



Driving investment

Are Durban and KwaZulu-Natal ready?

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Introduction

Dear Reader

The aim of the ***Durban and KwaZulu-Natal (KZN) Investment Location Study***, produced by Deloitte in collaboration with Durban Investment Promotion and Trade & Investment KwaZulu-Natal (TIKZN), is to capture a **detailed picture of the challenges and opportunities for investing in the region** and to find out if Durban as a municipality, and KZN as a province, are ready to drive investment in the coming years.

With assistance from Durban Investment Promotion and TIKZN, as well as Durban Chamber of Commerce, iLembe Chamber of Commerce and the KZN Growth Coalition, we were able to survey many board members, CEOs and managing directors across various industries, business sizes and locations within the KZN region to gather their perspectives, perceptions and insights on this topic.

Key findings of this study have helped us to benchmark Durban and KZN against other investment locations in South Africa, determine fundamental location factors and main drivers for investment and investigate the challenges in order to help companies and local government achieve new insights for better investment decisions and promotion. It has also helped us to identify opportunities for local reinvestment and new foreign investment in Durban and KZN. The key topics covered in this study include:

- Identifying fundamental location factors for growth
- Benchmarking of location attractiveness of Durban and KZN
- Investment and disinvestment trends
- Main challenges and areas for improvement
- Opportunities and future investment drivers
- Outlook and vision for 2030

We hope that this study will contribute strongly to the discussions within your company or organisation, helping you define your investment decisions and future growth path and your investment promotion strategy. We also hope that it will be a platform to enable greater interaction and cooperation between the public and private sectors. To maintain and increase the attractiveness and competitiveness of Durban and KZN as investment locations, a more collaborative approach is needed, one that involves all stakeholders including municipal and provincial governments, investment promotion agencies, business, media and civil society.

Thank you to all those who contributed to making the study a success. We would specifically like to thank Durban Investment Promotion and TIKZN for their support of this study and the representatives of all companies who participated in our survey and interviews, for their insights and views on the investment challenges and opportunities for Durban and KZN.

We hope you enjoy reading the study and look forward to your feedback.



Ruwayda Redfearn
Office Managing Partner
Deloitte KwaZulu-Natal

Executive Summary

Fundamental location factors

There are many factors that can make locations attractive and competitive for investment. Some of the fundamental factors that need to be in place to attract more investment from local and foreign investors include robust economic growth, attractive infrastructure, sound public finances and good administration, a developed financial market, good innovative capacity, highly skilled workforce and an attractive social environment. An in-depth analysis of all available statistics and indicators for these factors, together with our survey results, reveals that Durban and KZN lead other South African locations with regard to attractive social environment and attractive infrastructure. However, Durban/KZN is lagging behind Johannesburg/Gauteng when it comes to robust economic growth, developed financial markets and availability of a highly skilled workforce, and lagging behind Cape Town/Western Cape in the area of good innovation capacity and to some extent with regard to sound public finances and good administration. Nevertheless, some sound fundamental factors for both Durban and KZN are already in place and help to retain existing and attract new investments. One overriding factor however, which serves as a strong deterrent for further local reinvestment and new foreign investment, remains the current flat/zero growth of the South African economy. This could be further impacted by the potential risk of a credit downgrade, caused by ongoing political uncertainty, governance issues at state-owned enterprises, patronage and state capture.

Benchmarking location attractiveness

In terms of overall investment attractiveness, our survey panel rates Durban as less attractive than Cape Town and Johannesburg, on par with Pretoria and much more attractive than Richards Bay, Port Elizabeth, East London or Pietermaritzburg. The overall investment attractiveness of KZN also does not match that of the Western Cape and Gauteng, but is clearly higher than that of all other South African provinces. The two location factors which all respondents unanimously think are the most attractive characteristics of Durban and KZN are its attractive social environment and good transport and logistics infrastructure. The ideal harbour location on the Indian Ocean seaboard that can serve as a gateway into South Africa/Africa and the quality lifestyle in the province facilitating a strong work life balance are two key characteristics that already make Durban and KZN a world-class location and attractive for investments. A majority of respondents expect this overall attractiveness to evolve further over the next five years for both Durban and KZN.

Investment and disinvestment trends

Looking at investment trends, the general picture for both the municipality and the province bodes well for the near future: 56% of respondents plan to invest in the coming years in Durban and 60% in KZN. The large majority of these investments will involve expanding existing operations, followed by establishing new operations, as well as acquisitions and joint ventures. There is even a small number of respondents who plan to relocate some of their operations from other provinces to KZN. With regard to disinvestment, only 28% of respondents plan to move some of their operations

out of Durban and 25% out of KZN. The reasons for such relocations include better growth opportunities, the need to move closer to customers and other more attractive overall factors in the new location (e.g. better infrastructure and skills). While some of these trends are difficult to stop or reverse (e.g. greater proximity to customers), the fact that some respondents think other locations have a much better overall attractiveness than Durban or KZN points to some clear challenges and highlights the need for improvement.

Main challenges and areas for improvement

Poor municipal management and service delivery, a general lack of political stability and leadership, a deteriorating and incomplete infrastructure, unnecessary red tape and bureaucracy and a high level of corruption are seen as the five main challenges that Durban and KZN need to tackle to potentially become a world-class investment location. To address these challenges and enhance the location attractiveness and competitiveness, 73% of respondents think that the focus in Durban/KZN should be primarily on improving city management and increasing service delivery. 70% say that administrative procedures need to be simplified and become more efficient and red tape for required approvals should be minimised. Whereas some pockets of excellence exist in municipal management and service delivery, there is still much room for improvement in the perception of the survey panel. Additional areas that need to be fixed from an investment point of view include improving overall safety and security (mentioned by 57% of respondents), greater investment in deteriorating infrastructure and delivery of new bulk infrastructure (52%), improving investment incentives (50%) and a stronger focus on skills development, education and training (41%). The brain drain of skilled

professionals to Gauteng, Western Cape or even overseas is impacting regional growth and investment prospects, with Durban/KZN not producing and retaining sufficient talent or developing artisan skills. While Durban and KZN still face many challenges when attracting investment, there are nevertheless some great investment opportunities for both the municipality and the province in the years to come.

Opportunities and future investment drivers

A large majority of respondents clearly identify tourism (81%) and transportation and logistics (61%) as main investment drivers in the next five years. While tourism is already high on Durban/KZN's agenda, many interviewees express the view that Durban, with its natural beauty and unrivalled beachfront that can easily compete with international locations, could easily be the main tourist attraction in South Africa (instead of Cape Town), if promoted and marketed properly. Building on existing capabilities such as the harbour, the King Shaka Aerotropolis, main railway lines and major roads, will not only benefit tourism, but will also help to establish Durban/KZN's true potential as a gateway into and out of Southern Africa. In light of heightened transportation/logistics competition in recent years from the flourishing ports of Maputo and Beira in Mozambique, this is a key area for development. In addition, every second respondent thinks that construction and manufacturing will lead to future investment growth in KZN. Durban and KZN have already many construction projects in the pipeline that are likely to attract further investments and create employment opportunities. Expectations for the agri-business and information and communication technologies (ICT) and electronics sectors are slightly lower. This needs to be considered in the context of the agri-business sector in KZN being in the midst of a transition and the ICT and electronics sector still being in its infancy compared to other innovation hubs like Cape Town, but nevertheless having great potential.

Outlook and vision for 2030

When asked about an outlook and a vision for 2030 for both Durban and KZN, the respondents named the following two scenarios (one negative and one positive) as most likely to unfold: On the one hand, Durban/KZN in 2030 is seen as a location with a very bureaucratic and political environment that will negatively impact growth and investments – and on the other hand, as the leading tourist destination in South Africa. Both scenarios are rated by a majority of respondents as 'very likely' to happen. There are two other negative scenarios that are rated as 'likely' to happen by many respondents, namely that Durban and KZN could turn into a location strongly impacted by a brain drain of skilled professionals and/or it could become a location with a poor social environment, little security and a low quality of life. All three negative scenarios reiterate the strong, previously mentioned need to improve the city management and service delivery, reduce bureaucracy/red tape and improve the efficiency of processes. Focusing on talent and artisan skills development and retention and increasing safety and security will also help to support a more positive outlook.

The likelihood of many of these scenarios will eventually depend strongly on the future engagement, drive and mindset of relevant stakeholders who can make or break an attractive and competitive investment location. A concerted effort by municipal and provincial governments, investment promotion agencies, business, media and civil society is needed to make Durban and KZN investment ready and to keep the region attractive and competitive until 2030 and beyond. This will require greater collaboration and inclusion, a change of mindset and renewed commitment, passion and pride to reignite a strong investment drive. As part of this, Durban/KZN will also need to market and promote its investment success stories and business opportunities, for both local and foreign investors, more visibly and vocally.

About the study

This study discusses the **current status of and future potential for investments** in the Durban municipality and the province KwaZulu-Natal (KZN). The study assesses the attractiveness and competitiveness of both locations, investment and disinvestment trends, challenges and opportunities as well as the outlook and the vision for 2030.

The study is based on three analytical components:

1. A **benchmarking analysis** of Durban and KZN against other South African locations
2. A **survey of foreign and local** companies' views of current investment challenges and future opportunities in Durban and in KZN
3. **Face-to-face interviews** with executives from foreign and local companies and representatives of official agencies.

The survey was conducted in October 2016, with 59 foreign and local companies of differing sizes and from all industries. Only board members, CEOs and managing directors answered the questionnaire. A little over three-fifths of the companies surveyed were small- and medium-sized companies (SMEs), with large companies making up just under two-fifths (see Chart 1).

Companies from the consumer and industrial products industries make up the largest group of respondents (51% of the sample), followed by financial services (21%), public sector (13%), energy and resources (9%), technology, media and communications (4%) and life science and health care (2%) (see Chart 2).

Between September and October 2016, we also conducted face-to-face interviews with representatives from Durban Investment Promotion, Dube TradePort and Trade & Investment KwaZulu-Natal (TIKZN) as well as executives from Bell Equipment, Crookes Brothers, First National Bank (FNB), Hardy Boys, Illovo Sugar and Olam South Africa. Statements made by representatives of official agencies and companies that did not wish to be named or to have statements attributed to them have been anonymised.

