An investment competitiveness study for the Nelson Mandela Bay Municipality

Economic Development and Recreational Services

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Executive Summary

The Nelson Mandela Bay Municipality (NMBM) appointed Garnett-Adams Management Consulting to assess the competitiveness of Nelson Mandela Bay Metro, with a view of developing a strategy and macro implementation plan to increase competitiveness and attract investment.

The scope of the study included the following:

- Benchmarking of the investment competitiveness of the NMBM against specific countries (and cities within), namely China, India, Peru, Uganda and Turkey
- Primary company-level research to assess companies views of investment considerations and constraints in NMBM. Forty company representatives were interviewed
- An assessment of current NMBM policies, strategies and programmes that have a bearing on the region's competitiveness as an investment destination
- Formulate and recommend strategies and programmes that could be implemented to strengthen NMBM as an investment destination

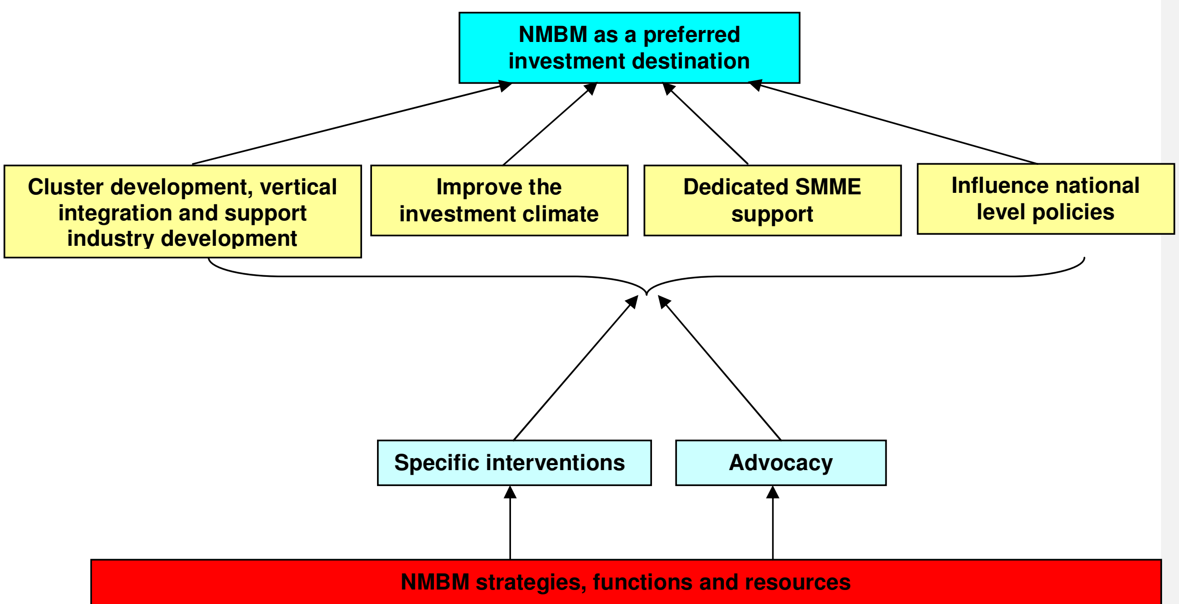
The key finding of the study is that South Africa has performed poorly in attracting Foreign Direct Investment (FDI) over the last decade, and in 2004 South Africa ranked lowest of the countries assessed in terms of the UNCTAD FDI Performance Index, which reflects FDI inflow relative to GDP.

The international benchmarking and primary research revealed that South Africa/NMBM has strengths in terms of high levels of political, economic and policy stability, reasonably low entry – and exit barriers, effective port infrastructure, a well developed financial services industry, a strong judicial system as well as low levels of corruption. The most significant strength that emerged is probably the low cost of electricity. On the negative side the most significant weakness identified is the lack of a skilled labour pool. Coupled with labour laws that are perceived to be inflexible, this can be considered the one area that requires urgent attention. Other weaknesses are the high cost and low levels of broadband penetration, weak rail infrastructure, lower than expected levels of R&D intensity, average customs operations and crime.

Important lessons can also be learned from the countries assessed:

- India's inability to improve its electricity network, and high entry and especially exit barriers are the two most important deterrents to investors. On the positive side, India has made progress in relaxing its very stringent labour regulations resulting in a more flexible labour market. A lesson for SA/NMBM is that an over-regulated labour market is not conducive to attracting FDI
- China is investing heavily on two fronts, namely in upgrading its skills - and technology base. Coupled with existing advantages such as cheap labour, high economic growth and political and economic stability, China is continuously improving its investment competitiveness
- In Turkey reductions in tax and simplified and inexpensive processes for the establishment of businesses within the regulatory framework has reduced entry barriers, for especially SMME's, and increased formalisation
- The most important contributing factor in recent years to Uganda's improvement in investment competitiveness was political stability that has been attained. It is therefore imperative that South Africa does not retract on gains made in recent years
- Although Peru has invested heavily in improving its electricity and telecommunications infrastructure as well as improving customs operations and implementing tariff reforms, it is hamstringed by persistent instability in macro-economic policy and failure to integrate into the world economy

The recommendations to improve the investment climate in NMBM were formulated from a holistic perspective, considering the broader environment, as reflected in the diagram below.



The recommendations are therefore clustered around four strategic objectives:

A) Cluster development, vertical integration and support industry development

This study shows that the development of core industries such as textiles, agro-processing, metals, tourism, etc. is hampered by weak supporting industries (especially logistics) and that down stream beneficiation can be further developed.

The following is recommended:

- NMBM should accelerate efforts to develop downstream industries around existing industries
- Local incentives need to be aggressively promoted. The Nelson Mandela Bay Business Centre (NMBBC) should embark on an aggressive marketing campaign to promote local incentives to investors
- Supply industries are considered weak. As part of vertical integration, NMBM should identify and develop weak supply industries in the complete value chain of core industries
- The NMBM needs to address the cost of logistics due to trade imbalances. It is recommended that the causes of trade imbalances and its impact on logistics be further investigated and a strategy to deal with such imbalances be formulated

B) Improve the investment climate

This will require building on existing strengths and eliminating weaknesses.

In terms of building on existing strengths the following are recommended:

- Political and economic stability, as well as policy certainty is a strength. However, exchange rate volatility creates uncertainty and makes planning difficult, especially for exporters. Senior management of NMBM needs to play an advocating role in bringing the negative effect of exchange rate volatility to the attention of national level policy makers
- Although the low cost and reliability of electricity is a considerable strength, investors have recently started querying the sustainability of these advantages as well as availability of future supply. It is recommended that senior officials of NMBM continuously interact with Eskom and the Department of Minerals and Energy (DME) to ensure that they are fully informed on plans and developments in order to factually engage investors regarding this uncertainty
- The port operations in Port Elizabeth are seen to be a positive factor. It is recommended that the effectiveness and efficiency of customs and other critical activities be benchmarked against

other ports in South Africa, and improvements be made where necessary to become “best in SA” and world class

- Corruption in South Africa and the Eastern Cape is not seen as a constraint in doing business. It is recommended that NMBM aggressively promote the fact that levels of corruption in NMBM and SA is of the lowest in the world. The same applies for high levels of confidence expressed by investors in the judicial system as well as the well developed financial services sector.

