



EDGE

21ST ISSUE

APRIL 2018

ECONOMIC DEVELOPMENT AND GROWTH IN ETHEKWINI

INVESTMENT IN DURBAN





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WELCOME TO THE 21ST ISSUE OF *THE EDGE*, A QUARTERLY ECONOMIC BULLETIN THAT LOOKS AT THE ETHEKWINI ECONOMY, WITH A BRIEF OVERVIEW OF THE GLOBAL AND NATIONAL CONTEXT.

Published by the Policy, Strategy, Information and Research Department of eThekweni's Economic Development and Investment Promotion Unit, the *EDGE* aims to inform stakeholders of the latest developments and trends in eThekweni.

The theme of this issue centres on INVESTMENT within eThekweni.

ACKNOWLEDGEMENTS

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This publication is not intended to be prescriptive but to generate discussion and ideation. It is not the intention of the authors to portray any institution or individual in a negative light, but to present information and analysis in a manner that captures the fundamental challenges. This publication is presented in the interest of eThekweni and its people.



FOREWORD BY ECONOMIC DEVELOPMENT AND PLANNING COMMITTEE (ECOD) CHAIRPERSON, ETHEKWINI MUNICIPALITY, **CLLR SIPHO KAUNDA**

Welcome to the 21st issue. A new dawn of investor confidence has come upon South Africa and eThekweni.

We are well aware that competition for investment is intense globally, regionally and especially within competing cities in South Africa. Given previous low levels of economic growth coupled with a combination of fiscal pressures and low growth in City revenues, as well as growing social obligations and costs, eThekweni has underperformed in terms of domestic and foreign investment. This contributed to the slow creation of jobs and led to a growing social obligation, which necessitated the need to promote productive sectors and as such, amplified the role of investment. As a result, the City's approach to investment has adapted accordingly.

The leadership of the City is proud to present a range of investment interventions. The first among them is Invest Durban: an updated Investment Promotion Unit in keeping with global investment promotion best practice. It was launched by the Honourable Mayor of eThekweni Municipality, Cllr Zandile Gumede, at a well publicised event in November 2017 at the ICC in order to increase international coverage, and was aired on CNBC Africa. The leadership of the City anticipates the positive

impact on job creation and spin offs such as the economic empowerment of previously disadvantaged businesses in the City.

Additional investment initiatives, which the leadership is proud to present, include the Incentives Policy and World Bank Sub-national Doing Business reforms, which represent the City's efforts to make it easier to do business in Durban. The City has been commended by the World Bank as recently as March 2018 for its efforts to diligently carry out reforms in the processes that investors have to undertake when dealing with construction permits, property registration and getting electricity. We are also happy to report that progress was made in what are usually multi-year, and sometimes multi-decade projects under the care of the Catalytic Projects Unit.

We are also appreciative of the thorough efforts of our partners Trade and Investment KwaZulu-Natal (TIKZN) within the City, and look forward to a productive year working together to capitalise on positive investor sentiment about Durban, KZN, and South Africa.

EDITOR'S NOTE

This issue focuses on INVESTMENT within eThekweni, which is essential to any City's economy. Given the positive investor sentiments reported by the South African Chamber of Commerce and the launch of Invest Durban in November 2017, the EDGE team decided, through consultation, that a publication on investment would best serve the economy of the City. Designed for investors and potential investors, the publication provides an overview of key initiatives by the Municipality and key partners to encourage investment, then profiling an investment case in the City.



In this way, we aimed to provide both a theoretical and honest experience-based view of investing in Durban.

Some of the key questions that arose after having read the publication are:

- Do particularly domestic investors in the City know enough about where to find investment assistance, and how can this information reach them?
- How can business and government effectively work together to attract more investment into the City?
- How can the City prepare and package sufficient land for investment?

This issue is designed to be of assistance to any investor or potential investor considering Durban or similar destinations as an investment location. The EDGE team hopes that this information will be passed on; not only through reading the publication, but through word-of-mouth marketing. We also look forward to engaging with information included in the various articles, but most of all, trust that this issue will inform your strategic decision-making.

Regards,

Tshegang Chipeya

EDGE Publication Editor



ECONOMIC OVERVIEW

Economy at a Glance

STATE OF THE GLOBAL ECONOMY

	 THE WORLD BANK
Projected GDP growth for 2018	3.1%
2017 GDP growth	3.0%
2019 GDP growth	3.0%

GLOBAL HIGHLIGHTS



IMF keeps global growth forecast at 3.9%

The IMF kept its global growth forecast at 3.9% for 2018 and 2019 in the latest World Economic Outlook. However, it said that this may be threatened by trade restrictions especially between China and the US. The report also mentioned there's still opportunities for countries to engage in multilateral agreements to take advantage of this. (*IMF World Economic Outlook*)



World Economic Situation

Short-term growth continues to strengthen due to positive growth outlook for developed economies in 2018 and favourable investment conditions. This may be dampened by rising trade conflicts and the introduction of tariffs on imported goods. Weak productivity growth and lack of secure employment are constraining progress in many countries in Africa, Latin America and Western Asia. (<https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-april-2018-briefing-no-113/>)

STATE OF THE SA ECONOMY

NATIONAL GDP GROWTH AND FORECASTS

	 South African Reserve Bank
Projected GDP growth for 2018	1.7%
Projected GDP growth for 2019	1.9%

2017 GDP/Growth

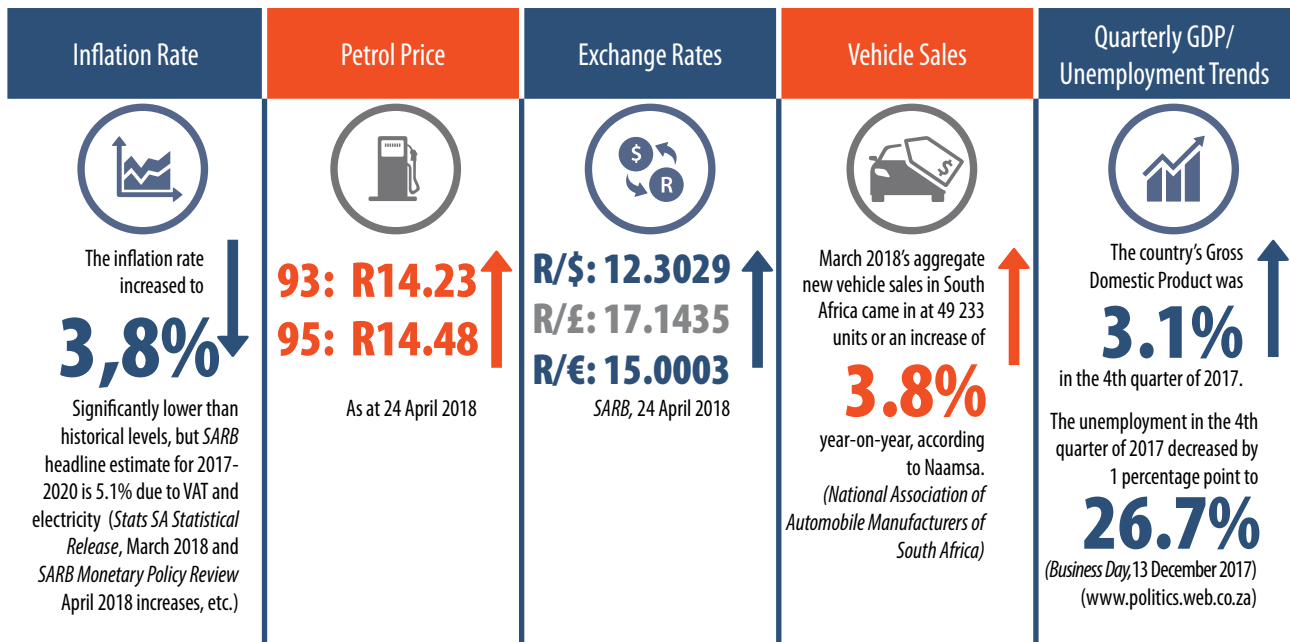
R3.12 trillion (Constant, 2010 Prices, increase of 1.3%, sourced from *Global Insight*, internal database)

HIGHLIGHTS

Budget 2018/2019 Highlights	SA Scores Top Spot in Open Budget Index Survey	India-South Africa Summit in April 2018	AU Steers Africa Toward Self-determination	City Commits to Radical Economic Transformation
<p>The R1.67 trillion budget report has indicated that while the economic forecasts have improved, there has to be policy interventions to create the right environment for investment, growth and employment in the face of global risk factors. An allocation of R18.8 billion was made for industrialisation incentives over the medium term and an additional R3.3 billion for the Economic Competitiveness and Support Package to support growth and job creation in the Industrial Policy Action Plan. <i>(SANews, 22 February 2018)</i></p>	<p>The country shared top spot in the recent Open Budget Index survey from 115 countries. The index measures a country's efforts to deepen transparency in budget processes. The spot is shared with New Zealand. <i>(SA News, 1 February 2018)</i></p>	<p>The Department of Trade and Industry, in partnership with the High Commission of India, Ministry of Commerce and Industry of India, Invest India, the Confederation of Indian Industry and the Federation of Indian Chambers of Commerce & Industry will hold a business summit during 29-30 April at the Sandton Convention Centre. The purpose is to maximise economic and commercial partnerships between the two countries. <i>(Mercury, 16 April 2018)</i></p>	<p>Major AU initiatives include Continental Free Trade Agreement (CFTA), Tripartite Free Trade Agreement, Single African Air Transport Movement (SAATM), and Free Movement Protocol (FMP). Once CFTA is in operation, African businesses will no longer pay tariffs on a range of goods they trade between African countries. Although endorsed by 44 African states, individual countries will still need to implement laws through their domestic processes. CFTA is projected to be operational by end 2019. <i>(African Union and Tralac, 2018)</i></p>	<p>The City has launched the Radical Economic Transformation Conference and Expo that was hosted during February 2018. This followed from the recent joint briefing with the City and the Federation for Radical Economic Transformation (FFRET) where small business challenges were highlighted. <i>(Metro Ezasegagasini, 23 Feb-8 Mar 2018)</i></p>