Chart 1
Companies surveyed by size of workforce

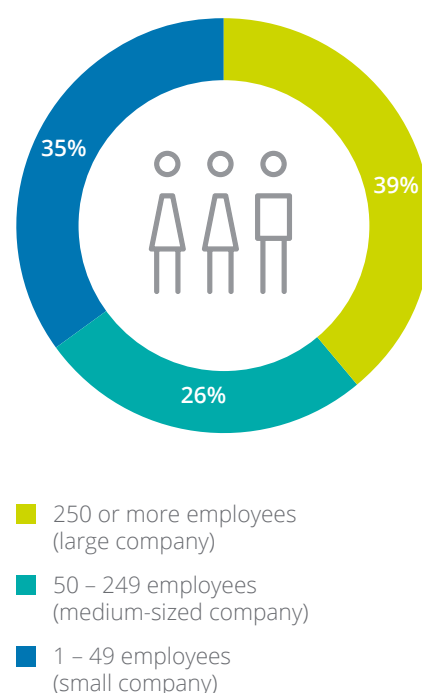
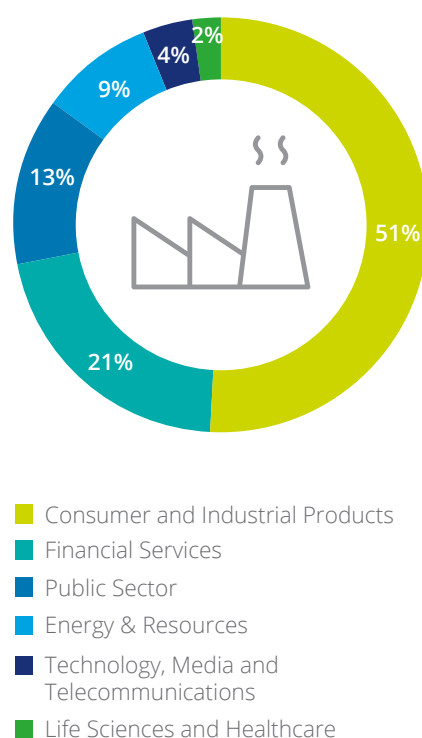


Chart 2
Companies surveyed by industries



1. Leading fundamentals

There are at least seven generic indicators that make a location attractive and competitive for investments. They are: robust economic growth, attractive infrastructure, sound public finances and good administration, developed financial market, good innovative capacity, highly skilled workforce and attractive social environment. Each of these indicators are comprised of several dimensions that can be measured and that are commonly used

for analysing and comparing locations for their attractiveness and competitiveness (see Appendix for more details on the dimensions and consulted public available sources to build the index).

Using these commonly used indicators and their corresponding dimensions, we benchmarked Durban against five other locations in South Africa i.e. Johannesburg, Cape Town, Port Elizabeth, Pretoria and

Richards Bay (see Chart 3). In cases where municipal data was not available for certain dimensions, provincial data was used. While the chart illustrates a simple leading/lagging index, it is important to keep in mind that this does not directly translate to a positive/negative view as a lagging score should be viewed relative to overall performance for an indicator.

Chart 3
Leading/lagging index for six South African locations



Johannesburg and Pretoria lead the indicator of **robust economic growth** followed by Cape Town, with Durban in fourth place overall. According to IHS Global Insight, Gauteng, Western Cape and KZN all achieved 2.9% GDP growth between 2005 and 2015. However, Durban came in only fourth place for municipal GDP growth over the same period. In addition, Durban significantly lags the other locations in import growth (and to some extent export growth) and this has impacted its overall lagging performance for this indicator. However, in international (and especially African) comparison, South Africa is currently experiencing very flat/zero economic growth that could be further impacted by the potential risk of a credit downgrade caused by ongoing political uncertainty, governance issues at state-owned enterprises, patronage and state capture.

Durban and Cape Town lead the **attractive infrastructure** indicator, which measures several dimensions like property, utility, transportation and technology infrastructures. Durban scores particularly strongly in the dimension of attractive office rentals, outperforming Johannesburg, Pretoria and Cape Town and also significantly leading the pack on attractive industrial electricity rates. With the lowest transport cost to move 1 ton of goods to London, Durban together with Cape Town, is a true transportation/logistics rates leader. However, according to the 2016 Cities in Motion Index conducted by the University of Navarra, there is room to significantly improve the city's technology ranking which still lags both Johannesburg and Cape Town.

Cape Town leads the location investment indicator of **sound public finances and good administration**, with Durban following closely in second place. According to the Good Governance Africa (GGA) index 2016, Durban performs strongly in both municipal financial soundness and especially municipal compliance. The city was also ranked #3 (out of 9 South African cities) in the World Bank's ease of doing business ranking, scoring especially high for starting a business, getting electricity and enforcing contracts dimensions. However, the municipal credit ratings of GCR, Moody's and Fitch which measures long-term debt ranks Durban (AA-) slightly behind Cape Town (Aaa), Johannesburg (Aa1) and Port Elizabeth (Aa1).

While Johannesburg holds the lead for the **developed financial market** indicator (highest presence of financial institutions and most head offices), Durban and Cape Town are not far behind and perform equally strongly for this indicator. 90% of leading South African banks are physically present in Durban and 43% of all foreign banks registered with the South African Reserve Bank have offices in the location. The presence of foreign banks in Durban is the same as Cape Town but lagging behind Johannesburg which registers 100% presence for foreign banks. In addition, 90% of the top ten accounting firms are present in both Durban and Cape Town, as are 90% of the top ten insurance companies.

“Good maritime connectivity, attractive logistic platforms and existing inland infrastructure extending further into Southern Africa are seen as big draw cards for export oriented industries to invest in Durban and KZN.”

Russell Curtis
Head of Department,
Durban Investment Promotion

“South Africa is not necessarily competitive internationally when it comes to the costs of setting-up factories. In an increasingly globalised world, with high logistics cost and a need to produce closer to customers, the manufacturing location South Africa is under pressure.”

Gary Bell
Group Chief Executive, Bell Equipment

“Business confidence is at a 30 year low and the slow growth of the South African economy is concerning. South Africa should be at least up in the 5%, like many other African countries.”

John Barton
Chairman, Crookes Brothers

Both Durban and KZN are significantly lagging in the **good innovative capacity** indicator. Cape Town emerges as a clear innovation leader scoring the highest number of patent registrations with the World Intellectual Property Organization (WIPO) through the city's main universities. Durban/UKZN is positioned fourth out of the six benchmarked locations. Durban also performs poorly in the dimension of number of business start-ups (approx. 5% versus 59% for Cape Town.) Even though the provincial distribution of research and development (R&D) spend is highest in Gauteng, Cape Town still far outpaces Johannesburg in the global Innovation Cities Index of 2014 where it is ranked #128 compared to Johannesburg at #399. Durban is ranked #380.

While Johannesburg and Pretoria lead the **highly skilled workforce** location investment indicator, with Cape Town following closely behind, KZN and Durban tend to lag in this area. This can be attributed to lower matric pass rates and exceptionally low mathematics pass rates (20%) in KZN. The percentage of adults with a higher education degree is also generally lower in Durban at 11.4% than in Cape Town (15.5%), Johannesburg (18.4%) and Pretoria (21.9%). Durban and KZN's performance for this indicator is also significantly impacted by the migration of talent from Durban and KZN to the lead locations for the indicators of economic growth (Johannesburg/Pretoria) and innovation (Cape Town).

Durban clearly leads the **attractive social environment** indicator, ranking #85 in Mercer's 2016 Quality of Living Rankings out of 230 cities globally, ahead of Cape Town (#92) and Johannesburg (#95). This leading position is informed by stronger performance in key social attractiveness dimensions like recreational offerings and high-quality housing. Average residential housing prices in Durban are very attractive when compared to highly priced Johannesburg and Cape Town. Durban has been ranked as clearly less congested than Johannesburg, Cape Town or Pretoria in the TomTom Traffic index that measures traffic congestion worldwide. And finally, Durban, together with Johannesburg, has the highest number of both public and private schools featuring in the top ten rankings in 2015.

"The ability to retain talent in KZN is relatively low, due to a limited number of companies being present here. In addition, talent is moving fast because of skewed pay-levels in favour of Johannesburg."

Zamo Gwala
CEO, Trade & Investment KwaZulu-Natal (TIKZN)

"Durban offers an excellent quality of life and KZN has many top-notch schools that offer good value for money and are very attractive for foreign expats."

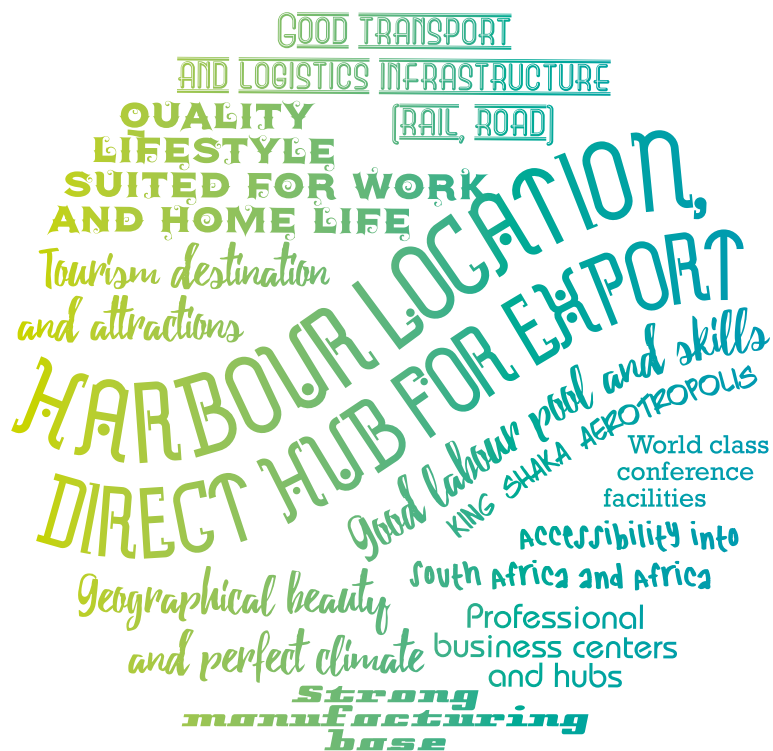
Gavin Dalgleish
Managing Director, Illovo Sugar

2. Location attractiveness

When asked about the main characteristics of a world-class investment location that Durban and KZN already have, the majority of the respondents mention the ideal **harbour location** on the Indian Ocean seaboard, the working **transport and logistics infrastructure** and the **quality lifestyle** that is equally suited for work and home life as the top three characteristics.