In terms of eliminating weaknesses the following recommendations are presented:

- Skills shortages were identified as probably the most critical aspect that needs to be addressed. Detailed sub-recommendations are:
  - The regional stakeholders should consolidate a position on the HRD challenges facing the NMBM. Communication and buy-in at all levels should be ensured.
  - The NMBM should take the lead in advocating the region’s position within the JIPSA process
  - Position the HRD plan within the Provincial Skills Development context
  - Establish partnerships with national skills development role-players to ensure support for the NMBM HRD plan
  - Establish an implementation structure within the NMMM for the HRD plan that aligns with the JIPSA initiative
- Crime was cited by companies as a major negative factor impacting investment decisions. NMBM officials should continuously bring the negative impact of crime on investment under the attention of both local as well as national level officials responsible for safety and security. The NMBM should make the provision of security an inherent part of infrastructure development and services provision.as part of the development of industrial areas
- Telecommunications cost and availability of broadband need to be addressed. The NMBM should consider investing in the establishment of broadband infrastructure in the region as probable part of a communications strategy
- Although the road infrastructure is currently considered adequate, investors expressed concern about the ability of the road infrastructure to meet requirements in the long term, especially in light of the under-developed rail system, as well as increased road congestion in metropolitan areas. It is recommended that NMBM conduct further research and review the long term road development strategy
- The rigidity of labour regulations is a highly contentious issue, and can not be addressed directly at provincial or regional government levels. The NMBM can however bring the findings of this study under the attention of national policy makers

- In order to improve R&D intensity in NMBM, the NMBM should take full advantage of incentives and programmes of the Department of Science and Technology. Incentives for innovation and R&D should be promoted to business. The feasibility of NMBM specific incentives for R&D should be investigated. The NMBM should further pursue the establishment of the Centre of Excellence concepts in key industries such as textiles, electronics, chemicals etc. as part of both the DTI and DST centre of excellence programmes

C) Dedicated support for SMME's

SMME's require dedicated assistance in a number of areas such as procedures to start a business, advice on regulatory compliance, assistance in completing tax returns, claiming for training against the skills development fund as well as information on national and local government incentives and advice on how to access such incentives. A number of institutions can play a role (for example Khula), but the central, single point of support should be the Nelson Mandela Bay Business Centre, which has a crucial role to play. It is recommended that the activities, skills, processes and mechanisms of the NMBBC be reviewed to ensure that it can provide comprehensive support to SMME's on the above.

D) Influence national level policies and programmes

The importance of the advocacy role of NMBM in influencing national and regional policies was emphasised throughout. It is recommended that the NMBM identify specific functions and resources (officials) and make it an explicit part of their roles to engage with policy makers in al spheres of government. As part of this study a number of issues that needs to be brought to the attention of policy makers was identified. These included the negative impact of fluctuations in the currency exchange rate, the impact of crime, rigidity of the labour market, inadequacies of the current rail infrastructure, concerns about the availability and reliability of future electricity supply and policy uncertainty in certain areas, e.g. automotive and textiles.

The implementation of the above will require dedicated and coherent actions from NMBM.

To initiate this, the following action items are suggested:

- A NMBM internal dissemination and discussion of the outcomes of this study
- Implementation responsibilities formalised in job descriptions and performance management processes
- A NMBM internal workshop where specific roles and responsibilities related to the implementation of recommendations are allocated
- Queries from the above can be directed to Garnett Adams for clarification

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1 INTRODUCTION

1.1 BACKGROUND

The Nelson Mandela Bay Municipality (NMBM) in South Africa is in the forefront in creating an environment conducive to economic growth and development, trade and investment promotion within Nelson Mandela Bay Metro.

The Nelson Mandela Bay Municipality must understand its competitiveness as a premier investment destination to react on environmental changes and drivers. This understanding of the competitive environment will assist NMBM in improving the environment for trade and investment. It is clear that it is of strategic importance to NMBM to understand their competitiveness as well as the scope of the available and required skills base.

Such an understanding will help NMBM to:

- better their investment decision making
- create an economic environment that allows private sector to thrive
- create a skills pool to support industry
- reduce unemployment
- create an environment conducive to growth
- support NMBM economic development strategies
- support vertical industry and sector development

It was to this extent that the Nelson Mandela Bay Municipality appointed Garnett-Adams Management Consulting to assess the competitiveness of Nelson Mandela Bay Metro, with a view of developing a strategy and macro implementation plan to increase competitiveness and attract investment. This document represents the results of this study.

1.2 PROJECT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives and scope of the project need to consider that, from a contextual perspective, "competitiveness" relates to the ability of NMBM to create an environment attractive to local and international investors. The "environment" in this context relates to the NMBM within the Eastern Cape Province of South Africa.

The objectives of the study were duly defined as follows:

- Quantitative and qualitative assessment of the regions' competitiveness relative to other cities and the needs of investors
- Determination of competitive advantages (and disadvantages)
- Identification of specific opportunities and the critical success factors to seize such opportunities
- Translation of the competitiveness assessment into an action plan for increased investment and development
- Identification of partners to implement the recommendations as well as indications of the financial implications
- Updating of the existing growth and development strategy with the findings of this study as well as other current initiatives such as the HR Development Plan, GDP monitor, Transport and Logistics plan

In order to meet the above objectives, the scope of the research had to cover the following:

- An extensive literature survey and design of competitiveness assessment framework
- Benchmarking of the competitiveness of NMBM against a number of countries/cities
- Primary company-level research to assess companies' views of investment considerations and constraints in NMBM
- An assessment of possible strategies and programmes that could be implemented by NMBM in order to strengthen the investment competitiveness
- Formulate and recommend strategies and programmes that could be implemented

To select the countries/cities for comparison, a range of factors was considered, including state of economic development, success in attracting investment, availability of data, etc. The table below summarises the countries/cities selected for comparison, and the rationale:

Table 1: List of countries selected for comparison

Region	Country	City	Motivation
Africa	Uganda	Central region	Developing country (lower echelon) Strong growth achieved (7%) Explicit strategy at attracting FDI
Asia	India	Kerala	Developing country (higher echelon) Developing (medium-high echelon) Medium growth, mixed successes in attracting FDI Availability of information
Asia	China	Shanghai	Developing country (higher echelon) Very high levels of growth achieved High levels of FDI
South America	Peru	Lima/Callao	Developing nation (middle echelon) Always a good comparison with SA.
Africa	South Africa	Western Cape, Gauteng, KZN	Developing nation (higher echelon)
Eastern Europe	Turkey	Istanbul	Developing nation (middle echelon) Country (indicators can be compared at regional level) Strong competitor of SA in many sectors (e.g textiles)

The project methodology/process utilised to achieve the desired outcomes is summarised below in Figure 1:

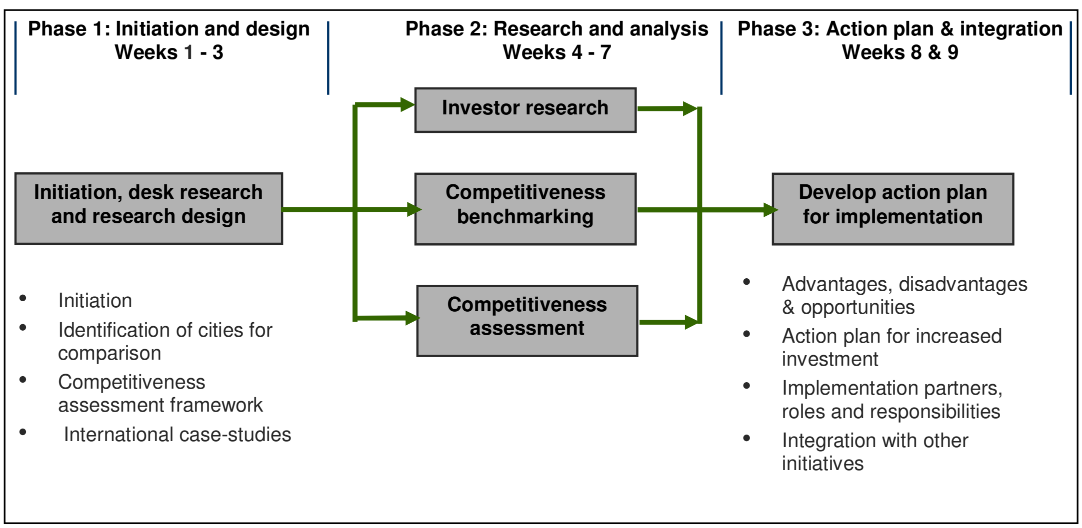


Figure 1: Project methodology

- The investor research that formed part of phase 2 took longer than planned due to difficulty in obtaining a quality slot with the respective managers. The company level primary research was conducted via a structured interview, either telephonically or in person. Forty-three companies were interviewed and 40 of these interviews were used in the research. The companies that were interviewed were divided into four main groups namely, automotive, general manufacturing, services and logistics. The different groups contributed as follow:
- Automotive manufactures and part suppliers: 48% (i.e. VW, GM, Inergy, Grupo, Faurecia, etc.)
- Logistics material handling and packaging: 18% (Schnellecke, Chep, Bay Pack, etc.)
- General manufacturing in the food and beverages and engineering industries: 20% (SAB, Cadbury, Clover, Afrox, etc.)
- Services (ICT, banking, agencies etc.): 15%, (ABSA, T-Systems, UDDI, etc.)