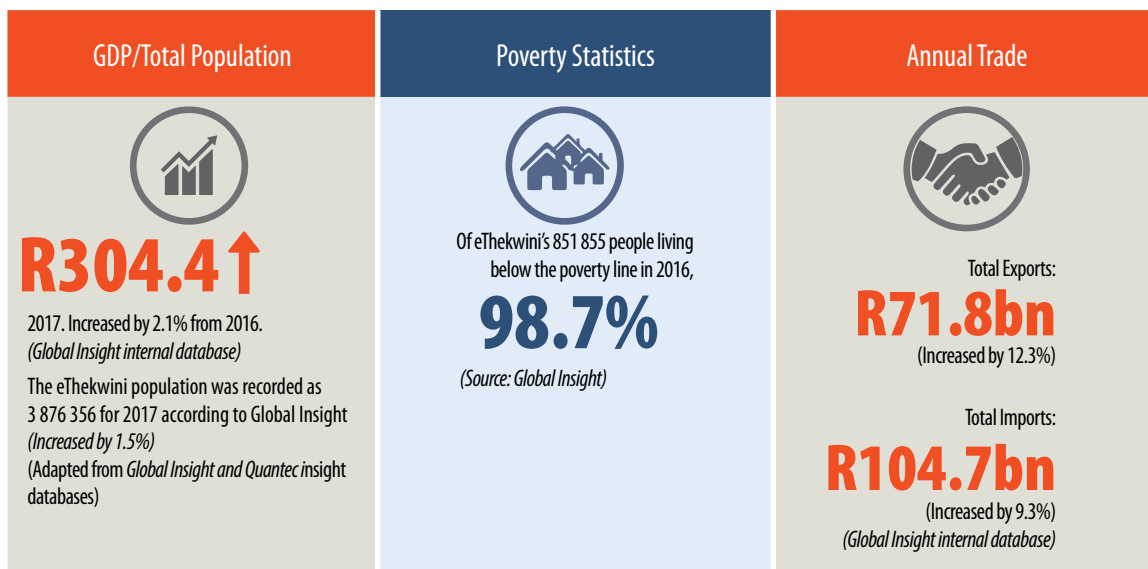


KEY NATIONAL INDICATORS



STATE OF THE LOCAL ECONOMY

ETHEKWINI INDICATORS

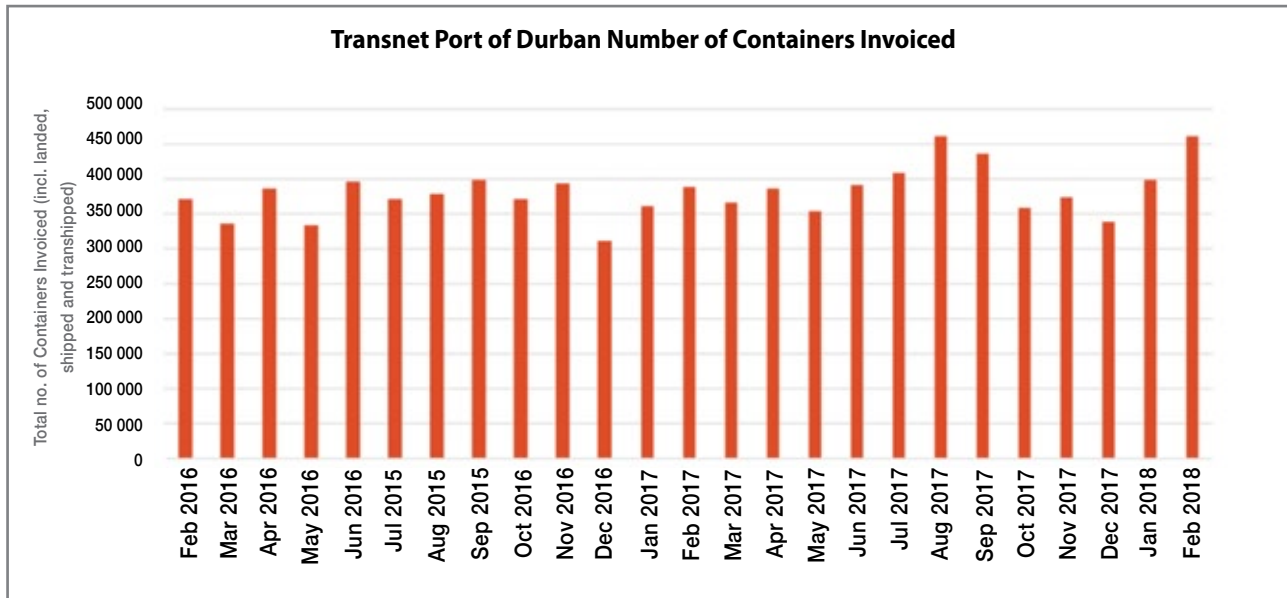




Key Indicators – Local Statistics

Kindly note that neither data from the Electricity nor Water and Sanitation Units has been included. This is due to challenges experienced with the Revenue Management System. Data will be included once the information can be released.

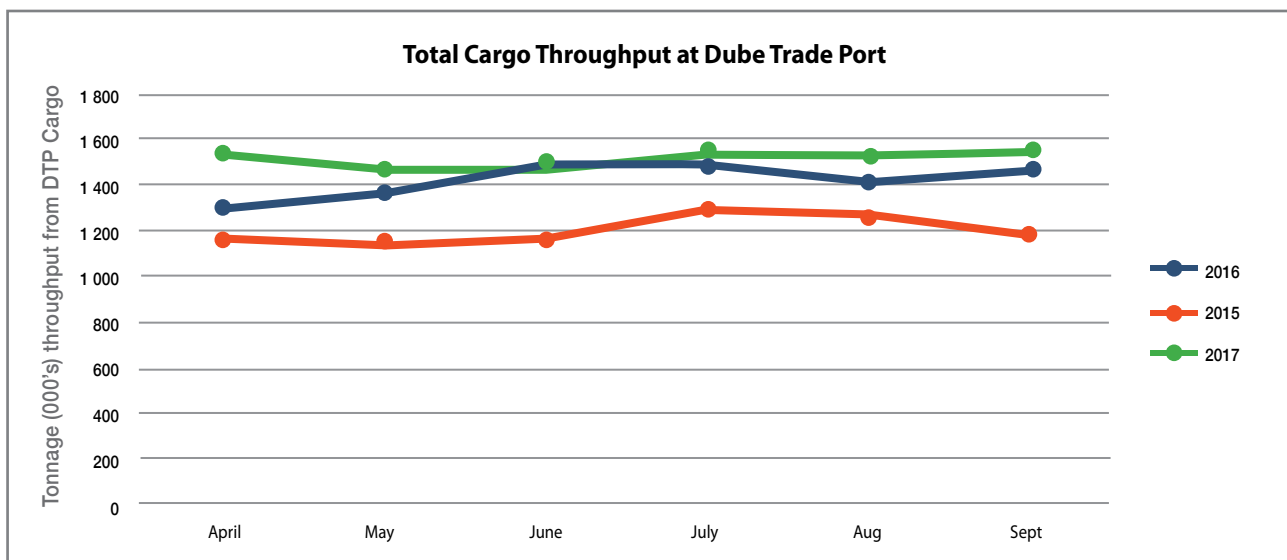
Port Statistics



Source: Transnet National Ports Authority, 2017

The number of TEUs invoiced in February 2018 reached their highest levels ever recorded.

Dube Trade Port



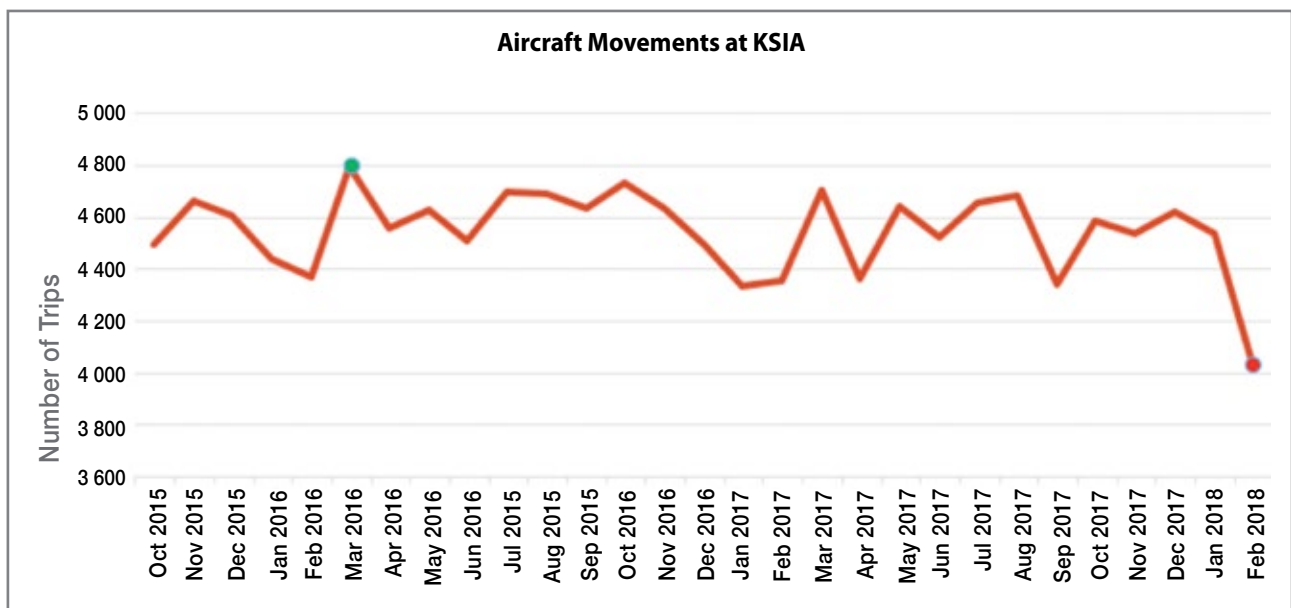
Source: Dube Trade Port 2017

The graph illustrates that the throughput at Dube Trade Port increased by 6% in 2017 from 2016, indicating more business activity. International cargo tonnage outperformed domestic cargo by 23% in the six-month period from April – September 2017. Cargo outputs were the highest in September at 1.6 million tonnes and the lowest in June at 1.5 million tonnes.