Proximity and direct access to a port hub for export through its two main sea ports Durban and Richards Bay and an established road and rail infrastructure with international logistics capabilities are clearly seen as the most attractive characteristics that sets Durban and KZN apart from other South African locations. In addition, the gateway status of Durban/KZN for other provinces and into Southern Africa and the potential of the King Shaka Aerotropolis as a game changer are mentioned as additional key characteristics. Compounding the leading quality lifestyle characteristic are Durban and KZN's **geographical beauty and perfect climate/weather** and its status as an international **tourism destination and attraction**, with its many beaches, game reserves, heritage sites and the Drakensberg. Every fourth respondent refers to these characteristics as natural advantages that help attract investments.

All these answers confirm the results of the leading/lagging index in chapter 1, where Durban scored especially high in the attractive infrastructure and social environment indicators, when compared with Johannesburg, Cape Town, Port Elizabeth, Pretoria and Richards Bay.



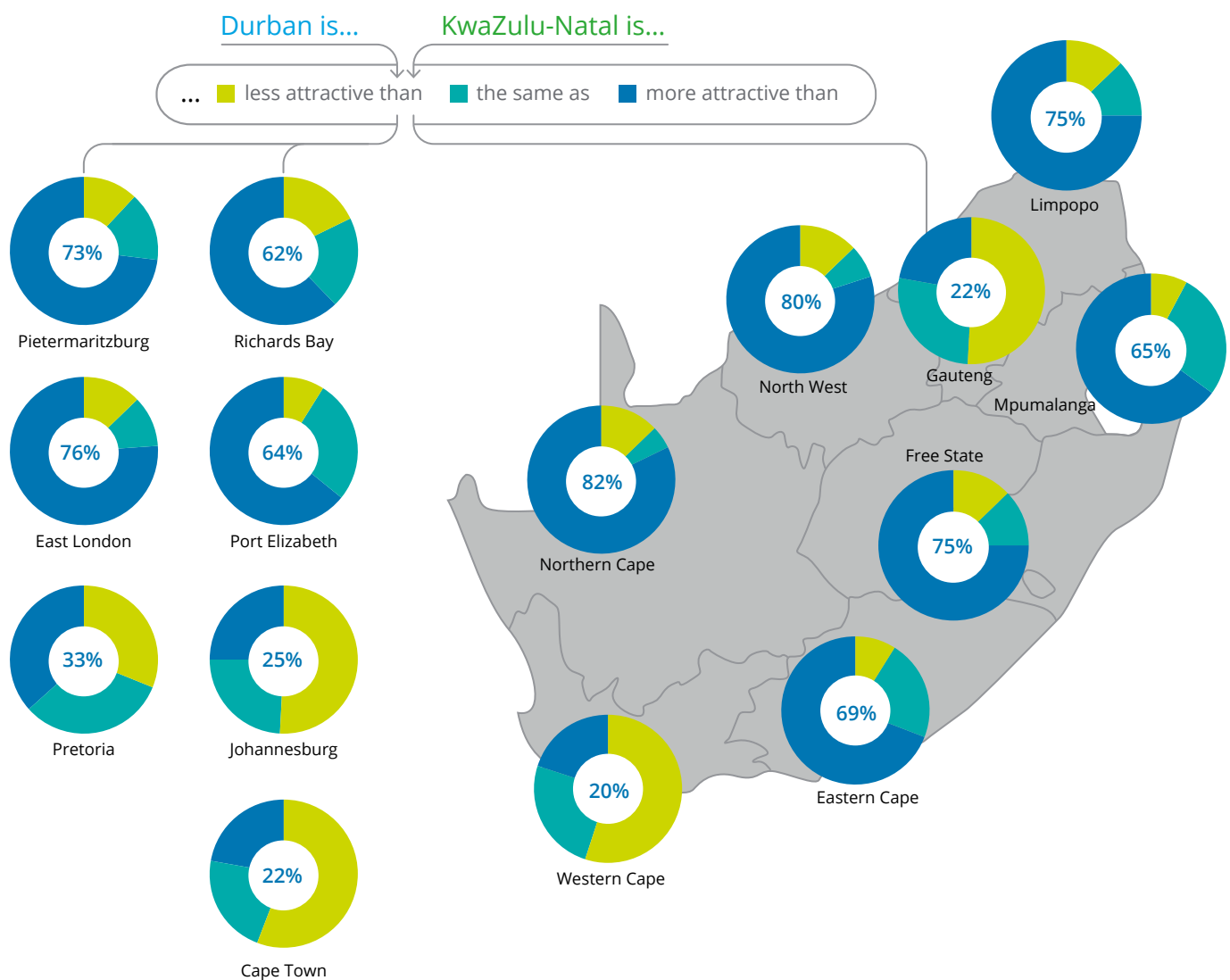
“The quality of life and diversity of people are real competitive advantages that KZN and Durban have over other South African provinces and international locations.”

Zamo Gwala
CEO, Trade & Investment KwaZulu-Natal
(TIKZN)

2.1 Benchmarking

Unsurprisingly, slightly more than 60% of the respondents rate Durban's overall investment attractiveness in their benchmarking higher than that of Richards Bay and Port Elizabeth and slightly more than 70% think that Durban is more attractive than East London and Pietermaritzburg (see chart 4).

Chart 4
How attractive is Durban and KZN as an investment location compared to the following other South African cities and provinces?



Durban can however not compete with Johannesburg and Cape Town in the view of the respondents: Only slightly more than 20% think that Durban is more attractive than both these locations, with a majority (51% for Johannesburg and 56% for Cape Town) thinking Durban is less attractive. With regard to Pretoria, the respondents are almost equally split amongst those who think that Durban is more attractive (33%), that both locations are the same (29%) and that Pretoria is more attractive (38%).

A similar picture arises when benchmarking KZN against other provinces in terms of overall investment location attractiveness (see also chart 4): KZN is clearly seen as more attractive than the Northern Cape (82%), North West (80%), Limpopo (75%), Eastern Cape (69%) and Mpumalanga (65%). However, only 20% think KZN is

a more attractive investment location than the Western Cape and 22% think the same of Gauteng. This benchmarking ranks Durban behind Cape Town and Johannesburg, but on par with Pretoria and strongly ahead of Richards Bay, Port Elizabeth, Pietermaritzburg and East London. KZN is equally lagging behind Western Cape and Gauteng, but ahead of all other South African provinces when it comes to general investment attractiveness.

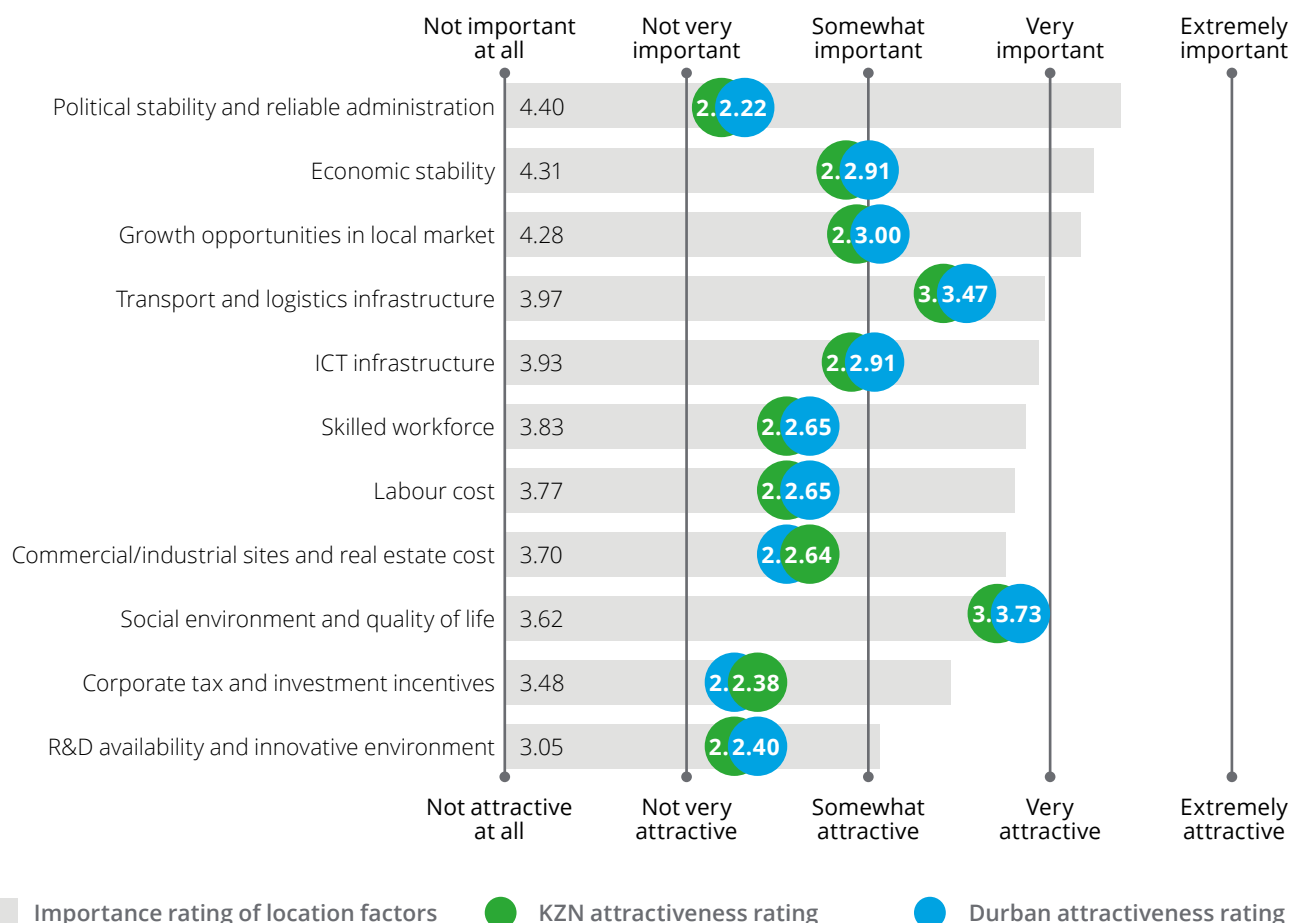
To find out for which characteristics Durban and KZN are especially attractive when making investment decisions we asked our survey panel to rank specific investment location factors in their importance and rate Durban's and KZN's attractiveness with regard to these factors (see chart 5).