Out of the 40 companies 23 (58%) invested in NMBM over the past 5 years, 4 (10%) companies made no investment, 3 (8%) made investments elsewhere and 10 (25%) of companies are still considering investing in the metro. The size of companies differed as illustrated in figure 2 below. Not all of the companies had international subsidiaries. Twenty four of the companies were international companies. On average the local companies and local subsidiaries of international companies turn-over was between R 100M and R 500M per annum, compared to the international companies that had an average turnover of between R 5 billion and R10 billion per annum

Locally				**Internationally**			
0 to 100	100 to 500	500 to 1000	More than 1000	0 to 500	500 to 1000	1000 to 5000	More than 5000
18%	*48%*	*20%*	*13%*	*0%*	*0%*	*13%*	*48%*

Figure 2: Survey stratification according to number of people employed per company

- Of the 24 companies that had international shareholders, only 30% of the ownership rested with the local subsidiary or partner. Fifty % of the companies considered the metro as a good investment opportunity, 42.5% were neutral and 7.5% saw the metro as an unfavourable investment location.

1.3 STRUCTURE OF THIS REPORT

The structure of this report reflects the logical sequence of the project research, analysis and interpretation, as follows:

- The next section, Section two, briefly reports on the importance of investment to a country/region, the contribution of an attractive investment climate in attracting investment, as well the need to assess the investment climate at both national and regional levels
- Section three reports the findings of the secondary (desk-based) assessment of the investment climate in NMBM/South Africa, with other countries and regions. Also reflected in this section are the results of primary research at company level into factors that promote/inhibit investment and provide additional insight into the specifics identified through country/regional level comparisons
- Section four summarises the investment climate situation in the countries analysed, with specific emphasis on strengths, weaknesses and strategies implemented, their impact on investment and relevance to NMBM
- Section five concludes the key issues that must be considered in developing a strategy to improve the investment climate in the metro with reference to broader initiatives
- Section six recommends specific strategies, programmes and projects that should be implemented by NMBM to strengthen its standing as an investment destination
- The last section, section seven, concludes the study and suggests immediate implementation of the recommendations of this report

1.4 CAVEATS

The following caveats and actions taken to mitigate potential negative influences, were inherent to this study:

- Lack of data at regional (NMBM) level. For many of the factors that contribute to the investment climate, and which were assessed and compared internationally, there is no specific data available of the corresponding situation at NMBM/Eastern Cape Region. Although this factor had a negative effect in pin-pointing areas of weakness/strength, it were mitigated to a large extent by two factors:

- The status of many relevant issues, for example macro-economic stability, cost of electricity, tax rates, etc. is determined at country level, with very little, if any, variance between regions within any country
- The primary (company level) research conducted as part of this study focused on metro specific issues and enhances the findings of the secondary (benchmarking) research

2 THE IMPORTANCE OF INVESTMENT AND A CLIMATE CONDUCIVE TO INVESTMENT

2.1 WHY INVESTMENT IS IMPORTANT TO A COUNTRY/REGION

There is ample evidence of the correlation between investment, growth and poverty reduction. Companies around the world face important decisions on a daily basis.

A rural micro-entrepreneur considers whether to open a small business to complement her family's farm income.

A local manufacturing company ponders whether to expand its production line and hire more workers.

A multinational enterprise evaluates alternative locations for its next global production facility. Their decisions have important implications for growth and reduction in poverty in each location. Their decisions will depend largely on the way government policies and behaviours shape the investment climate in those locations.

A good investment climate provides opportunities and incentives for companies—from micro enterprises to multinationals—to invest productively, create jobs, and expand. It thus plays a central role in growth and poverty reduction.

The graphs below [1] illustrate that higher levels of investment (1990 versus 2000) in China, India and Uganda correlates with a reduction of poverty levels and increased GDP growth.

[1] World Development Report: A better investment climate for everyone, *The World Bank*, 2005

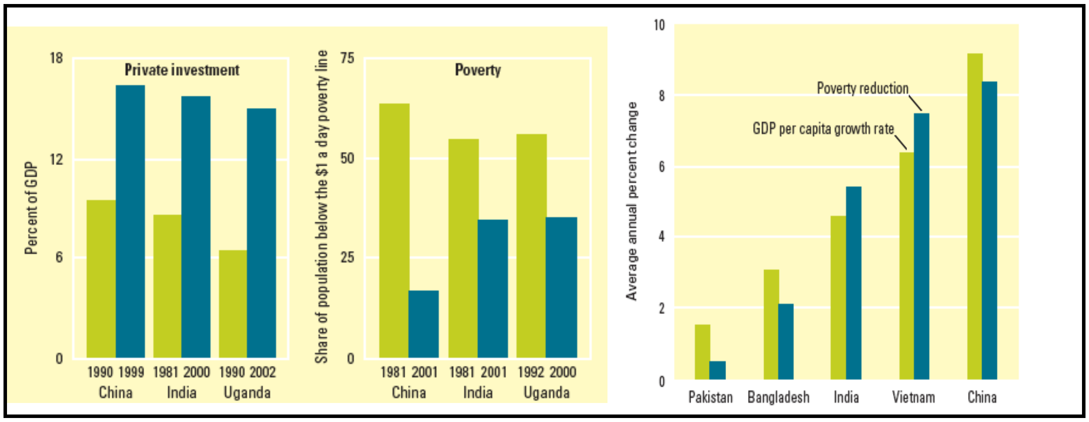


Figure 3: Correlation between investment, GDP growth and poverty reduction

Differences in productivity and investment in turn fuel differences in the growth of output and employment rate. Where there is a good investment climate, the labour force is likely to grow faster (usually at 10 % or higher).[2] Therefore, the unemployment rate declines at a quicker pace. It is this job creation that is core to higher living standards and poverty reduction in middle-income developing countries.

2.2 FORMS OF INVESTMENT

Capital formation as a result of investment in a country/region can be the result of:

- Foreign Direct Investment (FDI)
- Domestic private and public sector investment

The focus of this study is on FDI and is defined as: "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)" [3]

FDI is effected in different ways:

- Purchases of a capital nature (e.g. land, buildings, machinery, etc)
- Equity purchases in companies
- Reinvested earnings
- Intra-company loans or intra-company debt transactions

[2] How to Reduce Poverty: Lessons from China. David Dollar, *YaleGlobal*, 2004
[3] World Bank

FDI in the metro context includes any investment of a capital nature from outside the metro region (this could be from other regions within South Africa).

2.3 THE NEED TO CONDUCT MICRO-LEVEL ASSESSMENTS OF THE INVESTMENT CLIMATE

Global assessments of the investment climate in many countries provide indicative information on the investment climate within regions of the country. However, it is recognised that there are more than often large differences at regional level to factors that contribute to an attractive investment climate. National level indicators require further analysis, wherever possible.