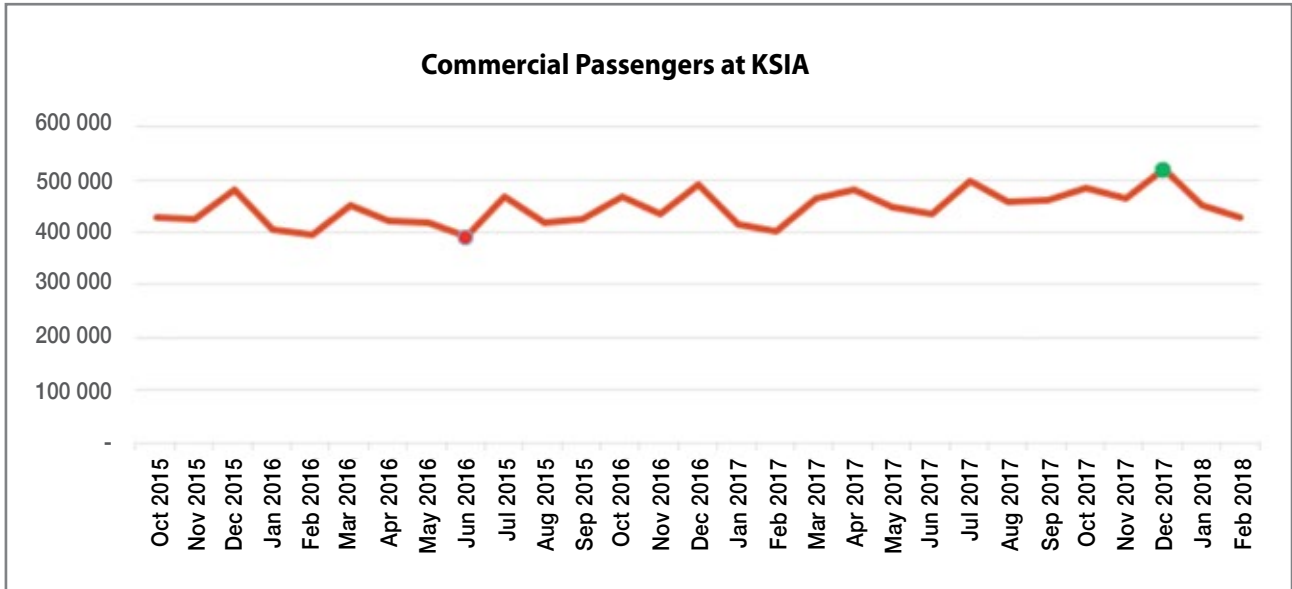
King Shaka International (KSIA) Traffic Statistics

Flights to and from KSIA reached their lowest levels in more than two years. Encouragingly, on 29 January 2018, the African Union launched the Single African Air Market initiative, which should encourage reduced prices of flights between African cities, and ultimately create more direct flights and aircraft movement to and from African international airports such as KSIA. Twenty-three of 55 African states (South Africa, Kenya, Nigeria and Egypt included) declared their commitment to establish the SAATM; but implementation is still to occur at the individual country level. This bodes well for the KSIA's projected flight demand, and provides direction for potential target areas for long-term tourism marketing for the City.



Source: Airports Company South Africa, 2018, African Union Press Release; January 2018

https://au.int/sites/default/files/pressreleases/33739-pr-pr_african_union_member_states_and_aviation_industry_advocate_for_joint_stance_on_single_african_air.pdf



Source: Airports Company South Africa, 2017

Commercial passengers have been increasing steadily since 2015. Using December peaks as proxies, commercial passengers to or through the City increased by 3% (between 2015 and 2016), and then 6% (between 2016 and 2017).



Labour Highlights

Statistics SA Quarterly Labour Force Survey 2017 Overview

DURBAN HIGHLIGHTS

- More jobs have been created. 9 000 more people were employed in the City since last year since Q4 2016.
- More people are willing to look for work. Net discouraged work seekers decreased by 2 000 in 2017.
- There was no net increase in unemployment (numbers) in 2017 in eThekweni compared to a net increase of 467 000 unemployed people in South Africa.



SOUTH AFRICA HIGHLIGHTS

- 102 000 net jobs were created in South Africa in 2017 compared to 51 000 in 2016.

	Official Unemployment Rate ¹ %						Expanded Unemployment Rate ² %					
	Oct-Dec 2016	Apr-Jun 2017	Jul-Sep 2017	Oct-Dec 2017	Q to Q Change	Y to Y Change	Oct-Dec 2016	Apr-Jun 2017	Jul-Sep 2017	Oct-Dec 2017	Q to Q Change	Y to Y Change
EThekweni Municipality	22.0	21.8	23.3	21.9	-1.4	-0.1	28.0	29.3	30.5	28.1	-0.5	0.1
KwaZulu-Natal Province	23.9	24.0	24.6	24.1	0.1	0.2	40.7	40.4	41.0	41.0	0	0.3
South Africa	26.5	27.7	27.7	26.7	1	0.2	35.6	36.6	36.8	36.3	-2.4	0.7

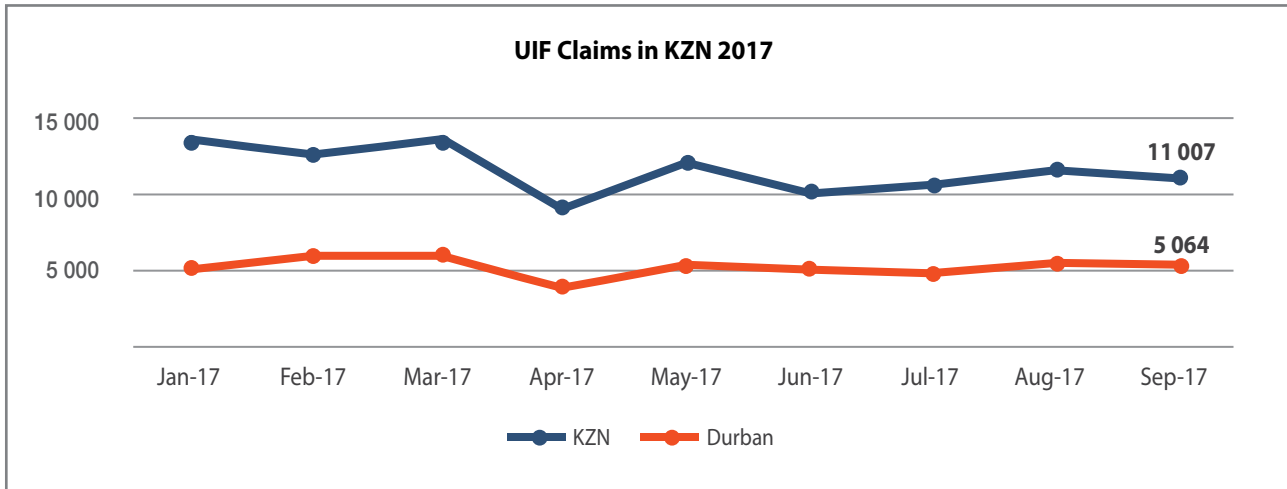
Positive Change Negative Change

EThekweni Annual Findings

Employment	9 000 net jobs were created in 2017 compared to 34 000 in 2016
Unemployment	There was no net change in the number of strictly unemployed people in the City in 2017, compared to a 115 000 net increase in 2016
Absorption ³	The average absorption ratio in 2017 was 48.8% compared to 47.6% in 2016 – representing a slight increase and positive change
Labour force ⁴	The net working age population increased by 24 000 in 2017, compared to 22 000 in 2016, signifying a need to create more work opportunities for this age group. The labour force participation rate ⁵ (62.7% in 2017) is significantly higher than it was in 2016 (57.7%), indicating more hope on the part of work seekers in 2017, despite less jobs being created

1. Official unemployment rate is the strict definition, which does not include discouraged work seekers. Conversely, the expanded unemployment rate counts those who have given up hope of finding work, as also unemployed.
2. Expanded unemployment rate includes the discouraged work seekers.
3. Absorption ratio is the ratio of employed people to all people of working age. It answers the question: "What proportion of the total (working aged) population is absorbed into employment?" or, "In this economy, how likely are working aged people to be employed?"
4. These are only individuals between the ages of 15-64 who are able and available to work. Among those excluded in this age range are those who have retired early, those physically unable to work, those who are still studying, those who are occupied through family responsibility, etc.
5. This is a measure of the percentage that the active labour force forms, as a percentage of the whole labour force (as above). It measures what percentage of the labour force (15-64 years old available to work) are either actually working or actively looking for work, as opposed to those who are able to work but have given up hope or choose not to work.

