built with minimal impact on biodiversity.

5.6.5 Outstanding natural beauty, wilderness values

"The impacts of a cableway on these values are undeniable and will have to be addressed. It is unlikely that they can be mitigated."

The cableway on Table Mountain is now so familiar to visitors that the outstanding natural beauty of the **view from the top** is what is important. There is no reason to believe that a cableway in the Drakensberg would be any different.

5.6.6 Implications of the World Heritage Site listing

The area is already a WHS. There is no valid reason for the World Heritage Committee not to support the construction of a cableway, provided it is constructed in a responsible and environmentally sensitive manner.

5.6.7 Implications for the Maloti Drakensberg Transfrontier Conservation (TFCA) and Development Project

There is no valid reason for the Transfrontier Conservation project to impact negatively on the construction of a cableway. From all accounts, the GEF-funded Drakensberg-Maloti TFCA plan is going ahead.

5.7 CURRENT DEVELOPMENT PROPOSALS FOR MNWENI

The IPS study for the valley proposes a conservative, phased programme of low impact tourism and land rehabilitation. The Pre-Feasibility Study seems to endorse this and says **"The spectacular natural environment in this remote section of**

the Drakensberg is the primary attraction. It is this quality that is a potentially lucrative niche market and could provide a unique combination of hiking and riding trails teamed with genuine cultural tourism." The authors of the report also seem to think that this "potentially lucrative niche market" could also fund conservation and the rehabilitation of disturbed and eroded areas. This is a highly unlikely assumption.

5.8 THE CABLEWAY

The main comment here is the extraordinary amount of space the report has devoted to the EIA process. It is important to note that the EIA process is a very important, separate process that will have to be dealt with extensively, should this project proceed to the construction phase. We are of the opinion that attempts to pre-empt this process should be minimal, but it is important that costs and risks associated with this process be identified.

The Pre-Feasibility Study actually proposes how the cableway could successfully be designed and constructed in this specific location. The authors have come up with a very good plan to realise the construction of the cableway. They have not, however, provided the necessary caveats regarding the sensitivity of building an upper station for the cableway, which would in any case require special attention in the EIA study/process. Otherwise proposals are constructive and thoughtful.

It is assumed that the original proponents of the cableway project had a specific locality and community in mind to benefit from the development.

It is suggested that Tourism KZN revisit and evaluate this concept against a wider vision for what would be best for the province, rather than piecemeal proposals / studies from specific interest groups and Regional Councils.

SECTION 6

LEGAL ISSUES

6 LEGAL ISSUES

6.1 INTRODUCTION

The focus of this assessment has been on Section 8.2 of the Proposed Mnweni Cableway: Pre-Feasibility Study titled 'Land and Legal Issues'

Broadly speaking, the legal overview covers the legal provisions applicable to the proposed development. Over the past two years, however, there have been significant legal and policy developments by the Department of Environmental Affairs and Tourism (DEAT) related to the environmental impact assessment process, protected areas management, biodiversity conservation and community-based natural resource management. As this study was compiled in October 2000, it is understandable that this draft legislation has not been mentioned. Further, it must be recognized that this legislation is still in draft form and may change prior to its enactment.

The legal analysis initially covers relevant Provincial Legislation that was not referred to in the Pre-Feasibility Study and then moves on to an examination of draft policy and legislation

6.2 PROVINCIAL NATURE CONSERVATION LEGISLATION

The Pre-Feasibility Study does not refer to the following pieces of Provincial Legislation that are relevant to any proposed developments in the area concerned:

- The Natal Nature Conservation Ordinance 15 of 1974
- The KwaZulu Nature Conservation Act 29 of 1992 (The legislation of the former self-governing territory of KwaZulu has not been repealed and remains in place)
- The KwaZulu-Natal Nature Conservation Management Act 9 of 1997

The Ordinance and Acts deal with protected areas and species conservation for both state and private land. There are numerous provisions that would have to be complied with, depending on the nature of the activity being undertaken (there are, for instance, provisions imposing restrictions on the picking of certain plant species). These specific provisions have not been referred to in detail.