“There is enough money around to be invested by South African businesses. However, companies are hesitant to invest in the current economic and political climate.”

John Barton
Chairman, Crookes Brothers

Chart 5

**What do you see as the most important location factors when you make an investment decision?
And how do you rate Durban and KZN with regard to these investment location factors?**



On a scale from one to five, with one indicating 'not important at all' and five 'extremely important', **political stability and reliable administration, economic stability and growth opportunities in local market** have been mentioned as the most important location factors when making investment decisions, with all three factors having average scores above four (or 'very important'). Both Durban and KZN however score for these very important factors on the attractiveness scale from one to five, with one indicating 'not attractive at all' and five 'extremely attractive', especially low for political stability and reliable administration ('not very attractive' scores of 2.22 and 2.00 respectively). Economic stability and growth opportunities in local markets are seen as only 'somewhat attractive' for both Durban and KZN, with average scores hovering just below three.

The two important location factors where Durban and KZN perform well with regard to high attractiveness are again **transport and logistics infrastructure** (score of 3.47 and 3.40 respectively) and **social environment and quality of life** (both 3.73). These findings confirm the results

of the leading/lagging index in chapter 1, where Durban scored especially high for the attractive infrastructure and social environment indicators.

Other important location factors that the survey panel rated highly (scores in the high three's between 'somewhat important' and 'very important') are **information and communication technologies (ICT) infrastructure, skilled workforce, labour cost and commercial/industrial sites and real estate cost** – in which both Durban and KZN score poorly between 'somewhat attractive' and 'not very attractive'. Even though availability of land is not really an issue in South Africa, associated cost can be quite high and especially in international comparison as some interviewees pointed out.

"Getting highly skilled creative talent in Durban is very difficult. Lifestyle can be a great attraction for talent. However, it is easier to get people from London to Durban than from Cape Town to Durban."

Dale Tomlinson
CEO, Hardy Boys

"Durban has some natural advantages like the climate and proximity to nature as well as a good developed infrastructure with the harbour and the new airport. This will hold it in good stead in the long-term, if the short-term issues can be resolved."

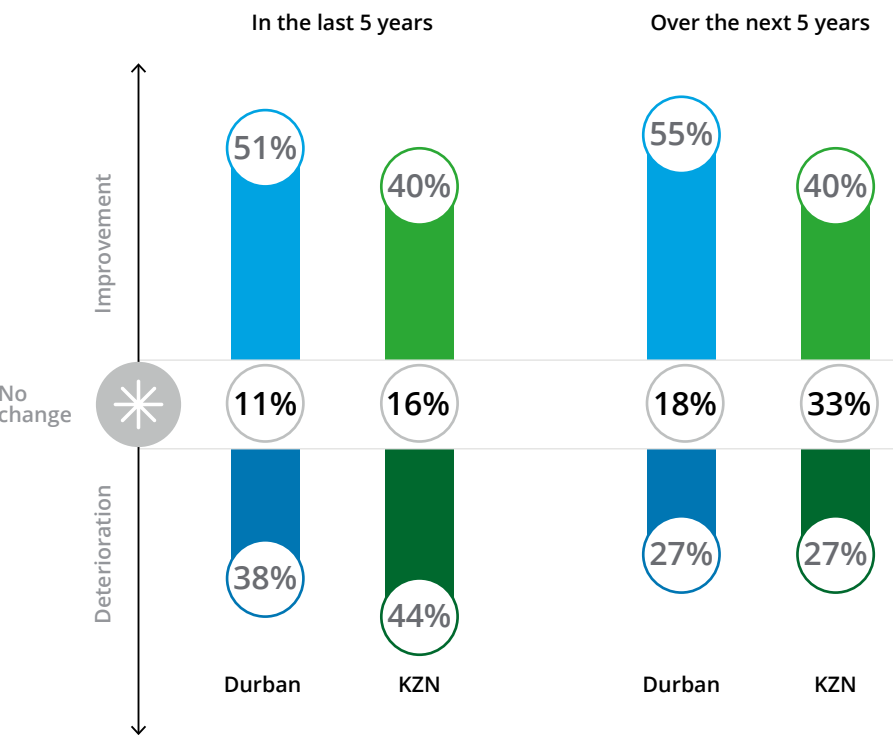
John Barton
Chairman, Crookes Brothers



2.2 Past and potential attractiveness

Slightly more than half of all respondents (51%) think that the attractiveness of Durban as an investment location has improved in the last five years, with 38% thinking that the attractiveness deteriorated over the same period and 11% saying there was no change (see chart 6). The figures for KZN are slightly less favourable, with only 40% of respondents stating an improvement in the last five years and 44% a deterioration

Chart 6
How do you think the attractiveness of Durban and KZN as investment locations have evolved in the last 5 years respectively will evolve over the next 5 years?



“South Africa is greatly in need of specific talent in some sectors. The country should do everything in its power to attract such talent. This can only contribute to overall economic growth, job creation and in it being recognised as a great investment destination.”

M D Ramesh
President and Regional Head South & East Asia, Olam

“If Durban could attract more multinationals and headquarter operations to the province, local reinvestment and foreign investment would progress even faster.”

Gavin Dagleish
Managing Director, Illovo Sugar

For the next five years a slightly higher number of respondents expect an improvement for Durban's investment attractiveness (55%). The figure for KZN remains the same as in the past five years, with 40% expecting an improvement in the near future. A positive sign is that the number of respondents expecting a deterioration over the next five years is lower for both Durban and KZN (27%) than for the last five years. The number of respondents that do not expect a change in the next five years for KZN however has more than doubled compared to the last five years (from 16% to 33%).

Overall this picture of past and potential attractiveness of Durban and KZN as investment locations shows a very encouraging trend and should bode well for attracting more local and foreign investments into the municipality and province.

3. Trends

To get a better understanding of the general trends and flows of investments, we asked our survey panel if they are planning to invest in the coming years in the region or if they are thinking about moving some of their operations out of Durban and KZN to another city, province or even country in the coming years.

3.1 Investments

More than half of the respondents (56%) are planning further investments in Durban and slightly less than two-thirds (60%) are planning more in the greater KZN region (see chart 7). A very high majority of all these investments will happen in the next one to two years (90% of all investments in Durban and 82% in KZN), with the remainder planned for the next three to five years.

Of all the respondents that are not planning any investments in the coming years (44% for Durban and 40% for KZN), three-quarters know for sure that they will not invest in either location, but one-quarter is still undecided. Keeping the figures on the attractiveness potential of Durban and KZN from the previous chapter in mind, this is a very positive overall trend and investment outlook for the municipality as well as the province in the short-term.

When looking at investment types, 71% of all the respondents who plan to invest in either Durban or KZN in the coming years consider to **expand their existing operations** (see chart 8). The desire of local companies to reinvest in the region and expand their businesses is quite high. In addition, slightly less than one-third of the respondents (29%) are planning to **establish new operations** in the coming years. This is an additional sign for quite a healthy investment climate in Durban and KZN.

Chart 7

Are you planning to invest in Durban and KZN in the coming years?

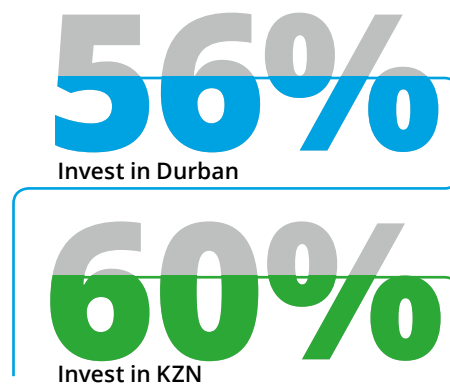
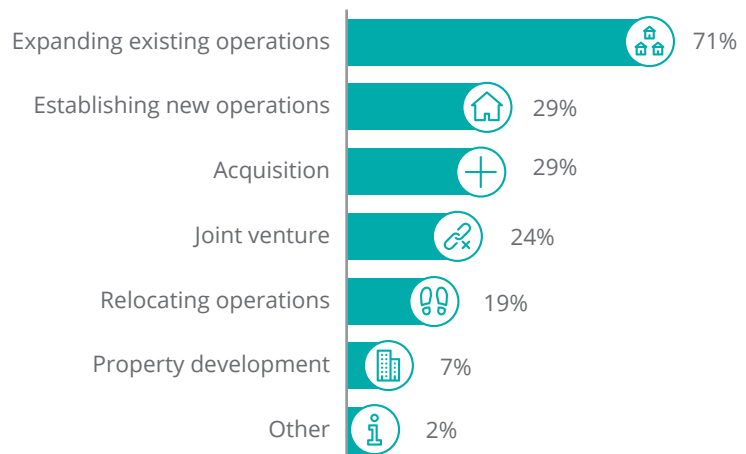


Chart 8

What type of investments do you have planned?
(Multiple answers possible)





In addition to these investment types that will mainly drive organic growth, many respondents also have investments planned to accelerate inorganic growth: 29% plan **acquisitions** and 24% have **joint ventures** in mind. This hunger for mergers and acquisitions as well as cooperation and partnerships also points to a generally healthy investment environment within the municipality and the province and bodes well for the near future.

Another positive sign is that 19% of respondents even think to **relocate operations** from other regions in South Africa into the province. This is likely because Durban and KZN have an attractive mix of industries, are well positioned in terms of logistics (ports, main roads, rail and airport) and have low-cost and a good labour pool available with reasonable skills.

“South Africa is not necessarily the gateway to Africa for foreign investors. The continent is home to more than fifty countries and every single one is completely different. However, South Africa is ideal for testing certain product categories and services that could be adopted by other African countries in the next twenty years. It has world-class food practises and is perfect for adoption by the rest of Africa.”

M D Ramesh
President and Regional Head South & East Asia, Olam

3.2 Disinvestments

When it comes to disinvestment from the region, a quarter of respondents plan to move their operations out of KZN (25%) and slightly more than a quarter out of Durban (28%) (see chart 9). Of all the respondents that are not planning to relocate in the coming years, a high majority knows for sure that they will not move some of their operations out of either location (57% for Durban and 62% for KZN) and only a few do not know it yet (15% and 13% respectively).