A comparison between China and India, as well as regions within these countries, provides a good case-in point. At macro-level investment attractiveness between China and India is comparable for many factors such as policy certainty, corruption, uphold of property rights, etc., Yet China has been significantly more successful in attracting investment, increasing GDP growth and reducing poverty, as reflected in Figure 4

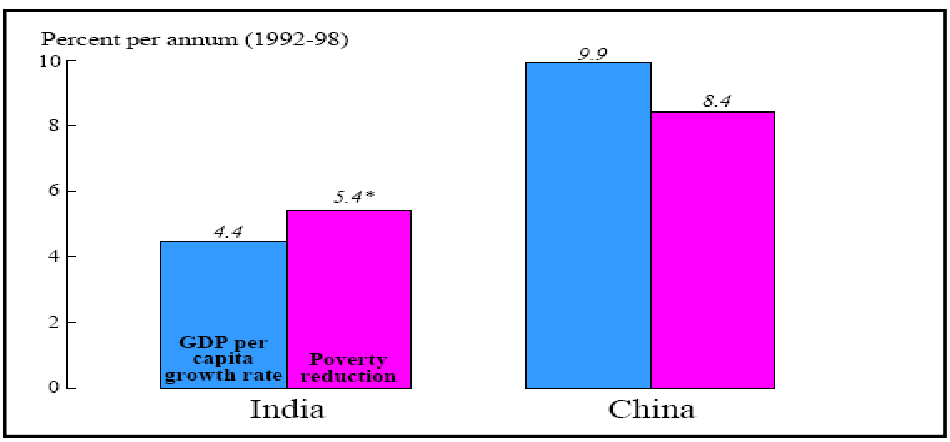


Figure 4: GDP growth and poverty reduction rates of India and China

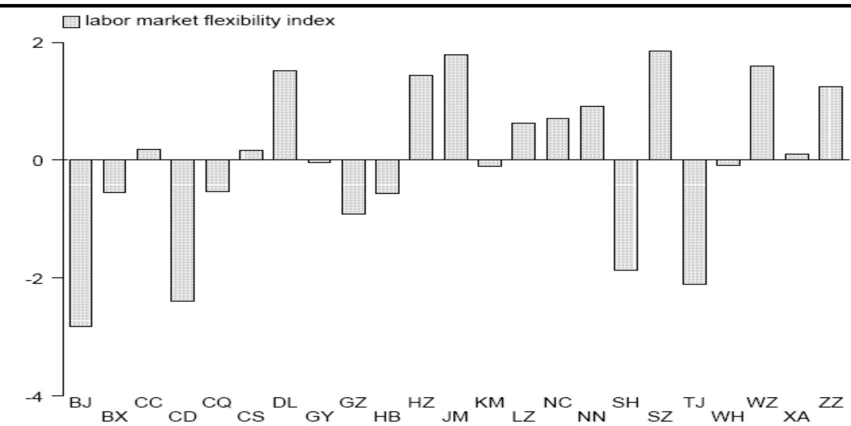
To understand how China has been able to be so much more successful than India, one also needs to look at micro (firm) level issues, where there are some striking differences.

The table below shows that for certain micro-level factors, China is much better positioned to attract investment. Investors can register a new business much quicker and there are significantly higher levels of technology infrastructure.

	China	India
Days to start a business	30	90
Personal computers per 1000 people	12	3
Telephone access per 1000 people	294	131

Furthermore, other research[4] also found that in similar manufacturing industries, there are many more exporters in the Chinese cities of Shanghai and Guangzhou than in the Indian city of Calcutta or Pakistan's Karachi. There are large variances between these cities in the number of days required for clearing imports of materials, which is essential for many manufacturing firms. Such delays are serious bottlenecks for firms trying to compete in the international market. Between cities there are also large differences in infrastructure and regulation across cities. In Shanghai, for example, firms report losing less than 1.5 % of sales due to power failures, compared to 6 % in many South Asian cities. Sao Paulo, the leading industrial city of Brazil, has about twice the power interruptions of Shanghai.

Demographical/regional variances can also be significant. The graph below shows how labour market flexibility, an indicator that is often assumed to be homogenous within a country, varies between cities within China



Note. BX=Benxi, BJ=Beijing, CC=Changchun, CD=Chengdu, CQ=Chongqing, CS=Changsha, DL=Dalian, GY=Guiyang, GZ=Guangzhou, HB=Ha'erbin, HZ=Hanzhou, JM=Jiangmen, KM=Kunming, LZ=Lanzhou, NC=Nanchang, NN=Nanning, TJ=Tianjin, SH=Shanghai, SZ=Shenzhen, WH=Wuhan, WZ=Wenzhou, XA=Xi'an, ZZ=Zhengzhou.

Figure 5: Labour market flexibility index for cities in China

[4] How to Reduce Poverty: Lessons from China. David Dollar, *YaleGlobal*, 2004

3 INVESTMENT COMPETITIVENESS ASSESSMENT OF THE METRO

3.1 KEY CONSIDERATIONS WHEN ASSESSING THE INVESTMENT ATTRACTIVENESS

The quantity and quality of investment flowing into a country/region depend on the returns that investors expect and uncertainty around those returns.

Some of the issues which are considered by investors, is reflected in figure six below.

Costs are typically incurred by a company as the result of taxes, corruption, regulatory compliance, and infrastructure and finance costs

Risks relate to political and economic stability, rights to property, the ability to enforce contracts and risk of asset expropriation

Barriers to operating competitively include factors such as entry and exit barriers, financial markets, competition legislation as well as availability and sophistication of basic infrastructure such as electricity, ICT, roads, ports etc.

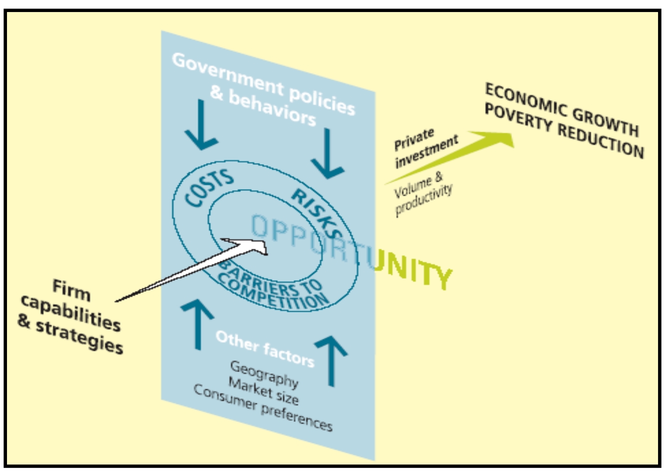


Figure 6: Factors considered when deciding on investment

3.2 SELECTION OF FACTORS FOR COMPARISON

In developing an appropriate assessment framework, the performance areas and key indicators selected were determined by a number of factors such as relevance to the NMBM, availability of information, comparability of information, etc.

A caveat of the study, as previously mentioned, was that regional investment climate information (comparable to major international regions) in South Africa is extremely scarce. This is to a certain degree mitigated by the fact that certain national level indicators can be successfully used as indicative of the situation in NMBM (e.g. cost of electricity, labour flexibility etc) and that certain indications could be formed from the survey conducted as part of this study. However, with regards to the latter, it must also be recognised that the survey sample was relatively small.

The competitiveness of countries/regions/cities was assessed for nine categories of indicators:

- **Macro-level factors**: Macro-level indicators (political, social, economic, etc) are of specific importance from a risk perspective
- **Entry and exit barriers:** Entry and exit barriers, i.e. the ease of starting, operating and closing a business are important for a number of reasons, for example long delays and cumbersome processes in starting a business could prevent entrepreneurs from seizing opportunities, or force them to operate outside the legal system
- **Infrastructure**: The availability, reliability and efficiency of infrastructure such as electricity, roads, rail networks, ports, etc. are important factors since they form the backbone of industrial and economical development
- **Skills and technology endowment:** It is recognised that the skills and technology endowment of a developing region such as the Eastern Cape is of specific importance as it strives to compete with other developing nations such as India and China which are rapidly progressing from being low cost, labour intensive producers towards the establishment of medium-to-high technology industries
- **Labour markets**: Efficiently operating labour markets and an appropriate regulatory system are internationally recognised to be the most important considerations for investors. The effect of local anomalies in the labour market such as BEE must also be considered
- **Tax burdens:** Tax is a considerable cost component for companies, not only in terms of applied taxation rates, but also in terms of the effort required to comply to tax laws
- **Corruption and courts:** Corruption and the judicial system are of specific importance to Multinational Companies (MNC's), who need to have comfort that legal arrangements can be