Notably however, in October 2000, KZN Wildlife inaugurated members of four local boards appointed to facilitate an integrated management approach between KZN Wildlife protected areas and their surrounding communities. This initiative has been implemented in accordance with the KwaZulu-Natal Nature Conservation Management Act 9 of 1997 and one of the local boards has been appointed for the Ukhahlamba-Drakensburg Park. These local boards are independent but are required to work within the policies set by the KwaZulu-Natal Nature Conservation Board and supported by KZN Wildlife. Members of the local boards can be drawn

from tribal authorities (representing local communities), but also from other sectors such as formal agriculture or local authorities. (Burgener et al, 2001.)

It must, therefore, be determined in any future discussions with the Mnweni community whether these provisions apply, as integrated management of the area is likely to be to the community's advantage.

6.3 DRAFT LEGISLATION

The National Environmental Management Second Amendment Bill, 2003 (DEAT, 2003a) was published in February 2003 and is likely to enter into force in late 2003. The provisions contained in this Bill will replace the provisions on environmental impact assessments that are currently found in the regulations to sections 21 and 22 of the Environment Conservation Act 73 of 1989. The existing provisions have been covered fairly comprehensively in the Pre-Feasibility Study.

The amendment to the National Environmental Management Act 107 of 1998 (NEMA) seeks to:

- Provide for the listing of activities that requires an environmental authorization
- Provide for offences when listed activities are undertaken without or in contradiction with an environmental authorization
- Provide for associations of environmental assessment practitioners to be registered
- Provide for cost recovery for services delivered by competent authorities

Section 24 of NEMA provides for both the Minister and MEC to identify activities or areas in which certain activities may not be undertaken in the absence of an environmental authorization.

The National Environmental Management: Protected Areas Bill (DEAT, 2003b) was published in February 2003 and is likely to be enacted in late 2003 or early 2004.

In terms of the Bill, provision is made for the declaration and management of different types of protected areas in South Africa, as well as the maintenance of a register of such protected areas. Land can be declared as a National Park but can be managed by an organ of State other than the National Parks Board. This is markedly different to the current position where, in terms of the National Parks Act 57 of 1976, the National Parks Board can only manage National Parks. Land is defined in the Bill as state land; state controlled land or private land with the written consent of the owner.

Mention is made on page 11 of the study that the staff members of the Ministries of Environment and Agriculture in Lesotho are already talking about the declaration of the area as a National Park, although it is not clear precisely which 'area' is being described.

The National Environmental Management: Biodiversity Bill (DEAT, 2003c) was published for comment in February 2003 and is likely to be enacted in late 2003 or early 2004. This is framework legislation and is accordingly heavily dependant on regulations for its implementation. Promulgation of regulations is likely to take place in late 2004.

The Bill contains provisions on new institutional arrangements for the regulation of biodiversity, the establishment of national norms and standards for biodiversity conservation, threatened ecosystems and species protection, alien and invasive species and bio prospecting and access and benefit sharing.

6.4 POLICY PROCESSES

The National Biodiversity Strategy and Action Plan

DEAT has recently received funding from the UNDP Global Environment Facility to develop a national biodiversity strategy and action plan (NBSAP). The NBSAP should contain the following:

- Strategies for biodiversity conservation;
- Strategies for the sustainable use of biological resources;
- Strategies for the equitable sharing of benefits derived from the use of genetic resources;
- Strategies for the conservation and sustainable use of agricultural biodiversity;
- Strategies for bio-safety

As with the community-based natural resource management guidelines discussed below, it is submitted that any future development strategies for the Mnweni make use of policy documents and processes such as these. Not only is such a strategy more likely to result in sustainable development of the area, but also potential funding proposals to Government Aid Agencies, the private sector and National Government are more likely to meet with success if they can demonstrate that they are based on national policies, strategies and guidelines.

SECTION 7

PRE-FEASIBILITY STUDY TEAM

7 PRE-FEASIBILITY STUDY TEAM

The team responsible for the compilation of the Mnweni Cableway Pre-Feasibility Study consisted of:

D. Reinecke. BSc Eng (Civil) Pr Eng
P.G. Stewart. BSc (Agric) MS (Wildlife Management)
S.W. Cooke. BSc Eng (Mech) Pr Eng
I. Lax. B Proc
K.L. Kohler. BA (Hons), MA (Geog)

The following should be noted:

- No financial specialist was included as part of the study team.
- No mention was made with regard to innovative partnering possibilities. A transfrontier facility, with Lesotho as a potential partner, could be investigated.
- The specialist cableway vendor / supplier (Doppelmayer) provided limited input into the study.