As we have seen, Durban has many reasons that make it an attractive investment location, but the municipality is lagging other South African locations slightly when it comes to economic growth. Unsurprisingly, a high majority of the respondents (59%) mentions **better growth opportunities** as the main reason for relocating operations from Durban (and KZN) to another city, province or even country in the coming years (see chart 10). Business and financial growth prospects are overall perceived as higher in Gauteng and the Western Cape.

The second and third highest reasons why companies plan to disinvest in Durban and KZN are the **need to move closer to customers** (mentioned by 45% of respondents) and **more attractive investment factors overall in new locations** (41%). Companies that are planning to enter or expand further into Africa are increasingly doing this not necessarily from a South African base, but directly in the new locations.

Chart 9

Are you planning to move some of your operations out of Durban and KZN in the coming years?

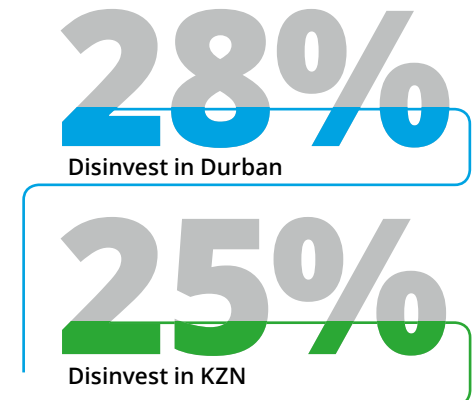
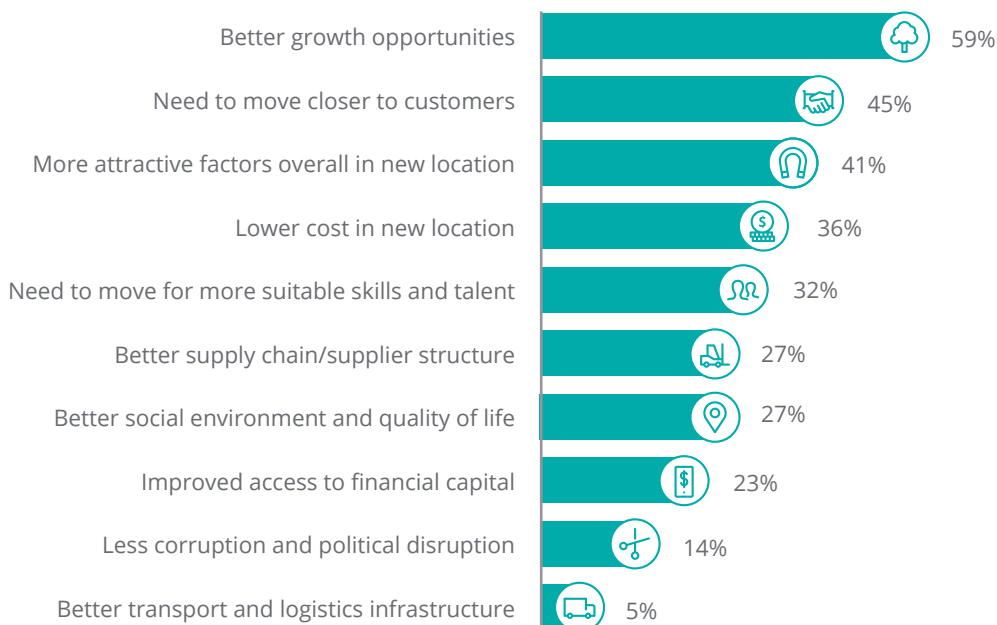


Chart 10

What are the reasons for relocating your operations?
(Multiple answers possible)



The need for greater proximity to customers is a general trend that is practically unavoidable and difficult to stop or reverse for many locations, even attractive one's. Main drivers of this trend are often transportation and logistics cost that can be reduced, but some respondents also point to the fact of higher affordability and earning power of customers for their products in new locations that can trigger relocations.

The fact however that four out of ten respondents think that other locations in South Africa have overall more attractive investment factors than Durban and KZN should be of greater concern. Nevertheless, this trend can be reversible, if the municipality and the province manage to improve their overall investment attractiveness or specifically in those areas where these other locations are leading or able to direct potential investors away from Durban and KZN.

Other reasons for disinvestment that were mentioned by the survey panel are **lower cost in new location** (36%), the **need to move for more suitable skills and talent** (32%), a **better supply chain or supplier structure** (27%) and a **better social environment and quality of life** (27%).

Cost factors with regard to labour and supplies can play an important role when making investment decisions. There might be an abundant pool of labour, but the availability of appropriate skills and the right talent is currently not in favour of Durban and KZN as attractive investment locations. Labour productivity however is not seen as an issue and does not differ much between South African locations, according to most interviewees.

Crime and security issues are increasingly impacting the quality of life and were mentioned by several survey panellists as well as interviewees as a high deterrent for any (local and foreign) investments.

Only a few of our respondents (14%) are planning to move their operations out of Durban and KZN because of **less corruption and political disruption**. The findings from our interviews indicate however that these issues are not necessarily specific to one region, but of concern across all South African locations. The problem of corruption and political disruption is perceived as endemic across the whole of South Africa, but according to interviewee feedback still lower than in other African countries.

"We need to improve our civic pride levels in Durban and increase investor confidence levels amongst our local investors."

Russell Curtis
Head of Department,
Durban Investment Promotion

"The main reason to disinvest from any location in the world would be if the personal security of employees is at risk."

Gavin Dagleish
Managing Director, Illovo Sugar

"Work ethic and productivity levels do not differ much between South African locations and are not necessarily lower in international comparison. However, more time needs to be spent on training and putting the right apprenticeship programs in place."

Gary Bell
Group Chief Executive, Bell Equipment

4. Challenges and opportunities

Durban and KZN still have much to accomplish in order to overcome barriers for local investment and foreign direct investment.

When asked about the main challenges that Durban and KZN need to address to become a world-class investment location, the majority of the respondents mention **poor municipal management and service delivery**, a general **lack of political stability and leadership**, a **deteriorating and incomplete infrastructure**, unnecessary **red tape and bureaucracy** and a high level of **corruption** as the top five challenges.

All these main themes are connected and interwoven in the view of the survey panel and are clear barriers in starting up a business and main deterrents for investments. The complaints thereby range from high inefficiency and incompetence on both municipal and provincial levels, resulting in poor service delivery of utilities and other infrastructure, to the inability to assist with business investments, an obstructive bureaucracy with administrative and legislative red tape and lengthy approval procedures and rampant corruption that has reached unprecedented levels.

There are some pockets of excellence in municipal management and service delivery in KZN. The Durban municipality has won awards in recent years for water quality, housing delivery as well as road and solid waste management for example and its public finances are considered to be one of the best in the country by National Treasury. However, in the perception of the survey panel there is still much room for improvement. The difficulty also remains to achieve and keep the same standards across the whole of KZN.

Additional challenges and investment deterrents that are also frequently mentioned by the survey panel are different aspects around **crime, safety and security** that impact the quality of life and the general **talent and skill shortage** (e.g. need to improve quality of graduates from the province, retain the existing talent, attract world-class talent from outside the province and focus on artisan skills development and training).



“There are generally too many layers of bureaucracy and approval processes that hinder widespread investments.”

Gavin Dalgleish
Managing Director, Illovo Sugar

4.1 Areas for improvement

When asked about what Durban and KZN should actively do to enhance their attractiveness and competitiveness as investment locations, a high majority of respondents mention to **improve city management and service delivery** (73%) and to **improve administrative procedures and minimise red tape for approvals** (70%) as key measures (see chart 11).

Both measures are in the control of the municipality and the province. Several survey panellists as well as interviewees have referred to examples from other countries where potential investors are supported by government agencies when setting up businesses. The recently announced one-stop-shop for developers and for investors in Durban is seen as one step in the right direction to minimise bureaucracy and speed up processes. However, not all survey panellists and interviewees are convinced and said that much more needs to be done in these areas.

Another key measure that was stressed by almost three-fifths of the survey panel and practically all interviewees is improving **safety and security** (57%). Crime is perceived as out of control by many respondents and much more

visible and effective policing is required to make Durban and KZN safer and more investor friendly.

Much **more investments in infrastructure** by the authorities (52%) and **improving investment incentives** in general (50%) are seen as additional measures by every second respondent to enhance the attractiveness and competitiveness in the whole region.

Overstretched infrastructure and backlogs in developments (e.g. port, air, rail and road) remain a key challenge for Durban and KZN to become a true transportation and logistics leader in South Africa and the main hub for the surrounding countries and further into Africa. Several respondents and interviewees have mentioned that the harbours in Durban and Richards Bay are increasingly under pressure by the ports of Maputo and Beira in Mozambique, because of faster turnarounds, lower handling costs and cheaper transportation of certain goods into and out of Gauteng and even KZN. The Durban harbour is seen as inefficient, with much higher port costs even by international comparison. Speedier bulk infrastructure delivery is required to keep Durban and KZN attractive.

“The main challenges for South Africa to become a leading investment destination remain the backlog in infrastructure development and the slow turnaround in administrative procedures and approval times.”

Gary Bell
Group Chief Executive, Bell Equipment

“Approval processes for greenfield projects are far too slow and regulations too monolithic to attract more foreign investments.”

John Barton
Chairman, Crookes Brothers



Chart 11**What measures should Durban and KZN actively take to enhance their attractiveness and competitiveness as investment locations?***(Multiple answers possible)*

“Less red tape for starting a business and more competition with regard to investment incentives would be healthy for South Africa.”

Dale Tomlinson
CEO, Hardy Boys

“One-stop-shops can really speed up processes, as many examples overseas have shown. To provide one dedicated resource to support investors in registering businesses, handling visas or getting building permits will be a competitive advantage.”

Gary Bell
Group Chief Executive, Bell Equipment

Investment incentives are often used to make locations more attractive and competitive. Many countries use such schemes on national levels, but allow regional or provincial variation and competition. Most incentive schemes in South Africa are nationally regulated and the regions often have minimal control over it. A stronger decentralisation of the administration as well as more competition amongst the regions when it comes to investment incentives are seen by many interviewees as desirable to attract not only foreign direct investments, but also to stimulate local reinvestment.