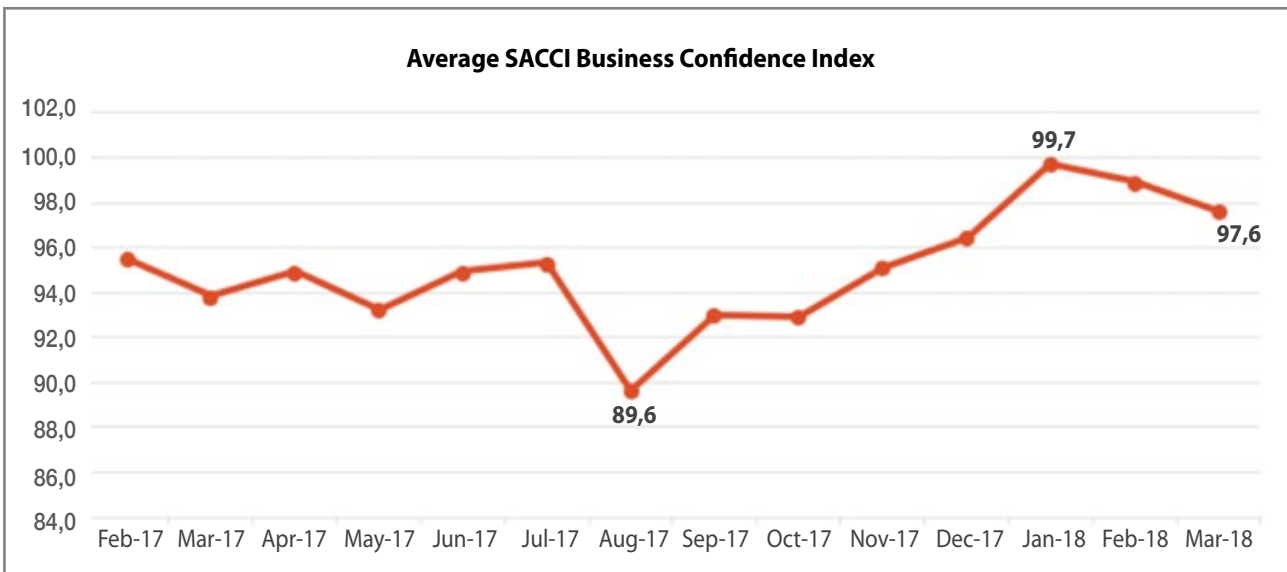
Unemployment Insurance Fund



Source KZN Department of Labour, 2017

Unemployment insurance claims in Durban and the KZN province combined reached the highest peaks in March 2017 while April showed the lowest number of applications submitted. The causes of the high peaks were large-scale layoffs in key industries in the Province such as clothing, textiles and automotives. A temporary five-day satellite office has been opened in Chatsworth for claims to be submitted while the Durban office is undergoing renovations. Other applications are being submitted in the Prospecton and Pinetown offices of the Department of Labour. This means that unemployed people must pay top travel to alternative venues to lodge claims.

SACCI Business Confidence Index



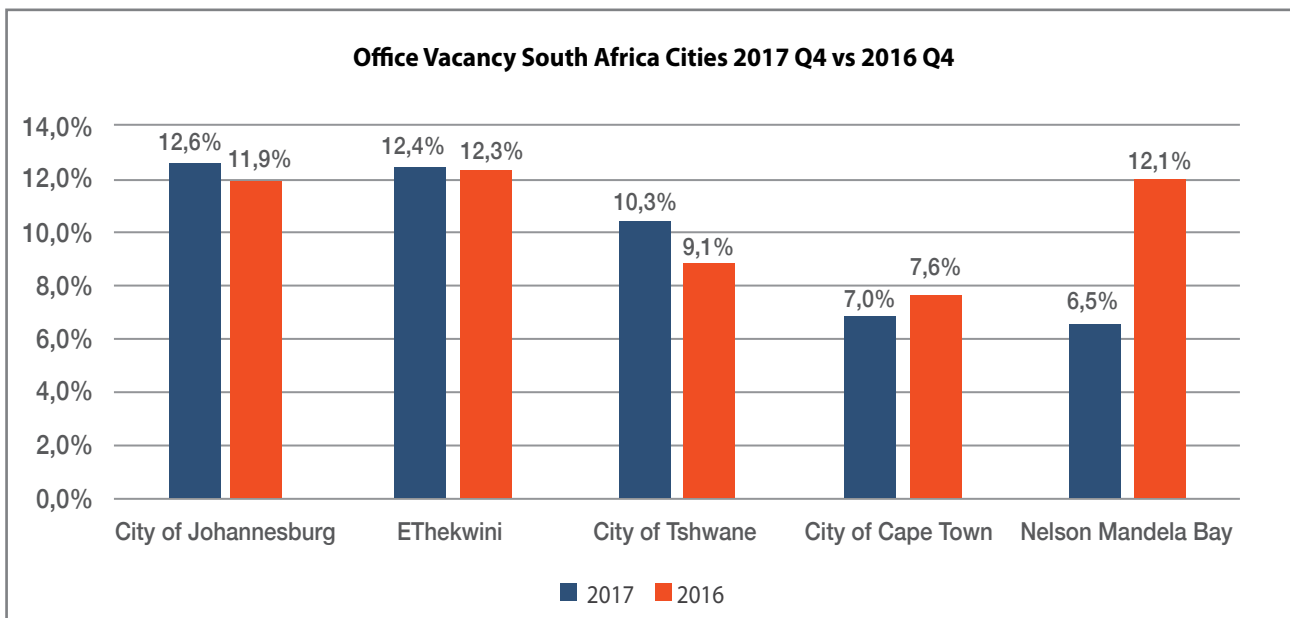
Source: South African Chamber of Commerce and Industry, 2016

The SACCI Business Confidence Index (BCI) has decreased steadily since it reached an over three peak in January 2018.

While SACCI reports that the record January peak was due to business' policy expectations of President Cyril Ramaphosa, the drop from January is due to a drop in exports, imports and retail sales, and construction growth.

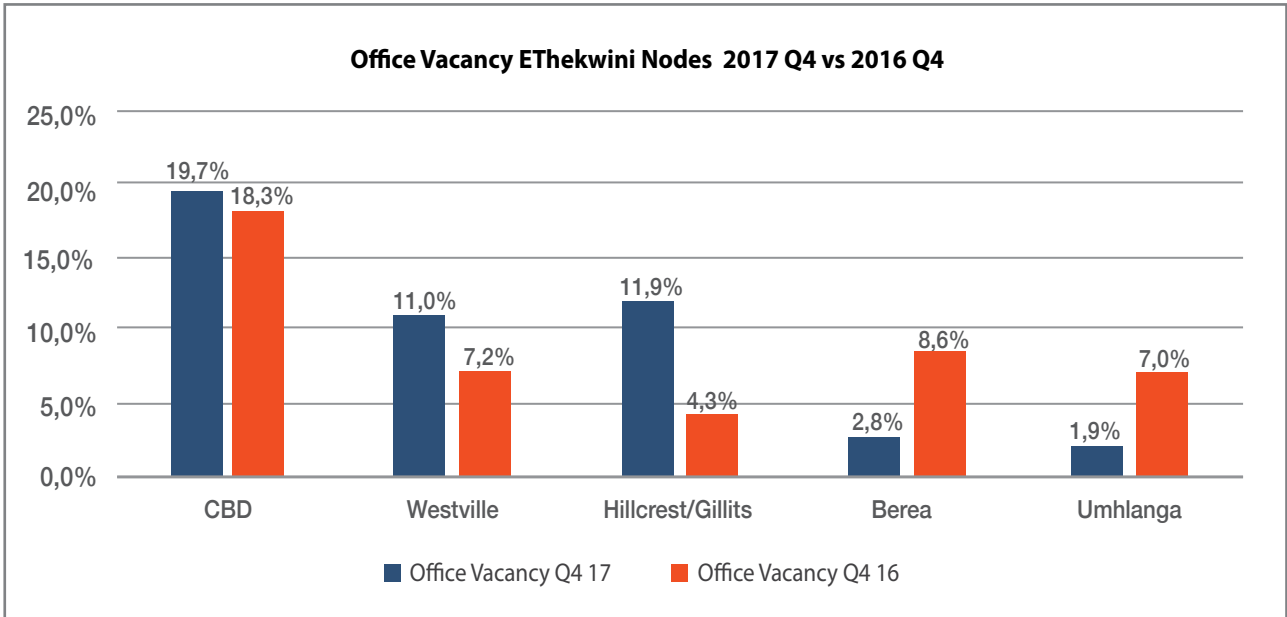


Office Vacancies



Source: South African Property Owners Association, 2018

The South African Property Owners' Association (SAPOA) reports that eThekweni's office vacancy rates have increased since the same time in 2016. EThekweni has the second highest vacancy rate after Johannesburg, also well-known for the need for inner city regeneration. Office vacancies in Nelson Mandela Bay have impressively decreased by more than half, over the 2016/2017 one-year period.