SECTION 8

PRE-FEASIBILITY STUDY METHODOLOGY

8 PRE-FEASIBILITY STUDY METHODOLOGY

The basic study methodology is flawed with specific regard to:

- Design life of cableway and other cost items were neglected.
- Accuracy levels of inputs are not specified.
- Estimates of tourism numbers are based on the assumption that demand for the cableway will be a function of the number of visitors who currently visit the Drakensberg.
- It is unclear whether the study team were aware of the decision making process of which a Pre-Feasibility Study is only a part. I.e.
    - Phase 1: Conceptual
    - Phase 2: Pre-Feasibility (30% accuracy)
    - Phase 3: Feasibility (20% accuracy)
    - Phase 4: Control Budget Estimate (10% accuracy)
- Separate risks (related to costs) are not identified and highlighted with regard to specialist studies such as:
    - Environmental Impact Assessment (EIA)
    - Geotechnical Assessment
    - Legal Issues
    - Community Issues
- The outcome of these studies could have a severe cost implication for the project.
- It is unclear what the economic and / or socio-economic objectives of the group who commissioned the study were.
- The team responsible for compiling the Pre - Feasibility Study was not an independent team of consultants, was not formally appointed and was not remunerated for services rendered.
- The team responsible for compiling the Pre – Feasibility Study was not provided with specific brief or scope of work.

SECTION 9

IMPACT OF INPUTS ON FINANCIAL MODEL

9 IMPACT OF INPUTS ON FINANCIAL MODEL

	% Of Project Cost as per Pre-Feasibility Study	Expected Impact on Financial Model	
		Major	Minor
Costs pertaining to Cableway			
1) Cost of Cableway and Ancillaries	43.89	X	
Costs Remaining			
1) Access Road to Parking Area	22.24	X	
2) Shuttle road to Lower Station	7.69	X	
3) Parking Area	4.77	X	
4) Shuttle buses	5.75	X	
5) Lower Station Facilities	1.01		X
6) Upper Station Facilities	1.07		X
7) Standby Generators and Switchgear	2.40		X
8) Electrical Supply	1.04		X
9) Water Supply	0.26		X
10) Computers, Telephones etc.	0.21		X
11) * Fees and Disbursements @ 12% of items 2-10	5.76	X	
12) Feasibility Study			X
13) Site Supervision			X
14) Geotechnical assessment			X
15) Land Survey and GIS			X
16) Environmental Impact Assessment			X
17) Social Development			X
18) Legal Costs			X
19) Advertising and Marketing			X

* Although this accounts for 5.76% of the total project cost, it is a percentage of certain capital items. This means that if costs of major items are within certain accuracies, this cost will also be to the same accuracy.

	% Of Operational Cost (Expenses) as per Pre-Feasibility Study	Expected Impact on Financial Model	
		Major	**Minor**
Operational Costs			
1) Staff Wages	21.0	X	
2) Maintenance of Buildings	3.0		X
3) Maintenance of Cableway	6.0	X	
4) Maintenance of Water Supply	0.2		X
5) Maintenance of Sanitation System	1.0		X
6) Maintenance of Electrical Reticulation	35.0	X	
7) Insurance Costs	3		X
8) Land Costs (fixed)	0.4		X
9) Land Cost (as % of turnover)	4.0		X
10) Consumables (as % of turnover)	5.0		X
11) Advertising (as % of turnover)	17.0	X	
12) Other	3.0		X
13) Variable Maintenance	1.0		X
Revenue Assumptions		**X**	
Means of Funding			
Equity		X	
Grants		X	
Loans		X	

This table highlights the following points:

- ◊ Cumulative costs of the Cableway, Access Road, Shuttle Road, Parking Area and Shuttle Buses account for more than 80% of the Project Cost. Inaccuracies in these estimates will have a major impact on the financial model.
- ◊ Cumulative operational costs associated with Staff Wages, Maintenance of Cableway, Maintenance of Electrical Reticulation and Advertising account for almost 80% of Operational Costs. Inaccuracies in these estimates will have a major impact on the financial model.
- ◊ Revenue Assumptions and means of funding will have a major impact on the financial model.

SECTION 10

CONCLUSIONS

10 CONCLUSIONS

This review has indicated that this study cannot be construed as an accurate document addressing the financial feasibility of this project.

Main conclusions in this regard are:

Financial Model

- The Financial Model is flawed.
- A sensitivity analysis on a flawed Financial Model is flawed.
- Design lives of capital items such as busses and electrical equipment have not been taken into account. This will have a significant effect on the financial model.