Another area that needs improvement if Durban and KZN want to enhance their attractiveness and competitiveness as investment locations is the need for **more skills development, education and training** (mentioned by 41% of our respondents). The brain drain of skilled professionals to Gauteng, Western Cape or even overseas is impacting regional growth prospects, with the province not producing and retaining enough talent and skills. Besides the general education, much more emphasis should be placed on developing artisan skills that are sustainable and on training and upskilling of the existing workforce.

Additional measures that many respondents see where Durban and KZN can further improve include **more support services for potential investors** (29%), **more enterprise development and SME support** (27%) as well as **more public private partnerships (PPPs)** (21%).

The usage of existing support structures or services by the survey panel is relatively low, with only a small number of respondents using information and support from official investment advisory and promotion organisations for their investment decisions. The majority of companies are instead rather relying on their own experience and network or information from the media, investment banks and consulting companies.

4.2 Future investment drivers

Through initiating investment strategies in significant sectors that will boost the strengths and capabilities of Durban and KZN, the future looks bright in attracting increased investment and business activity.

When asked to select up to five sectors that would be the main drivers for investments in Durban and KZN over the next five years, the survey panel response was unanimous (see chart 12). A vast majority of respondents identified **tourism** (81%) and **transportation and logistics** (61%) as key drivers of investment into the region.

Suffice to say tourism is high on the agenda of the municipality, but the promotion and marketing of the city could be improved, according to survey and interviewee feedback. In fact, CNN rated Durban in the top 10 most underrated cities in the world in 2014 and Durban was listed as one of the top destinations to visit globally in the New York Times '52 Places to Go in 2015'. While Durban attracts a fair amount of international tourists, it still could do better. The majority of business people who frequent the country mostly stop in Johannesburg and Cape Town and neglect to visit cities like Durban, as many interviewees point out. More direct international flights would improve the situation, however this has not yet improved significantly even with the new international airport.

Tourism can be leveraged off transport and logistics as interviewees stressed that Durban should become the gateway city to Africa by building on existing capabilities such as the port, King Shaka Aerotropolis, main railway line and major roads. Not surprisingly, half of all respondents (50%) identified **construction** as third biggest investment driver. Construction is essential in developing infrastructure as it proliferates other industries. As explored previously, Durban boasts already attractive infrastructure due to cheaper rates, however in terms of capabilities, there is much to be revamped.

"The best way to attract foreign investment is to have a transparent and efficient process in place that is led by skilled and knowledgeable people who are empowered with the room for negotiations and incentives."

M D Ramesh
President and Regional Head South & East Asia, Olam

"A decentralisation of the administration of investor incentives could be a great advantage for investment promotion."

Zamo Gwala
CEO, Trade & Investment KwaZulu-Natal (TIKZN)

"The development of sustainable artisan skills is as important as good university education. Government and business should focus much more on this and give people every opportunity to train, learn and develop."

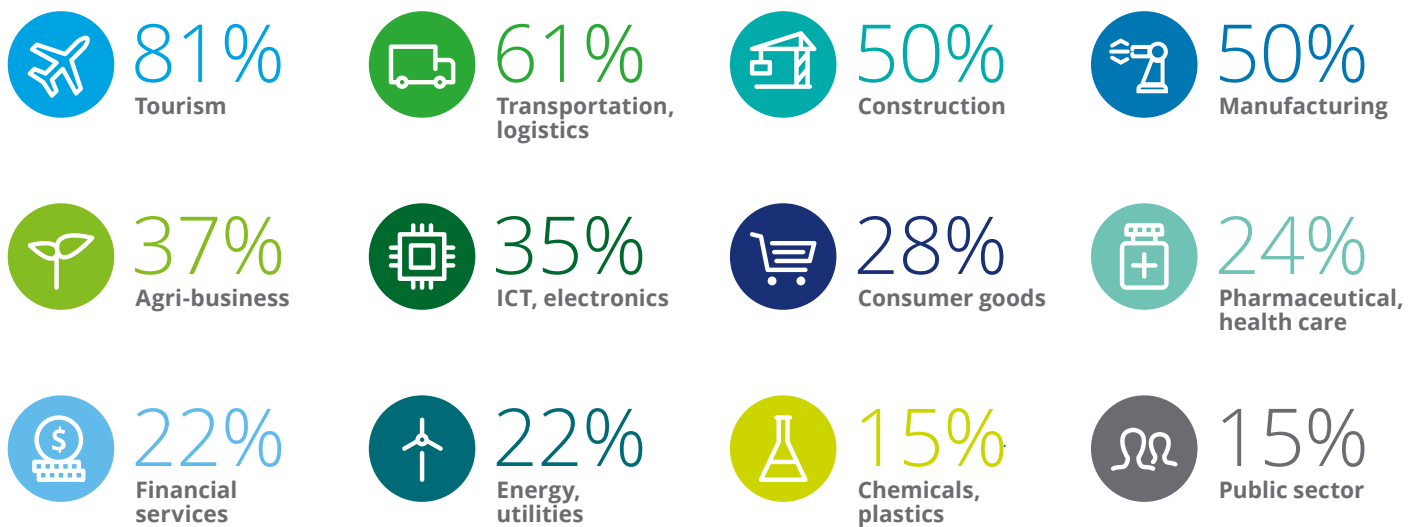
Howard Arrand
Provincial Head, FNB

Nevertheless, KZN has projects on the horizon that are likely to attract investment while also creating employment opportunities. Projects in the pipeline include the Cornubia real estate mixed-use development project, sanitation projects such as the Western Aquaduct, the Umhlanga Interchange project and several energy generation projects, including the Avon open-cycle gas turbine (OCGT) peaking power project and the Ingula pumped-storage scheme. The new vision for the Point Waterfront Development should also raise the Durban beach front to a prime real estate location and benefit tourism. Other transport and logistics and maritime projects are the expansion of the current Port of Durban, the Dube TradePort (now in Phase 2) and potentially the Durban Dig-Out Port project. The stronger connection between the Durban and Richards Bay ports in the future is also seen by many interviewees as a huge draw card for further investment into the region.

“Accelerating our bulk infrastructure development and improving our skills and productivity levels remain two of the key challenges that we need to address in Durban to become a truly world-class investment location.”

Russell Curtis
Head of Department,
Durban Investment Promotion

Chart 12
Which sectors do you think will be the main drivers for investment in Durban and KZN over the next five years?
(Multiple answers possible)



“Durban should be the main tourist attraction in South Africa with its natural beauty, a beachfront that can easily compete with beaches in California, world-class Drakensberg and game lodge experiences and of course the key, a brand new airport. However, we all need to work together to hub and spoke these attractions and leverage off our international airport more to attract a larger share of international tourists direct from Europe, the USA and the East.”

Howard Arrand
Provincial Head, FNB

Every second respondent (50%) also indicated that the **manufacturing** sector will be a key driver for future investment. KZN's manufacturing sector is the second largest in the country, after Gauteng. It is geared for export, with nearly a third of South Africa's manufactured exports being produced in KZN. Manufacturing primarily focuses on automotive, pulp and paper products, chemicals and petrochemicals as well as food and beverages. In the view of the survey panel there is still great potential to increase the capacity of this sector.

Agri-business was surprisingly low as only just over a third of respondents (37%) believe it will be a key driver. KZN's nurturing climate and rich soil for agriculture is home to field crops, horticulture and livestock farming and two of the country's sugar giants. However, interview feedback suggests that KZN as a sugar destination is decreasing in importance as sugar is now being produced elsewhere. Nevertheless, other examples are encouraging, with some of the largest pineapple farmers operating out of KZN. There have also been predictions that new opportunities will arise for instance in macadamia nut farming as there is an increased demand from China and the USA. Interviewees said that agriculture needs to be sustainable and should be more inclusive, like subsistence farming, or even adopting a community-based Kibbutz model.

Also around a third of respondents (35%) identified **information and communication technologies (ICT) and electronics** as important key drivers for investment. As determined in the detailed leading/lagging index of this report (see Appendix) Durban has a higher technology ranking than Pretoria and many other South African locations, but is still lagging Johannesburg and Cape Town. Durban does however now have sophisticated telecoms via city-owned fibre optic networks, but interviewees were unsure about how much it is actually used. The municipality is also working on

improving existing ICT and was awarded a smart city grant from IBM. Bearing in mind this improved structure as well as the good weather and lifestyle Durban and KZN offers, many components of an environment valued by IT entrepreneurs are already here or could be put in place.

Other industries likely to attract less investment into the region in the coming years, in the view of the survey panel, include **consumer goods** (mentioned by 28%), **pharmaceutical and healthcare** (24%), **financial services** (22%), **energy and utilities** (22%), **chemicals and plastics** (15%) and the **public sector** (15%).

In addition to this sector view, a more detailed picture on the future investment drivers was gained by letting survey panellists select up to five business areas they think the majority investments will happen in Durban and KZN in the coming years (see chart 13).

There was strong consensus as nearly three quarters of respondents (71%) identified **warehousing and logistics** as main future investment drivers. This is likely to be because warehousing and logistics is easier in Durban and KZN due to cheaper costs and port connectivity. Furthermore, KZN is an emerging region and has many (potential) greenfield sites whereas Johannesburg, for example, has denser infrastructure.

Just short of half of survey panellists (42%) agreed also that **supply chains** will be a key business function for investments in the years to come. Supply chains are integrally linked with warehousing and logistics involved in moving materials through the product lifecycle. Durban's advantage is that these processes as well as labour is cheaper in the region than Cape Town and Johannesburg.

“Durban is home to some unique IT companies that are doing very well. There is potential for Durban to become an even bigger IT hub than Cape Town, particularly bearing in mind the weather and lifestyle we have to offer. We need to work together harder to understand and create the innovative and supportive environment that IT entrepreneurs value.”

Howard Arrand
Provincial Head, FNB

Chart 13

In which business areas do you think will the majority of investments happen in Durban and KZN in the coming years?

(Multiple answers possible)



Also less than half of respondents suggested **distribution channels and marketing** (40%) and **production** (35%) will be key business areas for investment. Durban/KZN needs better marketing of the products and services it produces and has to offer and use the intermodal transport facilities to increase distribution inland and the port to increase exports.