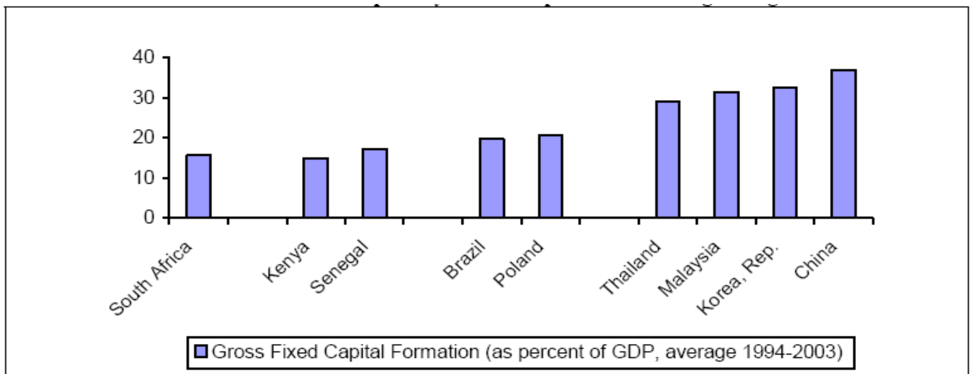
enforced. Such companies, having shareholders who demand compliance to governance and ethical codes, cannot be exposed to bribery and other forms of corruption as part of doing business

- **Finance:** Access to, and the cost of finance is of specific importance to SMME's. Entrepreneurial activity, as well as the ability of small companies to grow can be hampered, or advanced, depending on the availability, cost and ease of access to finance
- **Trade:** Growth and development are intrinsically linked to imports and exports. Efficient customs operations play a part in trade facilitation, as do other factors such as the prevalence of trade agreements between the host nation and other countries.These factors reduce the cost of doing business through i.a. reduced tariffs.

3.3 INVESTMENT IN SOUTH AFRICA AND THE METRO

Before the investment climate of the metro (and South Africa) can be compared to other regions it is necessary to consider how successful the regions being assessed have been in attracting investment. This provides the backdrop against which further analysis can be done to establish the strategies and actions implemented by regions that have been successful in attracting investment.

From the graph below it can be seen that investment in South Africa has been modest compared to other developing nations, especially the fast growing Asian countries.



Source: World Bank (2005b).

Figure 7: Gross capital formation in selected countries as percentage of GDP

The UNCTAD Inward FDI Performance Index (Figure 8 below) is a measure of the extent to which a host country receives inward FDI relative to its economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP.

Ireland has performed extremely well the last decade in attracting FDI, and is a world leader. China's position has been consolidated as an investment destination. This should be seen in the context of massive GDP growth. Uganda has drastically increased its performance in attracting investment.

India has not been able to attract FDI as could be expected.

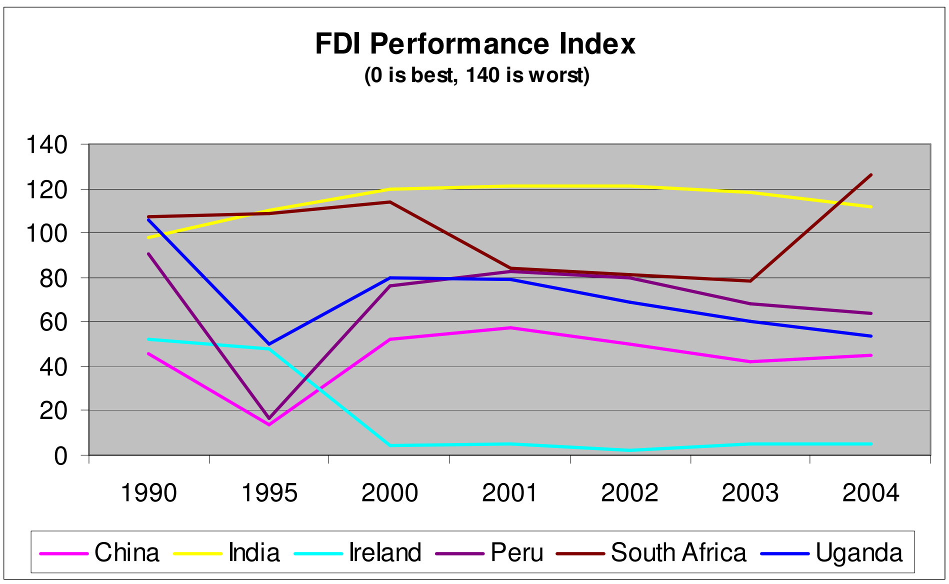


Figure 8: UNCTAD FDI Performance Index

Although South Africa's performance has been variable, if not outright disappointing, this must however be seen in the context of two recent developments:

- Massive government capital expenditure that is beginning to come onto stream, which does provide an "additional" market for investors
- Large FDI transactions over the last year (Barclays, Vodafone, Evraz, Mittal Steel, etc)

On the down-side it however recognised that the recent foreign investments referred to, can be considered to be “cherry picking” of attractive companies, and there has been limited success in attracting FDI to specific investment destinations (e.g. IDZ’s)[5]

3.4 OVERVIEW OF FINDINGS

The next section summarises the quantitative assessment of the investment climate in NMBM/South Africa with that of the selected developing nations. The comparison is done within the framework of the nine key areas as earlier discussed, with each area further unpacked in a number of indicators.

Each indicator follows the same assessment logic i.e.:

- A short definition of the indicator
- Description of scales and whether the assessment is done at country or region/city level
- Source reference
- Interpretation

Note: Where possible “best in world” and (or) “worst in world” are also included to provide further context to the assessment.

The findings of the primary (company level) research are also reflected and provide critical information on the situation in the NMBM.

3.4.1 Macro-level indicators

Macro-level indicators are of specific importance from a risk perspective, with the most important considerations being political stability, macro-economic stability and policy certainty. It is especially important for developing nations, where macro-level instability (political, social, economic, etc) has been a major investment deterrent for developing nations for many years.

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5 Note: There is no data available on the success, or otherwise, of the NMBM in attracting investment relative to other regions in South Africa and internationally[5]

Political stability

Definition	Political stability indicates the degree to which there are risks present that could result in domestic unrest, civil war, radical change in government, etc.
Assessment level	Country level assessment. No data at regional level for SA, but country level data is indicative of regional situation
Indicator and scale	Index of political stability Index between -2.5 and + 2.5 A -2.5 indicates very high levels of instability, 2.5 high level of stability
Source	Rankings of World Bank

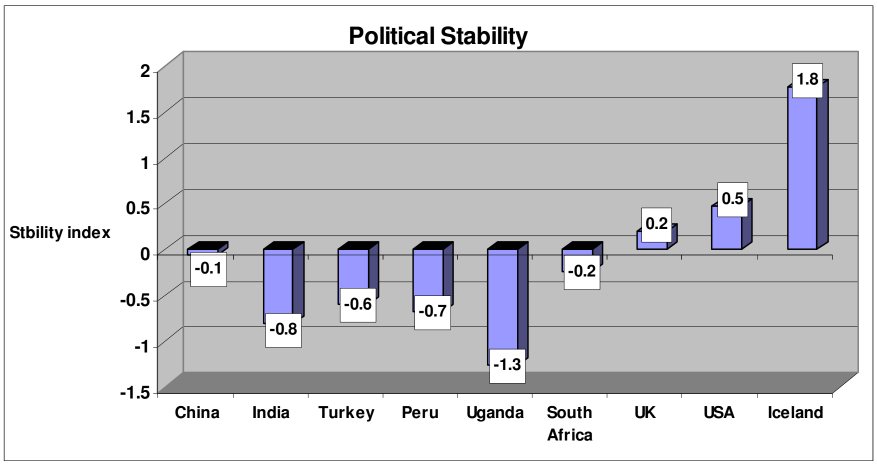

Figure 9: Political stability index

South Africa's political stability index compares well with that of the countries assessed, as well as some developed nations. Although Uganda has made progress over the last two decades in improving political stability, the threat of conflict in neighbouring states as well as domestic unrest in the north are of concern to investors. China, in contrast to India, has managed to gain high levels of political stability. The political relationship between India and Pakistan is of specific concern.

From the primary research at company level, it is concluded that the political stability in NMBM in general mirrors that of South Africa, although some companies indicated that it is even more positive in NMBM than that in other regions. Therefore, although political stability is seen as a positive aspect in the NMBM, a number of companies expressed concern that the high unemployment rate could potentially jeopardise the situation. Crime was also cited as a major negative factor impacting on investment decisions.