Revenue Assumptions

- Revenue assumptions are flawed and outdated.

Cost Estimates

- Cost estimates related to electrical consumption are not within acceptable degrees of accuracy.
- No allowance has been made for the maintenance of electrical equipment/reticulation.
- No allowance has been made for the maintenance of busses.
- No allowance has been made for the maintenance of the shuttle road.
- It is essential that costs be updated to 2003 figures. This particular point is not a criticism of the Pre – Feasibility Study.

Environmental Issues

- Environmental Issues have been dealt with superficially and the Pre-Feasibility Study is dated as a result of new legislation and developments. This is dealt with comprehensively in the legal chapter. The recognition of the greater part of the Drakensberg as a World Heritage Site is not dealt with, nor the implications of a Trans Frontier Conservation Area (TFCA) between South Africa and Lesotho. Any future feasibility study must acknowledge that a proposed cableway would require a full Environmental Impact Assessment (EIA) to be completed that will address all environmental issues in detail. It is not usual for a Pre-Feasibility Study to address these issues in detail, but it should address the complexities and risks to a certain degree.

Legal Issues

- Legal issues have been dealt with to a degree of adequacy, at the time of compiling the Pre-Feasibility Study, but there are certain acts / ordinances that have not been considered.
- Compliance with new legislation and new draft legislation need to be assessed.

Community Issues

- Community Issues have not been dealt with adequately. It is not usual for a Pre-Feasibility Study to address these issues in detail, but if certain claims are made in a document, these should be substantiated.

General

- An independent team of consultants did not produce the report.
- The team of consultants responsible for this study did not include:

  a) A financial expert

- Detailed information (such as design life, personnel requirements, electrical requirements etc.) was not obtained from the cableway specialist.
- No mention is made of innovative partnering possibilities. (A transfrontier facility, with Lesotho as a potential partner, could be investigated)

SECTION 11

RECOMMENDATIONS

11 RECOMMENDATIONS

The current document does not qualify as a final Pre-Feasibility Study.

It is recommended that:

Tourism KwaZulu Natal, together with relevant authorities, and in association with Specialist Consultants, compiles a strategic document formalising their commitment to the further investigation of the proposed project.

This document should address the following, as a minimum:

- Strategic objectives.
- Various authorities committed to the further investigation of project.
- Public participation and community involvement.
- Compliance with relevant legislation.
- Environmental legislation.

Tourism KwaZulu Natal, with inputs from a Representative Steering Committee, and in association with Specialist Consultants, compiles a brief in order to commission a study addressing the viability of the project.

The brief should address the following, as a minimum:

- Degree of accuracy required for cost estimates
- Financial viability (and Financial modelling)
- Community issues
- Environmental issues
- Legal issues
- Specialist studies required
- Identified risks
- Innovative partnering possibilities. (A transfrontier facility, with Lesotho as a potential partner could be investigated)

SECTION 12

REFERENCES

12 REFERENCES

Document reviewed (Annexure C):

The Proposed Mnweni Cableway Pre-Feasibility Study – October 2000 prepared by individuals commissioned by The Federation of Drakensberg User Groups in October 2000

Backup information provided by Mr S Cooke.

Documents received from Tourism KwaZulu Natal, but not reviewed.

Proposed Okhahlamba Drakensberg Cableway – An Analysis of the Requirements and Options – Willem van Riet Landscape Architects – July 1994

A Tourism Feasibility Study for the Mnweni Valley, KZN Drakensberg – Integrated Planning Services (Pty) Ltd – November 1998

Taking Tourism Investment to new heights – for Uthukela Regional Council – by Grant Thornton Kessel Feinstein

KwaZulu-Natal's International Tourism Market: January & September 1998 – KwaZulu Natal Tourism Authority – March 1999

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Burgener, M., Snyman, N. and Hauck, M. 2001. *Towards a Sustainable Wildlife Trade: An Analysis of Nature Conservation legislation in South Africa with Particular reference to the Wildlife Trade*. Institute of Criminology, University of Cape Town: South Africa

DEAT, 2003a. National Environmental Management: Biodiversity Bill

DEAT, 2003b. National Environmental Management: Protected Areas Bill

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DEAT, 2003d. Draft Guidelines for the Implementation of Community-Based Natural Resource Management (CBNRM) Type Programmes in South Africa.