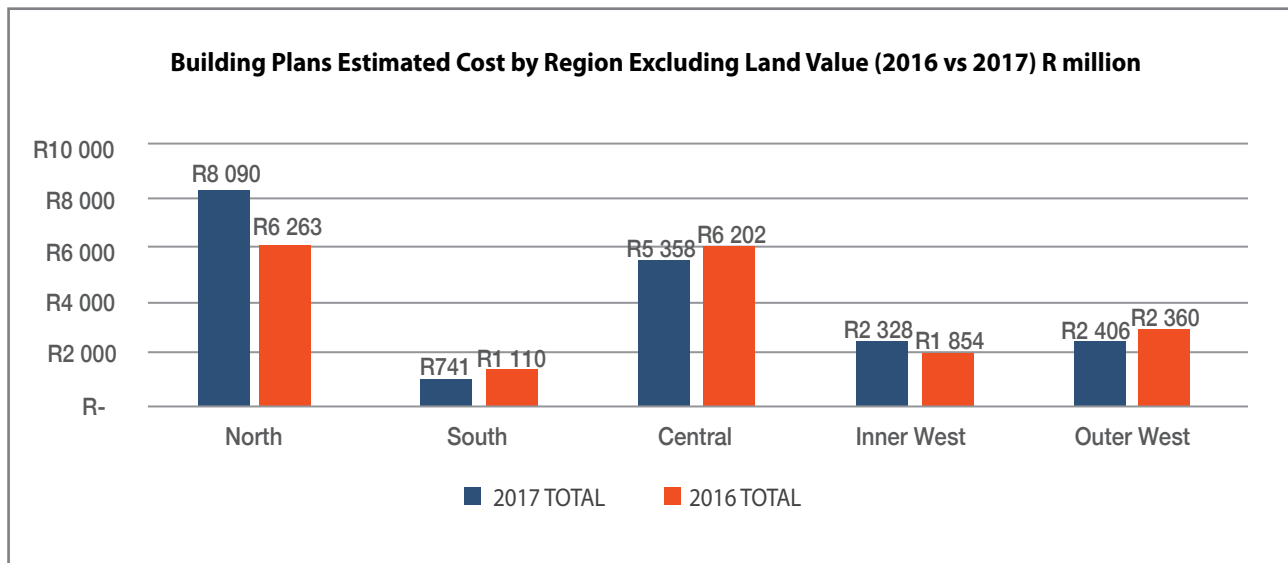
Source: South African Property Owners Association, 2018

Notably, office vacancies have increased in eThekwini’s inner city. The City continues to roll out programmes to upgrade the inner city, and has recently (2017) received an award at the International Society of City and Regional Planners Awards for excellence for its Inner City Spatial Vision and Regeneration Strategy. The process to upgrade the inner city is, however, riddled with significant delays and challenges. The impact of the City’s programmes, specifically on the uptake of office space in the inner city, is, therefore, yet to be seen.





Building Plans Data

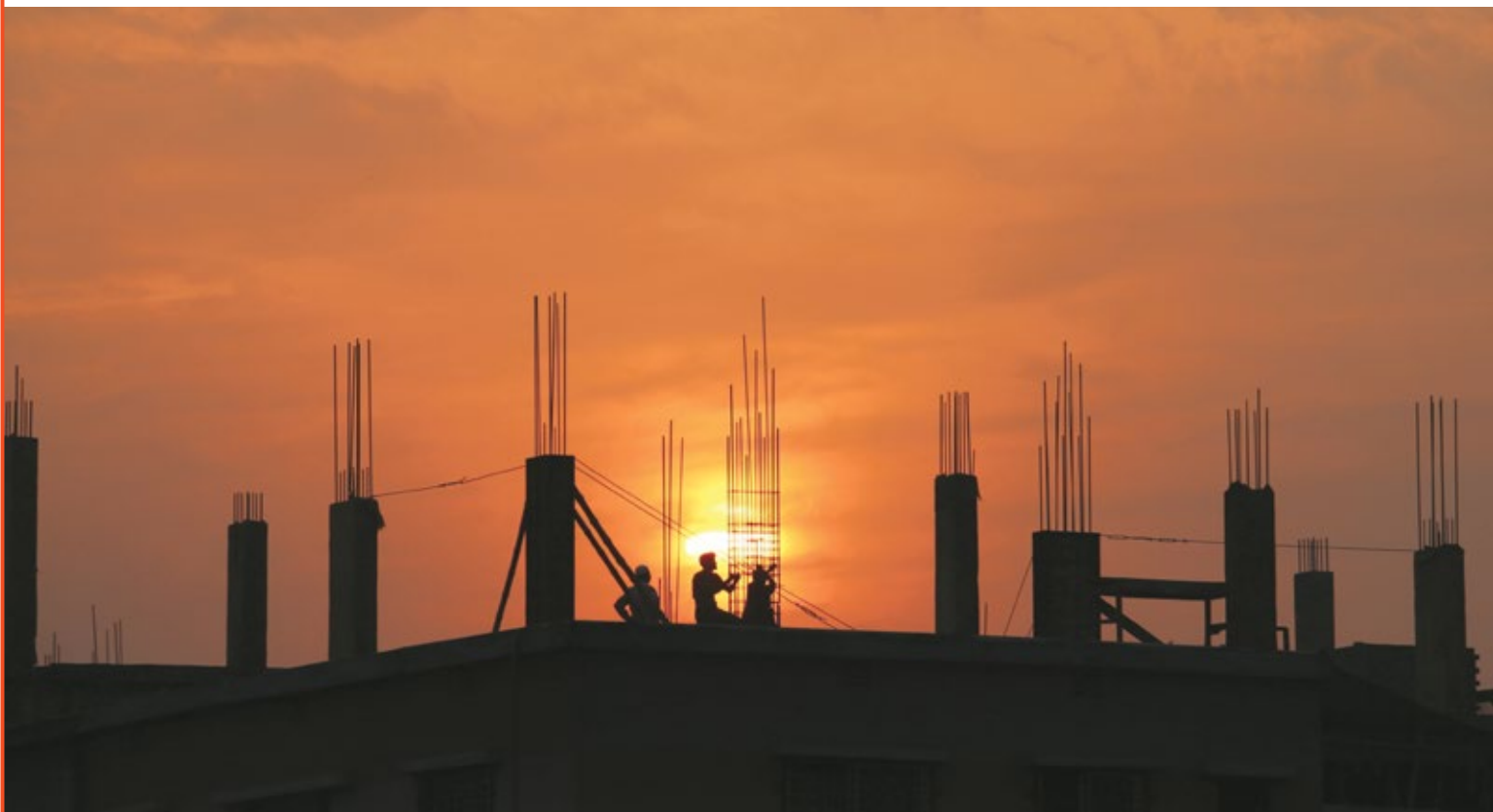


Source: Development Management, Development and Planning Unit 2018

Total estimated building costs for building plans approved by the Municipality in 2017 were valued at R18.9 billion. This is an annual 6.3% increase against a 4.8% CPI – indicating that building plans increased more than inflation; or increased in real terms.

- 624 building plans were approved in 2017, which is 245 more plans than in 2016.
- 43% of all building costs are accounted for by the north region of the City, although this drops to 22% when the number of building plans approved in the north are taken as a percentage of all building plans, indicating that property in the north is notably more expensive than elsewhere in the City.

Only 4% of all building plan value comes from the southern region. In 2016, this was 7% and in 2015 8%, signifying a steady decline in development in the South, and a relative abandonment of this region by developers.



SIGNIFICANCE OF INVESTMENT

Investment is widely accepted as an effective catalyst for economic growth. It includes the purchasing of machinery, plants and buildings by firms for production or business expansion purposes. As such, it is one of four components of any country's GDP, namely; household consumption, government consumption, net exports, and, importantly, investment.

All of these factors are important in increasing a country's GDP value, but investment is particularly important, because it guarantees higher demand for capital goods (in the investment phase), higher production levels by a country, and, in most cases, more jobs. The ability of those employed to purchase more goods and services, and participate in the economy is increased, increasing demand, and the need to produce more goods and services to meet these demands.

Investment levels are an indicator of an economy's health. Without investment, economic growth is limited and stagnant. Simply put, investment results in increased production and increased demand for products and services⁷.

For example, a manufacturing firm that decides to set up a production branch in Durban will have to purchase new equipment and supplies while constructing, and may do so from within Durban. Construction workers will come from within the City. Once the plant is set up and operations occur, the factory will require inputs into its produce, which will likely be sourced within the City. Workers will be required to produce the factory's outputs, impacting employment levels in the City. Given the resulting increase in incomes within the new workers' households, the demand for consumer goods in the City (food,



6. Short-term demand, resulting from purchases directly related to increased sales.

clothing, etc.) will increase. Increased incomes also mean increased ability to pay for education, which eventually enables citizens of the City to join the workforce, or start their own businesses, possibly even factories. New businesses and new factories mean new equipment and supplies will be purchased from within the City, and the cycle continues. To this end, investment is a core factor for the health of economic growth.

Both investment by domestic firms and foreign investors is important. While there is significant focus on foreign direct investment in this publication, domestic investment actually forms a larger part of all capital formation. Setting up a new firm, which results in the purchasing of physical capital, or even expansion of an existing firm (which requires new capital) is counted as investment. Increasing and maintaining the long-term confidence of domestic business is, therefore, vitally important. Foreign direct investment, however, while comprising a smaller portion of all capital formation in South Africa and the City, introduces new technologies and much needed competition into the domestic market, and often accounts for larger amounts of capital investment at a time.

“
New businesses and new factories mean new equipment and supplies will be purchased from within the City, and the cycle continues. To this end, investment is a core factor for the health of economic growth.”

It is the role and task of government to encourage investment by both domestic and international firms, and encourage business expansion (i.e. further investment), when firms have set up in the City.





THE PROFILE OF FOREIGN DIRECT INVESTMENT (FDI) IN DURBAN

FDI has many benefits for developing countries – various studies reveal that it brings new technology, enhances human capital formation, contributes to international trade integration, creates a more competitive business environment and stimulates local enterprise development. When these are at optimum levels, they contribute to higher economic growth, which is the most robust tool for development. Moreover, FDI also improves environmental and social conditions such as the transferring of cutting-edge technology, and compels local industries to adapt accordingly.

The following fast facts from FDI Markets⁷ cross-border investment monitor, provide a snapshot of FDI into Durban over the past 10 years.

How Much has been Invested in Durban, and from Where?

- Investment (FDI) in Durban has been worth R29 billion, in current prices.
- 62 projects have been attracted in the City
 - 49 were new investments (not necessarily new companies)
 - 11 were expansions, and
 - 2 were co-locations.
- Including the UK, the EU has been Durban's biggest investment source region; followed by the US and East Asia.
- 9 371 jobs⁸ have been directly created by FDI projects.