Macro-economic stability

Definition	This indicator relates to stability in key economic indicators such as exchange rate parity, inflation, unemployment, fiscal and monetary stability, etc.
Assessment level	Country level assessment, with regional data for SA
Indicator and scale	Percentage of firms rating macro-economic stability as a major constraint
Source	World Bank Enterprise Survey

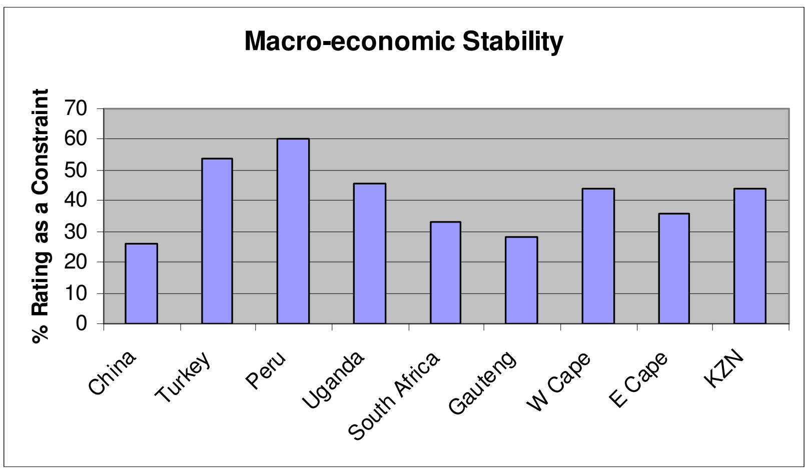

Figure 10: Macro-economic stability

Linked to concerns around political stability in Uganda are concerns around issues such as inflation, exchange rates and regulations. In Peru uncertainty on economic policy is a good example how government policy can undermine investment. Specific issues in Peru are:

- Lack of a shared vision between the private and public sector on economic policy
- Frequent changes in the tax regime
- Unpredictable changes in rules and regulations

In South Africa, economic stability varies somewhat between regions. At country level exchange rate instability was cited as the most important factor contributing to macro-economic stability being seen as a constraint. The Eastern Cape fares worse than Gauteng, primarily because of concerns around high unemployment as well as inability to reduce poverty. The primary research also revealed that industries in the Eastern Cape, of which many are exporters, are also concerned about fluctuations in the currency.

The constant threat of high inflation in Turkey has caused concern among investors over the last two decades. Macro-economic stability in India has improved, but is still mitigated by political uncertainty.

Policy certainty

Definition	Policy certainty, which includes certainty on issues such as regulations, incentives, tariffs, etc. is important as it provides a stable and consistent operating environment
Assessment level	Country level assessment. No data at regional level for SA, but country level data is indicative of regional situation
Indicator and scale	% of firms that rank macro-economic stability as a major constraint
Source	World Bank Enterprise Survey

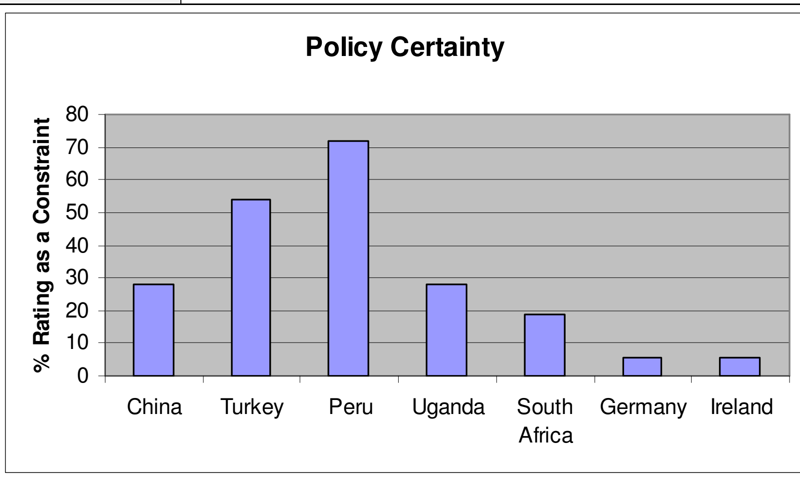

Figure 11: Policy certainty

There is a strong correlation between political and economic stability and policy certainty. Turkey and Peru are good examples where frequent changes in government and economic policy have created policy uncertainty and detracted from investment. South Africa's stable policy environment is seen to be a positive, and is approaching "best in world" status.

The primary research indicated that companies in the NMBM area corroborated the above, namely that policy certainty is a positive aspect. However companies in the services sector, more specifically the labour broking sector, expressed concern that labour legislation might change in a way that adversely affects this industry. BEE policy is not regarded to be a negative factor per se, but does have some inhibiting effect on skills availability and is a negative compared to the rest of the world. This sentiment has also been expressed by senior black managers that were interviewed.

The policy environment in China, which recently joined the World Trade Organisation (WTO), is still seen to be uncertain, mainly due to uncertainty around compliance to WTO agreements

3.4.2 Entry and exit barriers

Entry and exit barriers, i.e. factors that make it easier or more difficult to start, operate and close a business within a country/region are important for a number of reasons:

- Business opportunities often have a limited "window of opportunity". Delays in starting a business prevent entrepreneurs from seizing opportunities
- International companies operating globally often need to enter markets rapidly
- Difficulty in starting a formal business encourages "informalisation". This in turn could impact negatively on worker rights and government's ability to enforce labour regulations. "Informalisation" also has a negative effect on a government's ability to operate an effective tax system

Ease of starting/closing a business

Definition	The ease of starting and closing a business, i.e. the time, cost and effort required, is important as it could encourage/dampen entrepreneurship, formalisation and rapid investment to seize market opportunities
Assessment level	Country level assessment
Indicator and scale	Days to start a business (days) Days to close a business (days) Procedures to start a business (number of) Ease of starting a business (rank)
Source	World Bank Cost of Doing Business Survey