Back office functions (mentioned by 16% of respondents) are perhaps underrated as outsourcing skills based in Durban/KZN has still huge potential because of the cheaper labour rates and a large workforce. Furthermore, Durban/KZN can attract skills due to the lower cost of living and high quality of life. Many interviewees still see some growth potential for call centres in the coming years that are servicing local as well as global markets.

Survey panellists note other less important functions to attract investments including **sales** (mentioned by 15%), **company administration and headquarter functions** (13%) and **research and development** (7%).

There is a lot of activity happening in the province across many industries, yet not many headquarters are based in the region. It is challenging to compete with Johannesburg, which historically has been the primary business hub as the core administration, banks and financial capital and the majority of headquarters where CEOs sit. Despite Durban boasting an attractive financial market, it has a smaller headquarter share. Interview feedback indicated a split on the importance to attract more headquarters. Some believe headquarters should remain an investment promotion priority, whereas the other half believe it would be better to build on existing strengths and focus on tourism, transportation and logistics

With regard to more investment in research and development (R&D) some interviewees challenged whether there is actually a need for strong R&D in every province. It was suggested that Durban and KZN rather leverage off R&D resources from other provinces, and even from the USA, for example business incubation research. It is believed that it is not necessary to have strong R&D in every province and instead Durban and KZN should rather focus on artisan skills development and training and push blue collar jobs to serve the need of the massive unemployed population in the more remote areas of the province.

“KZN is not a hub for headquarters like Gauteng. However, the province should strive to be the South African centre of excellence for logistics in collaboration with the Durban harbour and airport.”

Zamo Gwala
CEO, Trade & Investment KwaZulu-Natal (TIKZN)

5. Outlook and vision 2030

Durban and KZN are still facing many challenges when it comes to attracting investments, but there are also great investment opportunities in both the municipality and the province in the coming years that are still untapped.

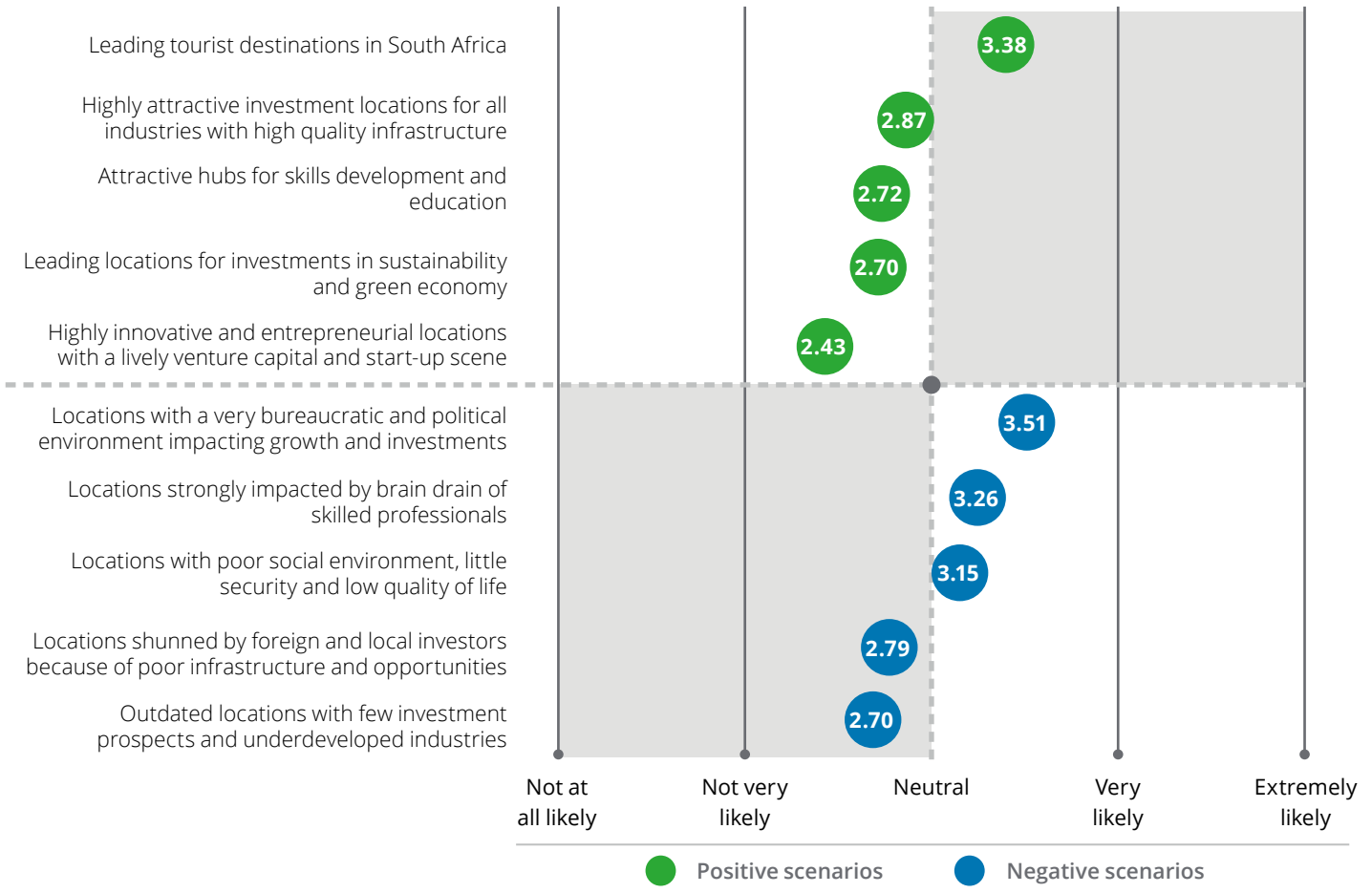
When asked about an outlook and a vision for 2030 for both Durban and KZN, the survey panel named under the current circumstances the following two scenarios – one negative and the other one positive – as most likely to unfold for the municipality and the province (see chart 14): Durban and KZN in 2030 are seen on the one hand

as **locations with a very bureaucratic and political environment that will impact growth and investments** – a negative scenario that was ranked by the respondents on a scale from one to five, with one indicating ‘not at all likely’ and five ‘extremely likely’, with a score of 3.51 (close to ‘very likely’ to happen). On the other hand, Durban and KZN in 2030 are seen as the **leading tourist destinations in South Africa** – a positive scenario with a slightly lower score of 3.38, but nevertheless thought of by the respondents as likely to happen.

“In our 2030 investment vision for Durban we should strive to become the premier sub-Saharan investment and export platform. One that is recognised as the southern gateway to and from Africa, and where most multinational companies targeting Africa choose to be located.”

Russell Curtis
Head of Department,
Durban Investment Promotion



Chart 14**How do you see Durban and KZN in 2030?**

While the latter scenario around tourism leadership is a very positive and viable one that should drive investments throughout the whole province, the scenario around higher bureaucracy and political instability points to one of the key issues that Durban and KZN are facing and that needs to be addressed in the near future to remain attractive and competitive investment locations in the longer term. It is however not only a provincial issue, but also an issue of national proportions as many survey panellists have stressed that other African countries have currently not only better growth outlooks but much better investment prospects than South Africa because of higher political stability and less bureaucracy and red tape for investors.

“Durban should be marketed more aggressively as an African destination and not only as a South African location.”

Dale Tomlinson
CEO, Hardy Boys

“We have lost some of our pride and patriotism as South Africans. This was very prevalent in the build-up to the World Cup 2010 and we need to rediscover it. We all need to rally around the many positive things we can identify and say about our country.”

Howard Arrand
Provincial Head, FNB

Two other negative scenarios with a score higher than three and that are likely to happen in the view of the survey panel are that Durban and KZN could be turning into **locations strongly impacted by a brain drain of skilled professionals** (score of 3.26) and/or becoming **locations with a poor social environment, little security and a low quality of life** (3.15). Both areas will need focused attention, e.g. skills development and guaranteeing safety and security, if Durban and KZN want to excel and remain attractive. It was stressed by several survey panellists and interviewees that there should be no reason why South Africa (and therefore also Durban and KZN) cannot implement and provide world-class police services. The issue of not enough artisan skills is of great concern, with more respondents thinking that Durban and KZN will not likely be **attractive hubs for skills development and education** (score of 2.72). This area is in need of ongoing dedication and much stronger cooperation between government and businesses.

Most respondents also remain neutral (but with a slightly negative touch) with regard to the positive scenario that Durban and KZN in 2030 will become **highly attractive investment locations for all industries with high quality infrastructure** (score of 2.87). This outlook is not surprising and reflects the general overall sentiments about Durban and KZN as investment locations and greater need for improving existing and delivering new bulk infrastructure.

Other positive scenarios that are trending more towards 'not very likely' to happen are Durban and KZN becoming **leading locations for investments in sustainability and green economy** (score of 2.70) and turning into **highly innovative and entrepreneurial locations with a lively venture capital and start-up scenes** (2.43). However, both average scores result from voices saying that they are 'not at all likely' scenarios and equally

many voices saying that this could very well be possible or will be 'extremely likely' if the right mindsets are applied and the right framework conditions are in place. Some interviewees have stated that there is a general lack of entrepreneurship in South Africa, with others mentioning that the issue is more that the potential remains untapped.

The fact that the remaining two negative scenarios around Durban and KZN turning into **locations that will be shunned by foreign and local investors because of poor infrastructure and opportunities** (score of 2.79) or will become **outdated locations with few investment prospects and underdeveloped industries** (2.70) are also trending more towards 'not very likely' can also be seen as an overall positive sign. Negative scenarios that are perceived as unlikely to happen have a positive connotation.

However, the likelihood of many of the above-mentioned outlooks and visions for 2030 depend strongly on the future engagement, drive and mindset of all relevant stakeholders who can make or break an attractive and competitive investment location, e.g. municipal and provincial governments, investment promotion agencies, business, media and civil society.

As many survey panellists and interviewees noted, a more collaborative and inclusive approach, a general change in mindset, much stronger commitment and new passion is required from all stakeholders to reignite a strong investment drive for Durban and KZN. The view was unanimous, that Durban and KZN are in great need of a much better, slightly more aggressive and inspirational marketing and branding that highlights the many success stories and showcases the vast business opportunities for local and foreign investors.

"Not enough is done to sell South Africa as a great investment destination. It is worrying that there seems to be insufficient will to invite investors."

M D Ramesh
President and Regional Head South & East Asia, Olam

"There is a general lack of entrepreneurship in South Africa, not only in KZN."