**FDI in Durban
worth R29 billion**



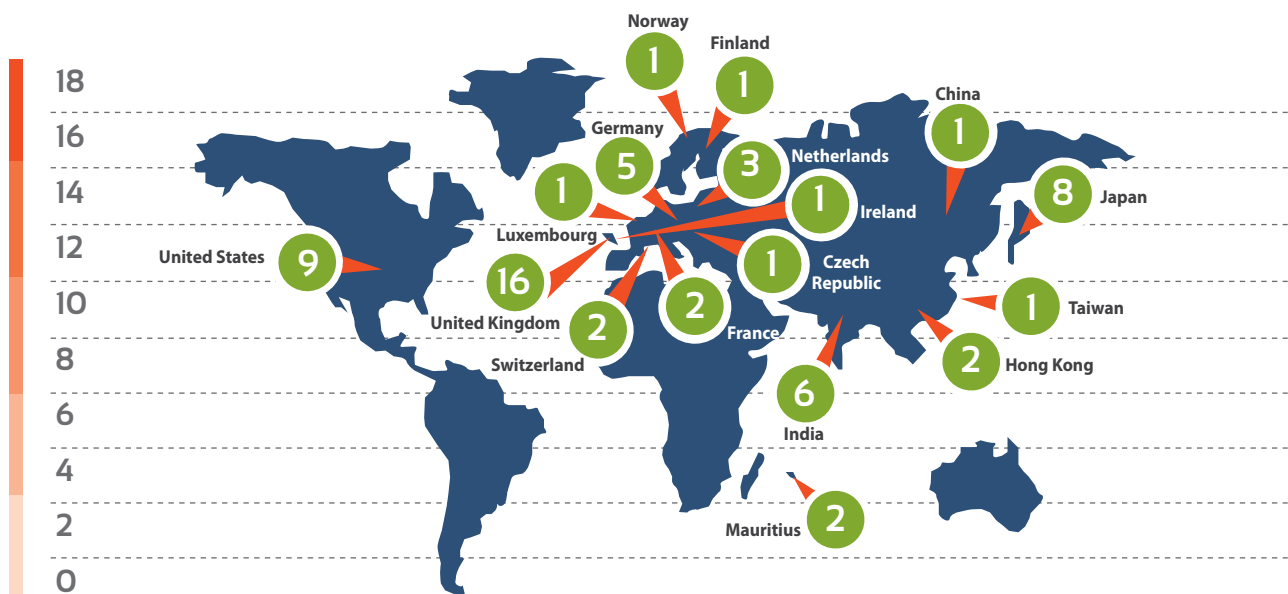
49
New

11
Expansions

2
Co-locations

62
projects attracted to City

Number of Investment Projects in Durban per Source Country, 2008-2017



7. <https://www.fdimarkets.com/>

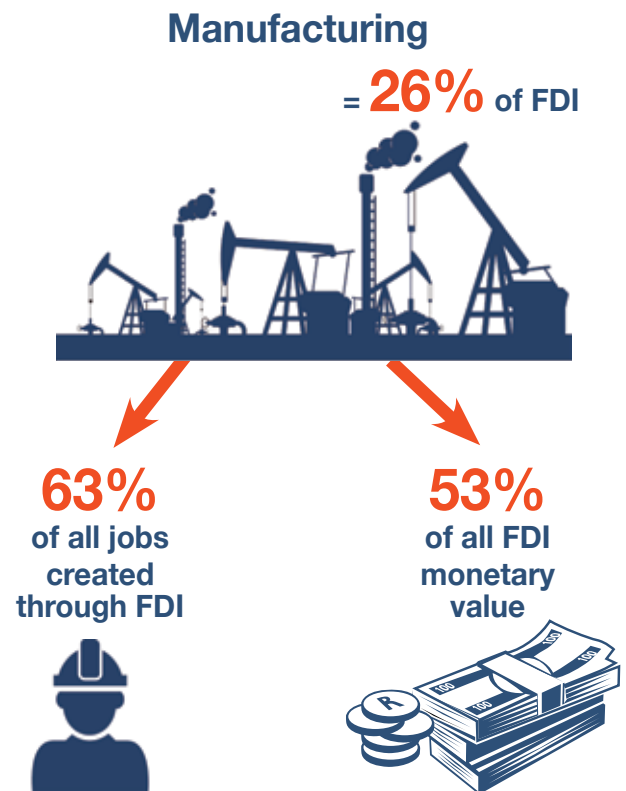
8. Only permanent jobs are counted (no construction jobs).

What Type of Investment has Durban Attracted?

Of all investments, manufacturing investments are most obviously beneficial to the City's economy. While only 26% of FDI were from this sector, it accounted for 63% of all jobs created through FDI. Additionally, while only 26% of all FDI was from manufacturing, its monetary value accounted for more than half of all FDI, at 53%.

Still using 10-year investment trends as an indicator, on average:

- Every R1 billion invested in manufacturing in the City has created 420 jobs;
- Every R1 billion invested in sales, marketing, and support firms in the City has created 150 jobs;
- Every R1 billion invested in business services⁹ in the City has created 130 jobs; and
- Every R1 billion invested in logistics in the City has created 120 jobs¹⁰.



Types of Investments in Durban 2008-2017



9. Mainly foreign banks opening South African operations, or multinational management and other advisory consulting firms.

10. Other investment activities either had only one or two operations set up in the City over the 10-year period. For accuracy purposes, averages are not drawn on these investments.

Looking Ahead

Between September 2017 and February 2018, 100 multinational companies have sent out investor signals indicating an intention to invest in Africa. The list is known to the City, and will guide Invest Durban's activities in convincing companies to select Durban as their investment destination (see page 27).

Four have specifically indicated an interest or intention to invest in South Africa, and these include:

- Redcliffe Hygiene from *India* (for the production of a toilet seat sanitiser product range);
- Shopmatic from *Singapore* (offices for an e-commerce company);
- Eiko Health from *UK* (offices for a mobile app to book appointments with doctors); and
- Rosatom from *Russia* (nuclear energy production).



WHERE TO ACCESS ASSISTANCE FOR INVESTMENT

The City's approach to increasing investment in Durban is multifold. The following are the departments and institutions that are to be approached for assistance with investment within the City. Some functions overlap between departments and institutions, and in these cases, roleplayers collaborate to ensure that investors are ultimately well serviced.

Foreign Investments

Invest Durban attracts and actively targets foreign investment of all sizes into Durban, mainly in priority sectors and from selected geographical areas. Invest Durban also facilitates all stages of this investment, and provides foreign investors with dedicated aftercare and servicing. In addition to investment and expansion assistance; foreign and multinational investors can expect personalised facilitation and guidance with relocation, seeking out of lifestyle amenities, and all other related support. For more detail, see pg 27. To access these investment services, contact Invest Durban on the details below:



Tel: 031 311 4784
Website: http://www.durban.gov.za/City_Services/Economic_Development/InvestDurban/Pages/default.aspx
Email: invest@durban.gov.za
Address: 11th Floor, Rennie's House, 41 Margaret Mncadi Avenue, Durban

Private and Public Investments Valued Above R500 million (Domestic Investors)

The eThekweni Municipality Catalytic Projects Unit provides specialised assistance and facilitation for investments that are likely to result in a major impact in Durban's economy. Such investors are provided with a dedicated project manager to expedite all municipal processes and services related to the investment. For more detail, see pg 31. To access these services, please contact Catalytic Projects team on the details below.



Tel: 031 311 4730
Address: The Platform, Lion Match Complex, Entrance No 1, 892 Umgeni Rd, Durban
Email: sivani.pather@durban.gov.za

For Private and Public Investments Valued Below R500 million (Domestic Investors)

Investors can contact the Economic Development Projects Department, a division of eThekweni Municipality's Economic Development Unit. Each region of the City is assigned a project manager responsible for the development of that region. Investors who approach the City are allocated to these project managers to assist with navigating municipal processes, depending on where the investment is located.

Tel: 031 311 4240
Address: 11th Floor, Rennie's House, 41 Margaret Mncadi Avenue, Durban
Email: nontokozi.ntuli@durban.gov.za



Additional Roleplayers Investment Incentives

A property rates rebate incentive is provided for all new investments, or expansions of existing investments¹¹, both on vacant land, and previously developed land (i.e. green and brownfields) by a holding company or subsidiary thereof. Further financial incentives are provided for investors who invest in sectors identified as priority by the City. Incentives will be granted upon application, based on the value of the investment, sector invested in, and category of property. For more detail, see pg 33. To access these incentives, download the application form, or contact the Economic Development Unit on the details below:

Tel: 031 311 4790/031 311 4251
Address: 12th Floor, Rennie's House, 41 Margaret Mncadi Avenue, Durban
Email: nuthan.maharaj@durban.gov.za
e-Application Form: <https://eservices.durban.gov.za/8ZgtQc/>



11. Not a relocation.



DURBAN'S INVESTMENT PROMOTION STRATEGY¹²



In 2016, The World Bank Group (WBG) was engaged by National Treasury (NT) to assist and realise the Investment Promotion objectives of the NT's Cities Support Programme (CSP).

Following an extensive process of indepth research and consultation, and in response to the World Bank's recommendations, eThekweni Municipality has established Invest Durban: the City's official approach towards becoming a globally recognised and preferred southern African investment destination. Invest Durban is to be set up as a sufficiently resourced agency operating with an investor-centric mindset, and no regulatory functions, while rolling out very targeted investment promotion and facilitation activities.

The overarching mandate of Invest Durban is to:

1. Undertake investment promotion (branding, profiling and market entry);
2. Investor attraction, facilitation and servicing;
3. Policy and advocacy; and
4. Foreign investor aftercare.