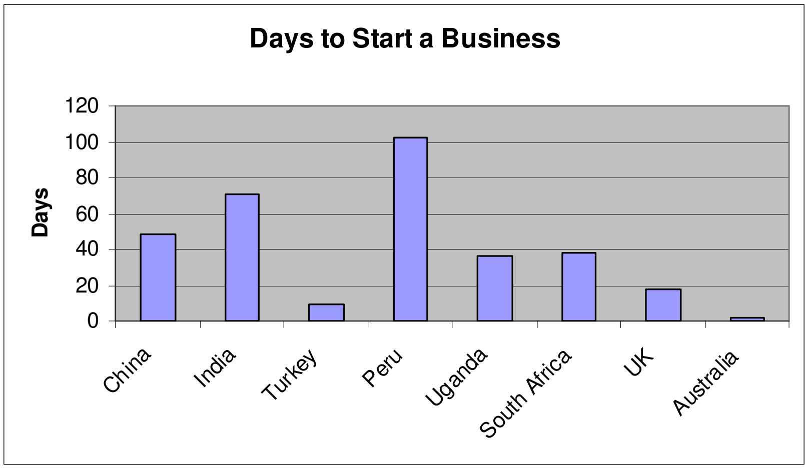

Figure 12: Days to start a business

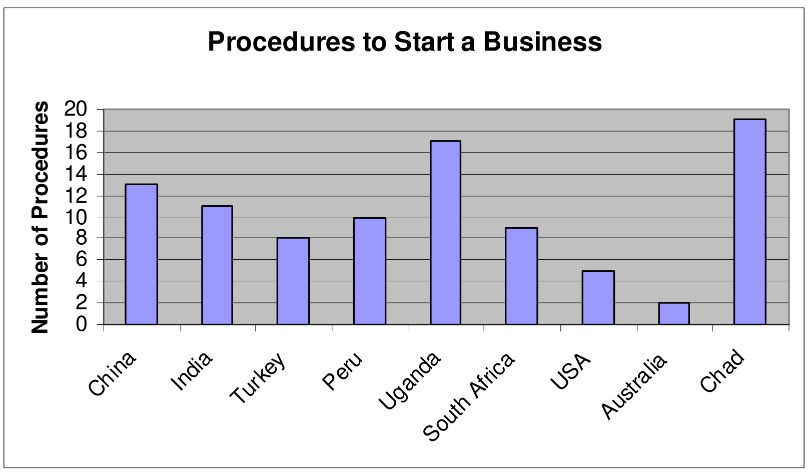

Figure 13: Procedures to start a business

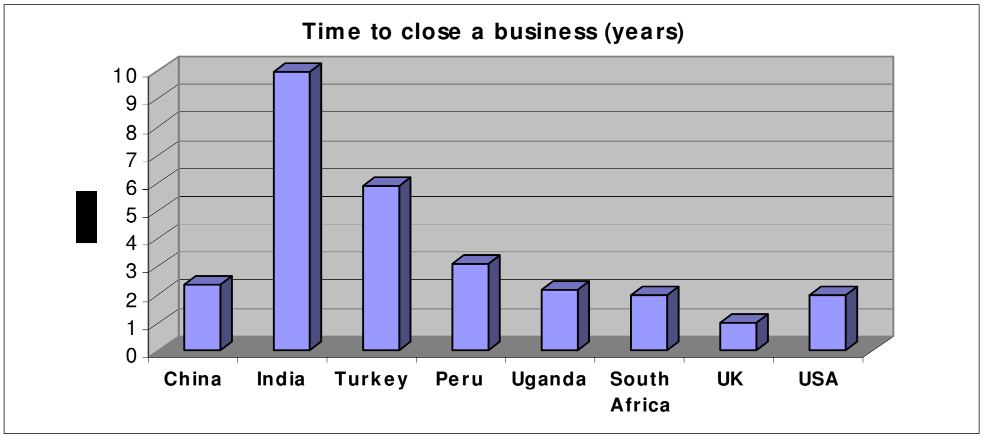

Figure 14: Time required closing a business

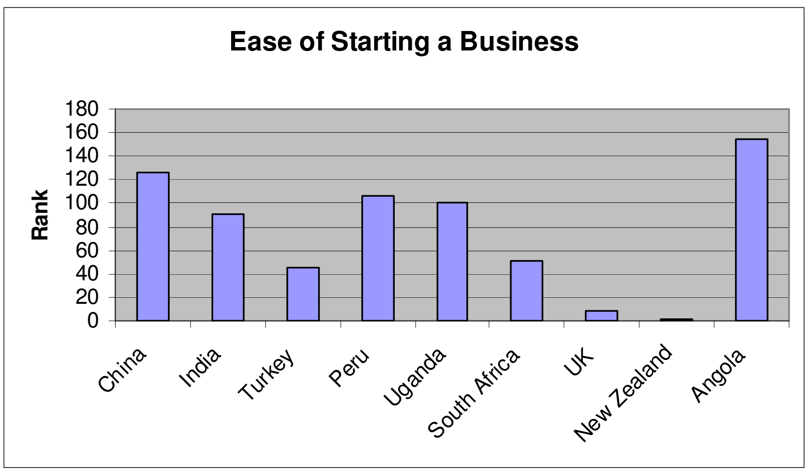

Figure 15: Ease of starting a business

The ease of starting or closing a business in South Africa compares favourably with that of developing nations. The primary research indicated that the situation in NMBM is similar to the rest of South Africa, i.e. satisfactorily, but there is room for improvement. An interesting finding, which has specific implications for SMME's, is that most companies outsource the administrative work associated with opening a business, as it is seen to be complex and time consuming. This has an implication for SMME's that typically do not have the resources to utilise the services of "experts" to complete the procedures of starting a business.

Although Peru made significant progress in reducing the red-tape (procedures) to start a business, the process remains slow. The reform in procedures has had a positive effect on encouraging informal businesses to register to operate legally. The long delays are deterring more businesses in doing so.

In India the time to close a business has been an investment deterrent for many years. This is mainly due to two reasons. Firstly there is strict labour legislation, where permission needs to be obtained from government before business closure or worker retrenchments, and secondly because of general cumbersome bankruptcy procedures.

Management time spent with officials

Definition	Management time dealing with officials add to the cost of starting, operating and closing a business
Assessment level	Country level assessment. No data at regional level for SA
Indicator and scale	% of management time spent with officials (%)
Source	World Bank Enterprise Survey

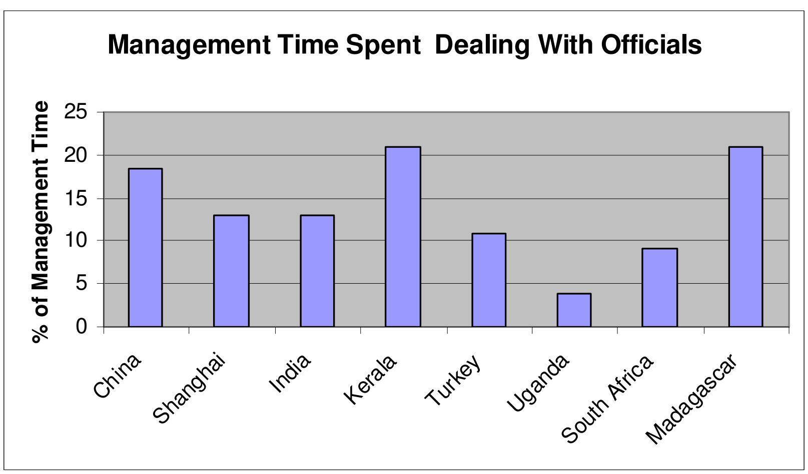

Figure 16: % of management time spent dealing with officials

Although firms in Uganda spend very little time dealing with officials, it must be interpreted with caution. Large, foreign owned companies report significant higher levels of time spent with officials, than small, local businesses, which more than often operate informally. It is reported that the

Ugandan government does not have the resources to subject small domestic firms to similar regulatory burdens.

In India, the same applies. In less developed regions companies are often not subject to similar levels of regulatory burdens (and often bribes reduce such burdens significantly). In developed nations, the regulatory burdens are mostly similar, or in some cases more intense than that of developing nations. However the utilisation of ICT technology plays a significant role in reducing the cost of compliance.

In NMBM companies do not perceive the time spent with officials to be a constraint to doing business. However, a similar situation prevails as when starting a business, namely that larger companies outsource such activities. It may very well be that SMME's see that as more of a constraint as what is reflected in the overall findings. This will also be an issue for new companies entering the region, not used to regulatory burdens.

In conclusion, entry-and-exit barriers in South Africa compare favourably with that of developing nations, and are in some instances approaching the standards of developed nations.

3.4.3 Infrastructure

The extent and nature of infrastructure are important to investors for a number of reasons

- Cost and availability of energy (mostly electricity) are major factors in location decisions for many industries, especially manufacturing. A good example is aluminium, where the cost/availability of electricity is the most important factor when companies decide on location
- ICT infrastructure has historically been weak in developing nations. Cost of ICT is the most important consideration when location decisions are made for the establishment of call centre operations, which are also labour intensive
- Cost of land and water is relatively less important

Electricity access, costs and reliability

Definition	The availability of electricity to individuals/companies, the cost of industrial usage and the reliability (cost of an unreliable supply) are extremely important to investors, as electricity is often the primary source of energy and a significant cost component to business
Assessment level	Country level assessment. No data at regional level for SA
Indicator and scale	Access to electricity:% of population Cost of electricity: US Cents/KWh for industrial use Reliability of electricity:%sales lost due to power outages
Source	World Bank Infrastructure Dataset