Zamo Gwala
CEO, Trade & Investment KwaZulu-Natal (TIKZN)








"Durban is not noisy about its success. There is more than meets the eye and if the great success stories of Durban businesses were shared more widely, more local and international companies could be attracted to the location."

Dale Tomlinson
CEO, Hardy Boys

Appendix

Each of the seven generic indicators that were used for the leading/lagging index in chapter 1 are comprised of four dimensions that can be measured (see chart 16). In cases where municipal data was not available for certain dimensions, provincial data was used.

Chart 16
Detailed leading/lagging index for six South African locations

Indicator	Dimension	Location					
		Durban KZN	Richards Bay KZN	Johannesburg Gauteng	Pretoria Gauteng	Cape Town Western Cape	Port Elizabeth Eastern Cape
 Robust economic growth ¹	Provincial GDP growth	2.9%	2.9%	2.9%	2.9%	2.9%	2.3%
	Municipal GDP growth	34%	21%	37%	45%	37%	25%
	Export growth	157%	119%	232%	283%	221%	141%
	Import growth	137%	154%	267%	234%	215%	161%
 Attractive infrastructure ²	Technology ranking	#153	NA	#100	#175	#109	NA
	Attractive office rental	R83	R55	R97	R114	R91	R55
	Attractive industrial electricity rates	91.14	91.31	131.84	105.73	105.87	129.63
	Attractive transportation/logistics rates	\$260	\$434	\$397	\$432	\$260	\$305
 Sound public finances & good administration ³	Municipal credit rating	AA-	A	Aa1	A	Aaa	Aa1
	Municipal financial soundness score	2	1	2	2	1	3
	Municipal compliance score	2	3	3	3	3	1
	Ease of doing business ranking	#3	NA	#9	#6	#1	#8
 Developed financial market ⁴	Presence of South African banks	90%	60%	100%	90%	90%	80%
	Presence of foreign banks	43%	5%	100%	33%	43%	19%
	Presence of top accounting firms	90%	10%	100%	90%	100%	60%
	Presence of top insurance companies	90%	50%	100%	80%	90%	80%
 Good innovative capacity ⁵	Provincial distribution of R&D	10.7%	10.7%	46.7%	46.7%	19.3%	5.8%
	Number of patents by main university	30	1	116	49	144	25
	Presence of start-ups	~5%	<5%	~25%	~5%	~59%	<3%
	Innovation city ranking	#380	NA	#399	NA	#128	NA
 Highly skilled workforce ⁶	Economically active population	70.0%	58.4%	72.7%	71.9%	69.9%	68.5%
	Provincial matric pass rate	69.7%	69.7%	84.7%	84.7%	82.2%	65.4%
	Provincial mathematics pass rate	20.0%	20.0%	49.8%	49.8%	57.3%	21.8%
	Adults with higher education degree	11.4%	7.5%	18.4%	21.9%	15.5%	10.7%
 Attractive social environment ⁷	Quality of living ranking	#85	NA	#95	NA	#92	NA
	Attractive residential housing prices	1.375	1.150	1.929	1.581	1.754	0.986
	Number of quality schools	6	0	6	3	2	1
	Commuter/traffic ranking	#221	NA	#106	#158	#66	NA

Lagging     Leading

Leading/lagging indexes were created for each dimension and aggregated for each indicator. The leading/lagging index simply scores each location on a scale from laggard (last) to leader (first). It is important to keep in mind that this does not directly translate to a positive/negative view as a lagging score should be viewed relative to overall performance for an indicator.

The index does not claim to be irrevocable or absolute, but aims to be a simple tool that illustrates strengths of investment locations and points to potential areas of improvement to become more attractive and competitive.

Endnotes

¹ **Provincial GDP growth:** Provincial GDP-R rate, in %, 2005-2015. IHS Global Insight Regional eXplorer. **Municipal GDP growth:** Municipal GDP growth, in %, 2005-2015. IHS Global Insight Regional eXplorer. **Export growth:** Provincial export growth, in %, 2005-2015. IHS Global Insight Regional eXplorer. **Import growth:** Provincial import growth, in %, 2005-2015. IHS Global Insight Regional eXplorer.

² **Technology ranking:** Dimension of Smart City ranking out of 181 cities worldwide, 2016. IESE Business School, University of Navarra. **Attractive office rental:** Average Rand per rentable m² Grade B and C in various suburbs per city, gross leases (excl. VAT), Quarter 2014:1. DTI/ Deloitte South Africa investor's handbook 2014/15, Richards Bay IDZ. **Attractive industrial electricity rates:** Average peak and off-peak and Summer & Winter rates, c/kWh (excl. VAT). Municipality websites. **Attractive transportation/logistics rates:** Approximate cost (USD) to transport 1 ton to London. Shipping and logistics company quotes.

³ **Municipal credit rating:** Credit score of long-term debt, 2015-2016. Municipality websites, GCR, Moody's, Fitch. **Municipal financial soundness score:** GGA Government Performance Index, 2016 (1 indicates best, 5 indicates worst). Good Governance Africa (GGA). **Municipal compliance score:** GGA Government Performance Index, 2016 (1 indicates best, 5 indicates worst). Good Governance Africa (GGA). **Ease of doing business ranking:** Ranking out of 9 metropolitan municipalities in South Africa, 2015. The World Bank.

⁴ **Presence of South African banks:** Physical presence of top 10 locally controlled banks, in %, 2016. Reserve Bank. **Presence of foreign banks:** Physical presence of 21 foreign controlled banks, in %, 2016. Reserve Bank. **Presence of top accounting firms:** Physical presence of top 10 accounting firms by staff size, in %, 2016. Who Owns Whom. **Presence of top insurance companies:** Physical presence of top 10 insurance companies, in %, 2016. Deloitte analysis.

⁵ **Provincial distribution of R&D:** Provincial distribution of R&D in South Africa, in %, 2007/08. National Survey of Experimental Research and Development. **Number of patents by main university:** Patent Cooperation Treaty (PCT) patents measured by main university in city, 2005-2015. World Intellectual Property Organisation. **Presence of start-ups:** Number of business start-ups per province in South Africa, in %, 2015. Venture Burn. **Innovation city ranking:** Innovation Cities Index ranking out of 445 cities worldwide, 2014. Innovation Cities Program.

⁶ **Economically active population:** Number of municipal population economically active at working age, in %, 2015. South African Institute of Race Relations. **Provincial matric pass rate:** Number of matric passes per province, in %, 2014. SAinfo reporter. **Provincial mathematics pass rate:** Number of matric mathematics passes per province, in %, 2015. South African Institute of Race Relations. **Adults with higher education degree:** Number of over 21-year olds with a tertiary education degree, in %, 2015. South African Institute of Race Relations.

⁷ **Quality of living ranking:** Mercer's Quality of Living ranking out of 230 cities worldwide, 2016. Mercer. **Attractive residential housing prices:** Average prices of middle-class houses per city, in R millions, 2016:3. ABSA, Deloitte analysis. **Number of quality schools:** Number of top 10 public and top 10 private schools by performance based on IEB and NSC qualifications, 2015. Business Tech. **Commuter/traffic ranking:** TomTom Traffic index measuring congestion in 348 cities worldwide (a lower number indicates higher congestion), 2015. TomTom.

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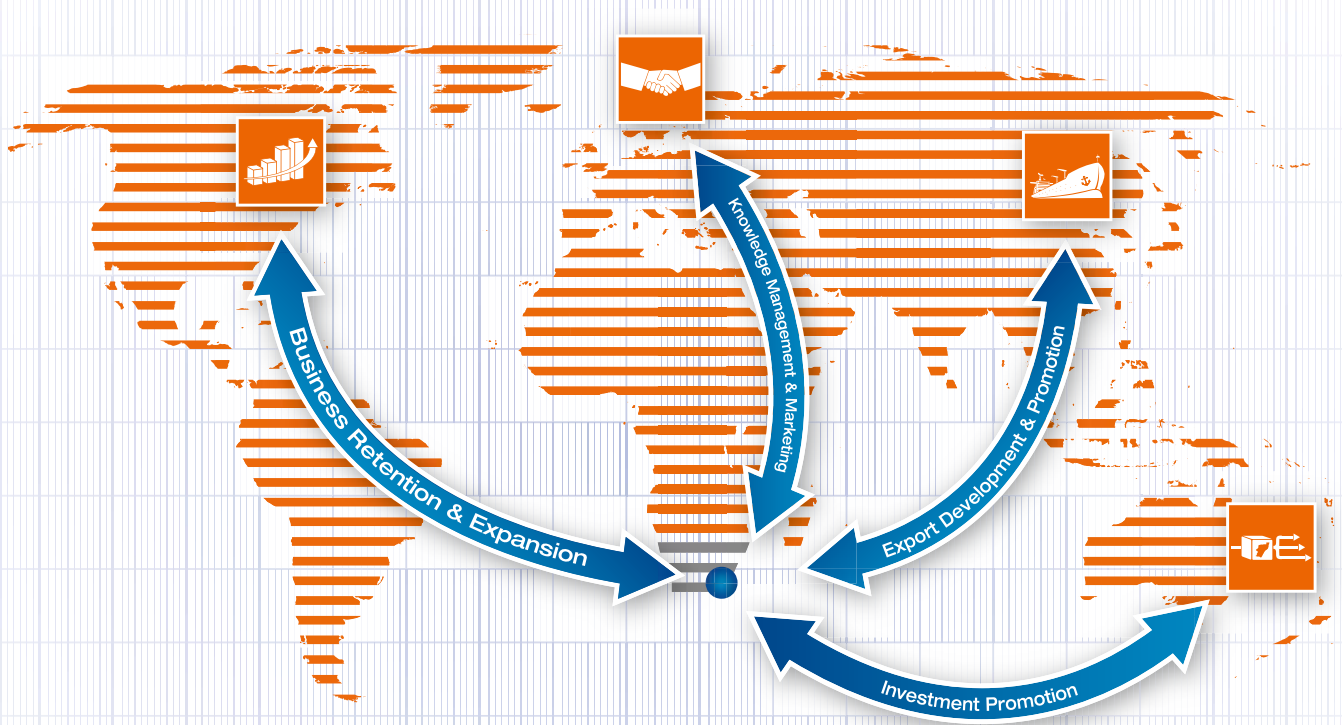
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