Global best practice shows that leading investment promotion agencies (IPAs) identify a realistic number of target sectors through competitive benchmarking, and develop business propositions for these priority sectors. The Durban Investment Promotion Strategy underwent a rigorous sector prioritising process, with support from all stakeholder groupings, which resulted in the selection of primary and secondary priority sectors that will receive differentiated investment promotion support from the City. The following are the priority sectors:

“ Invest Durban is set up to be a sufficiently resourced agency operating with an investor-centric mindset, and no regulatory functions, while rolling out very targeted investment promotion and facilitation activities. ”

Primary Sectors	Secondary Sectors
Automotive and Allied Industries	Tourism Asset Development
Logistics and Logistics Management	Electronics and Electrical Manufacturing
ICT and BPO	Maritime Industry
Agri-processing	Chemicals Manufacturing
Life Sciences	-

Additionally, priority geographic markets for the sourcing of investors were selected.

Europe	Asia and Middle East	America
Germany	China	USA
United Kingdom	Japan	Brazil
France	India	
Poland	South Korea	
	Turkey	

12. Adopted in August 2017.



The best practice global research and recommendations from the World Bank Group also indicated that an IPA should be set up to re-capacitate and operate as a separate legal entity, resulting in a more investor-centric mindset and flexibility to respond swiftly to investors, and driven by key performance indicators underpinned by more private sector HR and finance systems.

As such, Invest Durban will operate by an overarching key performance indicator (KPI) to monitor and measure the success of FDI promotion in eThekweni:

“To attract between 20 and 33 FDI projects into the City over the five-year period.”

- This will translate into an expected R2,0-3,3 billion worth of new investment;
- Between 2 000 and 3 300 actual direct jobs; and
- Meaning a direct return on investment for the City of between nine and fifteen billion rands over the five year period.

Additional/indirect impacts include:

- An increase in new SMMEs and new government revenue generation (e.g. through rates); and
- Importantly, enhanced economic transformation through the identification and packaging of local enterprise and supplier opportunities that are generated by the new FDI.

Currently, Invest Durban operates as a new unit within the Municipality that reports to the Deputy City Manager (DCM): Economic Development and Planning. It will be supported by a private sector advisory group (currently drafted as ‘Team



DID YOU KNOW?

According to LinkedIn, Durban has a logistics and logistics management workforce that is proportionally more than 80% larger than South Africa’s average workforce size in this industry (2016-2017). Even more outstanding, is that the same workforce in this industry is approximately 160% larger (proportionally) than those in other cities throughout the world. While this only reflects LinkedIn subscribers, it nonetheless is a key marketing point for Durban’s competitiveness as an investment destination for the logistics industry.

Durban’), which could be an interim step considered towards establishing an independent IPA in due course. Ultimately, in keeping with global best practice, Invest Durban may be established as a Non-Profit-Company (NPC) with a City-selected Board of Directors.

SUB-NATIONAL DOING BUSINESS IN SOUTH AFRICA – ETHEKWINI MUNICIPALITY

Another key intervention by the National Treasury City's Support Programme in supporting investment is the World Bank Sub-national Doing Business (SNDB) in South Africa survey, which aims at assessing processes that investors need to undertake in order to set up a business within the City. The survey answers practical questions such as: "What blockages do investors experience in setting up businesses? How quick, and affordable is the process to set up and do business? What specifically are the reasons for delays in doing business?" Each of these questions are asked for a specific city.

The ultimate aim of the survey is that municipalities would improve processes that businesses are required to undertake when setting up, ultimately making it easier to do business. The net impact of such an inquiry is to explore how policy and regulatory improvements facilitate economic growth and job creation. The study was undertaken in the country's eight metropolitan cities, as well as in Msunduzi Municipality.

What did the Survey Measure?

The nine cities were required to respond to a common business test case study. The inquiry sought to assess the 'cost and ease of doing business', analysing six indicators listed below. Municipalities were only measured on key outputs that are within their mandates. The survey tested all indicators with a diverse range of respondents in the private sector and other spheres of government.

Indicators by which Cities were Measured

• Starting a business	• Getting electricity
• Dealing with construction permits	• Enforcing contracts
• Registering property	• Trading across borders (eThekweni not measured on this)

How did Durban Fare as a Business Destination?

A report was published in June 2015 detailing the findings of the study. The SNDB 2015 can be accessed on the web link (<http://www.doingbusiness.org/reports/subnational-reports/south-africa>). Essentially, of nine cities, Durban's score was average. At the time, the easiest cities in South Africa, to start a business were Johannesburg and Ekurhuleni. Durban ranked fourth. Mangaung was the easiest city in South Africa both to get electricity and to enforce contracts, while Durban ranked third for both of these processes. Durban ranked fifth in the country for getting a construction permit, with Cape Town leading, and sixth of all nine cities when the time and cost of registering a property were measured (Johannesburg was ranked as the best city for this).

What is the City Changing to Facilitate Reduced Costs and the Ease of Doing Business?

Needless to say, these results required a prioritised response from the City. All cities were required to develop reform measures to improve on their performance in a minimum of three indicators. Durban chose 'dealing with construction permits' in which it had ranked fifth, 'registering a property' for which it had ranked sixth, and 'getting electricity', for which it had ranked third. Technical engagements and consultations with international experts were facilitated by the World Bank. While many of the identified reform activities are still underway due to the complexity or time required to achieve them, the table over the page highlights a few examples of the impact of implementing reforms in eThekweni.



Snapshot of Reforms to Date in Three Key Indicators

In the medium to long run, the Municipality aims to introduce automated systems for processes associated with doing business with a vision of an electronic single window for client interface. The progress to date is listed below. It must be noted that not all reforms have been fully released to the public, as they have not been tested by the World Bank.

Indicators	Reform Results
Dealing with construction permits	<p>The focus was the reduction of time, considered the most beneficial to the customer.</p> <p>The overall time taken to deal with a construction permit in Durban has been reduced on average from approximately 26 days to currently 12 days for all applications.</p> <p>And</p> <p>reduced on average from approximately 36 days to 16 days for applications greater than 500m².</p> <p>(5% target exceeded, currently between 54%-55% reduction in time).</p> <p>In addition, attention was given to increase the approval rate of applications by a paradigm shift from finding reasons to refuse applications, to rather seeking to approve an application.</p> <p>Further reforms are underway.</p>
Registering property	<p>To date, the overall time taken to acquire a rates clearance certificate in Durban has been reduced.</p> <p>Reform process is still underway.</p>
Getting electricity	<p>A confusing application process was averted by combining the processes of submitting an application for electricity connection, and submitting a certificate of compliance.</p> <p>To date, the overall time taken to submit an application for electricity connection in Durban has been reduced from 20 to two days.</p> <p>To date, the overall time taken to submit a certificate of compliance for electricity in Durban has been reduced from seven days to two days. Customers are now allowed to email or fax their certificates for verification, as opposed to personally submitting them.</p>



CATALYTIC INVESTMENTS AND THE CATALYTIC PROJECTS UNIT

As far back as 2013, the then Economic Development and Job Creation Strategy warned that many of the City's large, flagship investments were either delayed/on hold due to the City's own onerous bureaucratic processes or those of external institutions that were driving the investments. This was of particular concern as these investments were often worth billions of rands, representing hundreds of permanent jobs and significant rates income to the City.

The decision was taken to set up a vehicle in the Municipality to provide prioritised care to large flagship investments, such that all municipal processes associated with them are sped up. These flagship projects were dubbed 'Catalytic Projects' in the Strategy, and at the time, included the Automotive Supplier Park, Kings' Estate, Finningley Estate, Cornubia, Dig-out port, and the Clairwood Racecourse.

The vehicle has since been established, and is called the Catalytic Projects Unit (CPU). The CPU reports to the DCM: Economic Development and Planning. The CPU is essentially a team of highly skilled and efficient planners and infrastructure project managers tasked with facilitating and expediting all municipal and other government processes required for the City's flagship investments. They specifically speed up complex municipal applications and approvals related to infrastructure, environmental and other development requirements. It ensures that catalytic project investors receive specialised attention, and that if there are any (municipal related) blockages holding the investment back, these are reduced or eliminated.

In order for a project to be considered catalytic, investors must be able to prove that it will have a mega impact on the economy, such that:

- The capital investment is worth R500 million or more;
- It is aligned to the Sustainable Development Goals (SDGs), the Municipality's IDP (Integrated Development Plan), SDF (Spatial Development Framework), BEPP (Built Environment Performance Plan), and other relevant strategic plans;
- It will result in the creation of permanent jobs;
- Rates revenue will be generated;
- It will stimulate a range of new projects; and
- It will be in a highly strategic location (e.g. on public transport corridors or national trade routes), to help achieve spatial transformation objectives.

It is noted that large-scale investments of this nature are often intense, multi-year projects, with multi phases, sometimes even spanning over decades.

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Since the establishment of the CPU in 2015, the following multi-year catalytic investments have been completed:

- **ABI New Warehouse** – A 3 600m² warehouse for the Amalgamated Beverage Industries at Pheonix Industrial Park in Durban North.
- **Pearls uMhlanga** – A R3 billion, 32-storey residential resort, including luxury apartment with penthouses, situated in Umhlanga, north of Durban.
- **Westwood Ext. Phase 1** – Expansion of the Westwood Mall, located between Sherwood and Westville.

These, the investments underway, those being planned and those approved, have all been verified as catalytic, in that they fulfill the criteria listed earlier (e.g. are above R500 million in capital value, have or will result in large numbers of permanent jobs).

The following investments are underway:

- **Clairwood Logistics** – A R4.5 billion logistics development of the old Clairwood race course aimed at supporting the logistics, commercial and surrounding light industrial developments in the broader South Durban Basin.

- **Cornubia** – An integrated human settlement development located on the north coast of KwaZulu-Natal, within the northern corridor of Durban. The construction of the first 486 units in Phase 1a housing is complete. Presently, 995 of the 2 180 units have been completed as part of Phase 1b. Phase 2, which includes the Cornubia Business Hub in extent of 85 000m²; The completed Cornubia Shopping Mall (located within 1km from the Umhlanga/Mount Edgecombe interchange) is a regional shopping centre.
- **Dube Trade Port** – A globally integrated logistics and manufacturing infrastructure development, and support for a range of airport-related activities, including cargo operations, warehousing, agriculture, and commercial real estate for office, retail and hospitality. It includes a fully-serviced industrial precinct of 77 hectares, set to grow to 300 hectares, for electronics, pharmaceuticals and aerospace manufacturing, assembling, and distribution.
- **IPTN C3 Corridor** – A R3.8 million (planning project) and R3.77 billion (road construction) transport infrastructure project that spans from the north of the city to the inner west, including seven bus stations and pedestrian bridges; aiming at creating approximately 1 659 permanent jobs.
- **Keystone & Surrounds** – A 152-hectare, R6.5 billion logistics and light industrial park located in the outer western region of eThekweni immediately adjacent to the N3 Hammarisdale interchange.
- **Point Development** – A R30 billion investment of redevelopment and regeneration of the inner city. The first phase of the development is a beach promenade estimated at R300 million, starting from uShaka Marine World to Vetch's Pier, and spanning 750m length and 30m width.
- **Suncoast Casino Ext.** – A R1.6 billion, 20 000m² Suncoast Towers expansion, including a revamp of the hotel and casino itself.



DID YOU KNOW?

Cornubia housing development, included in the 2017 RSA Budget Speech, has already provided 3 000 free homes to families previously housed in informal settlements.

At the completion of Cornubia Mall, retailers were required to source most of their labour from the Cornubia social housing development. Already, more than 300 of the 1 100 jobs to be created from the mall are from these families.

Umhlanga Nodes:

- **Oceans** – A R3.8 billion investment consisting of 444 apartments with a floor span of 231 000m² and a mall of 33 000m² consisting of 100 retail outlets. Aimed at creating 15 000 direct and indirect jobs and 25 000 permanent jobs.
- **uMhlanga Arch** – A mixed use and people-centered property development of R1.2 billion covering 45 000m², and consisting of 163 apartments.
- **Nedbank Square** – A R1 billion, 40 000m² mixed use office and retail development.

Approvals have been received for an additional 11 multimillion rand projects, while planning has begun for four more.



THE CITY'S INCENTIVES PLAN TO ATTRACT INVESTMENT (2017-2018 INCENTIVES POLICY)

In order to attract more investment into Durban, the City provides time limited rates rebate incentives to investors. These incentives apply to new investments of all values. A number of investors have already applied and been approved for rates rebates, and potential investors are encouraged to do the same.

Rates rebates will be given to new brownfields and greenfields investments, while rates rebate incentives are also given to investments in priority sectors.

Incentive Given to *Brownfields* Investments

This incentive will apply for a maximum of five years from the date of commencement of construction, and is calculated on the value of the property investment.

Property Value	Rebate Percentage
R0-50 million	15%
R51-150 million	25%
R151-300 million	50%
Over R301 million	65%

Incentive Given to *Greenfields* Investments (investments on vacant land)

During the construction phase, vacant land within qualifying developments, as with phases under construction within qualifying developments, will pay the difference between their

current rates and their proposed usage. The rate randage for the 2017-2018 financial year is levied at the following rates per category:

Property Type	Cents Levied in the Rand Value of the Property
Residential	1.060
Agricultural	0.260
Industrial	3.090
Business and Commercial	2.390
Public Service Infrastructure	0.260
Vacant Land	4.730
Unauthorised or Illegal Development	7.390
Rural Residential	1.060
Urban Development Line	1.560

Incentives Applied to Priority Sectors

Priority sector industries are eligible to apply for this benefit for all values of their expansions, improvements or any new machinery or plant purchased. The incentive offer is in the form of a property rate rebate and will only be granted for a period of two years to an applicant that is approved. The ratepayer must, by contractual agreement, transfer the financial benefit to the tenant if the tenant being housed is the new sector investor. However, if the applicant is already in receipt of another incentive provided by eThekweni Municipality (not included in this Incentives Policy), they will not be eligible for the incentives provided in this policy.

Priority Sectors within which Companies are able to Apply for Expansion, Improvement or New Plant/Machinery Acquisition Incentives

Automotive	Wood Products	Marine Manufacturing and Associated Services
Clothing, textiles, leather and footwear	Chemicals, pharmaceuticals, plastics and cosmetics	Information and communication technology (ICT)
Metal fabrication, capital and rail transport equipment	Green industries	Tourism accommodation/resorts
Agro-processing	Business process outsourcing (BPO) services	Research and development on industrial innovation & technology

The rebate is calculated on value of new investment. The following criteria will apply:

Investment Value	Property Rates Rebate Percentage
R0-50 million	15%
R51-150 million	25%
R151-300 million	50%
Over R301 million	65%

Investors are encouraged to read the full Incentive Policy document, which includes critical information not captured in this article.

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For further information on the Incentives Policy, contact Dr Nuthan Maharaj on nuthan.maharaj@durban.gov.za



INVESTOR INTERVIEW

To get a 'real feel' of the benefits of investment for the City, The EDGE team spoke to Mr Grant Page, the Senior Vice-President and Country Head of multinational manufacturer SRF Flexipak. SRF have had a notable impact on Durban's economy since they began operations in 2013. Mr Page discusses SRF's operations in the country, their impact on the economy, and the reason why of all cities globally, their headquarters chose Durban as an ideal investment destination.

EDGE: Please give us a brief profile of your business.

Grant Page: SRF is a multinational Indian company, headquartered in Gurgaon, India. The company manufactures industrial intermediates, including technical textiles, chemicals, engineering plastics and packaging films. It has an annual turnover of \$1 billion, directly employs 5 500 people globally, and is listed on the Bombay and National Stock Exchange (of India).

In South Africa specifically, we opened our doors in November 2013, and employ 200 people directly. We are called SRF Flexipak, as we manufacture biaxially oriented polypropylene (BOPP) barrier and specialty films. These are the films that go into the packaging of products such as potato crisps, sweets, confectionary, soft drink labels and some fresh vegetables. From this, we have a local annual turnover of about R600 million.

EDGE: Why did SRF come to South Africa?

Grant Page: I used to be a client of SRF and imported large amounts of BOPP into the country. Eventually, SRF decided that they wanted to increase their global footprint by being closer to their customers. They chose Thailand as a base to expand further east, and South Africa as a kick-off point into Africa and further west. When considering South Africa, they contacted me, and I became involved from there on.

There are also many other reasons why South Africa was chosen. Among them is that this country has a stable and familiar legal framework, a tax structure that is simpler than India's, offers security of investment (although current national talks are of concern), cost-effective and reliable electricity, and it is possible to operate without corruption. Labour stability is also of concern, but South African law protects both workers and employers.



EDGE: Why did SRF choose Durban?

Grant Page: When SRF initially contacted me, they were considering Port Elizabeth. I told them that it'd be best to locate here. Durban is a bigger manufacturing hub; this is where 50% of the market is. BOPP also requires imports, and has great export potential, so the proximity to the port is essential. It helped that there were plans for a dry port right here in Cato Ridge. Our core raw materials are also easily available here, from Sasol and Safripol. Durban is a 'full package' for us.

Key individuals and institutions have also been very helpful and make Durban investor friendly. For example, Russell Curtis (from Invest Durban¹³) assisted us greatly with navigating from one municipal department to another, and Zamo Gwala from TIKZN, has been instrumental in aftercare servicing, by assisting us with labour related issues.

EDGE: What has been SRF's Impact in Durban and South Africa?

Grant Page: Firstly, much of our turnover represents the money that exited the country when BOPP had to be imported. Due to SRF, R600 million more is brought into the Durban economy annually. More than half of this money is spent on raw materials from our suppliers here in Durban. This trickles down into their own labour and other Durban-based expenses. Our next biggest cost is our own labour. Including direct and indirect jobs, we employ 260 people or support 260 families. This is 260 more jobs than were available before we invested in Durban. Many of our other expenses are spent in Durban and South Africa, such as payment to our local pallet suppliers, electricity costs, rates to eThekweni Municipality and taxes to National Government. Only after paying for all these (and other similar) expenses, is



DID YOU KNOW?

Invest Durban is now set up as a One Stop Shop, where all queries and approvals can be initiated from one window.

For more information, visit invest.durban

there a profit that is paid out in dividends to India. Ultimately, the bulk of the R600 million we make is returned to Durban's economy. But this is not all. Since we struggled to find the right skills locally, we have brought in Indian expatriates to train our local Durban graduates. They could transfer these skills to other firms, or even eventually open their own operations. SRF has also brought new technology and manufacturing methods into the country, which didn't exist before. In terms of infrastructure, when we set up on this side of Cato Ridge, there was no electricity, sewerage or telecoms in the area. We have since worked with the Municipality and other service providers to set these up, and as a result of these services, the area is more of an attractive investment destination. We also increase exports coming from Durban, as we export into countries in southern Africa and along the coast of West Africa into countries like Nigeria.

We supply 20 000 tons of BOPP in South Africa of our 28 000 tons capacity, and the country still imports another 8 000 tons, meaning there is definitely more growth potential. There have been risks in this investment, but it has definitely been worth it!



For more information on SRF Flexipak, contact:

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Or visit SRF's website on www.srf.com

13. From the Durban Investment Promotion Agency, at the time.

LOOKING AHEAD TO THE NEXT ISSUE

The EDGE looks at topical and current issues that affect decision-makers in eThekweni, and is produced by the eThekweni Economic Development and Investment Promotion Unit's Policy, Strategy, Information and Research (PSIR) Department.

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