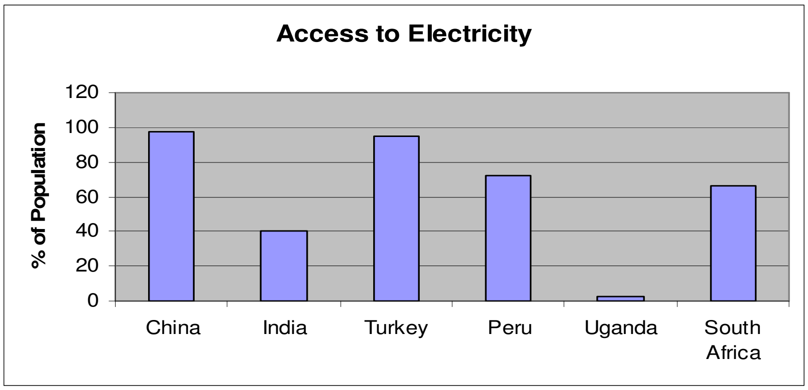

Figure 17: Access to electricity

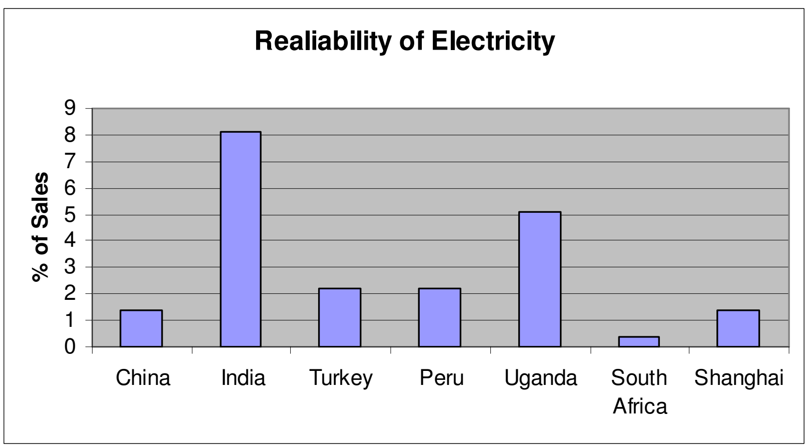

Figure 18: Reliability of electricity supply -% of sales lost due to outages

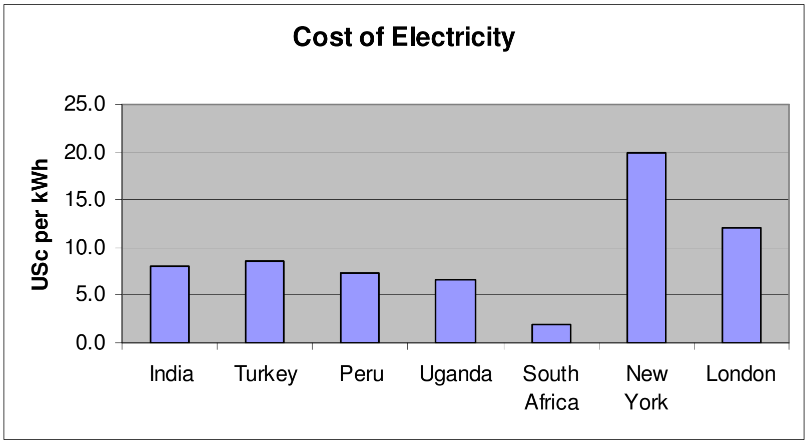

Figure 19: Cost of electricity (industrial usage)

The fairly high availability levels of electricity, coupled with world-class reliability and world lowest cost, are probably the singular most competitive aspect of South Africa and the NMBM. This should be used as a primary "sales" point when promoting NMBM as an investment destination. It must however also be pointed out that recently some investors (the proposed Alcan aluminium smelter investment comes to mind) have expressed concern about the future availability and reliability of electricity supply in South Africa and the NMBM. This concern was confirmed by the primary research finding that almost 60% of companies surveyed expressed concern about the future availability and reliability of electricity in NMBM.

A key reason why India has not achieved the levels of FDI expected, is due to its inability to improve its electricity network. Low levels of reliability have resulted in Indian companies experiencing unacceptable high costs due to losses in production (and therefore sales). Although the availability, reliability and cost of China's electricity network have improved over the last decade, and compare well with developing nations such as Brazil, Peru and Turkey, it is noted that large variances exist between provinces and cities - unlike in South Africa where the supply is relatively homogeneous (excluding Cape Town during recent Koeberg problems). The infrastructure environment is excellent in Hangzhou and Shanghai, as well as in some small cities such as Jiangmen, but losses from power supply interruptions are higher in cities such as Chengdu, Kunming, Guiyang, and Nanchang

Although Uganda has made improvements in its electricity network (operations have been contracted to Eskom), it still remains a barrier to attracting investment. In Peru large-scale investment in improved electricity supply has started reaping benefits.

Telecommunications access and cost

Definition	The availability and cost of telecommunications, especially broadband, are extremely important to investors, especially for MNC's operating globally and specific labour intensive industries such as business process outsourcing
Assessment level	Country level assessment. No data at regional level for SA
Indicator and scale	Access: Lines/1000 people Costs: US cents/ 3min local call
Source	World Bank Infrastructure Dataset

Note: The assessment is for fixed-line telecommunications only. Access to and cost of mobile communications are not available

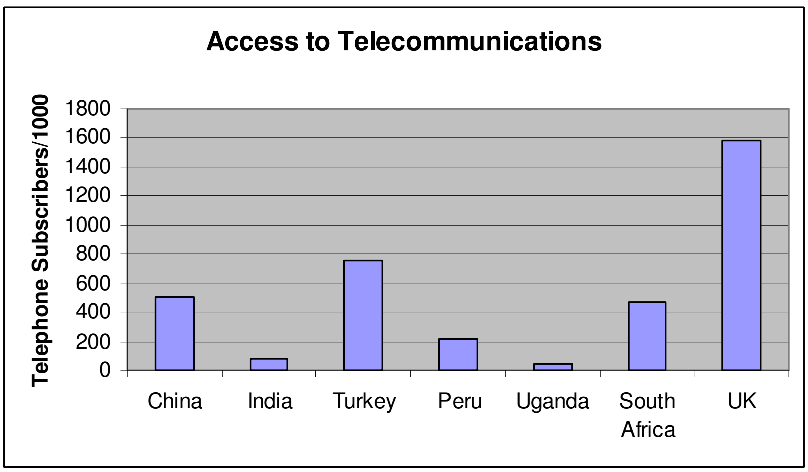

Figure 20: Access to telecommunications

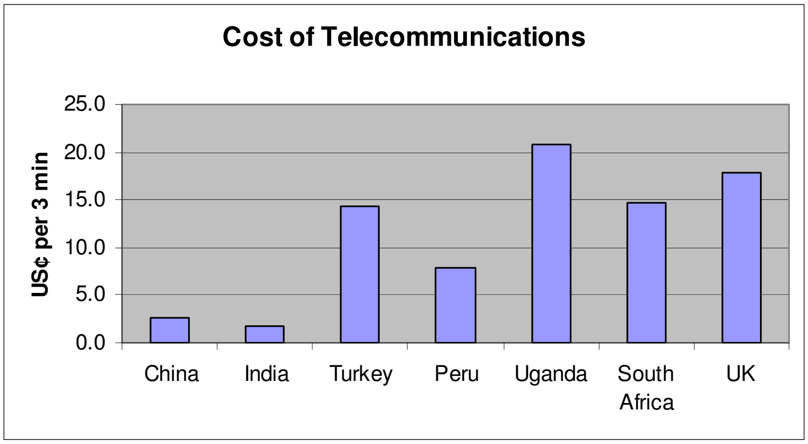

Figure 21: Cost of telecommunications

South Africa's cost of telecommunications is considered relatively high, and coupled with relatively low broadband penetration, is regarded to be a competitive disadvantage. The primary research confirms this as follows:

- More than 90% of respondents indicated that the cost of telecoms is excessive and a negative factor when deciding on investment
- More than 60% of respondents indicated dissatisfaction with availability and cost of broadband
- Concerns were also expressed that current infrastructure is becoming old and uncompetitive

Uncertainty around telecommunications policy in South Africa is also seen to be a deterrent to investment. This contrasts with countries such as China and India, who implemented specific strategies to become the "ICT capitals" of the world. It is especially India that has been extremely successful in attracting high-technology industries that rely on state-of-the-art ICT infrastructure.

Cost of land and water

Definition	Cost of land and water impacts both the initial capital outlays (e.g. for purchasing of land) as well as the continuous cost of doing business
Assessment level	Country and city level assessment.
Indicator and scale	Land, Industrial rental: $/sqm/year Water: R/Kl
Source	World Bank Infrastructure Dataset

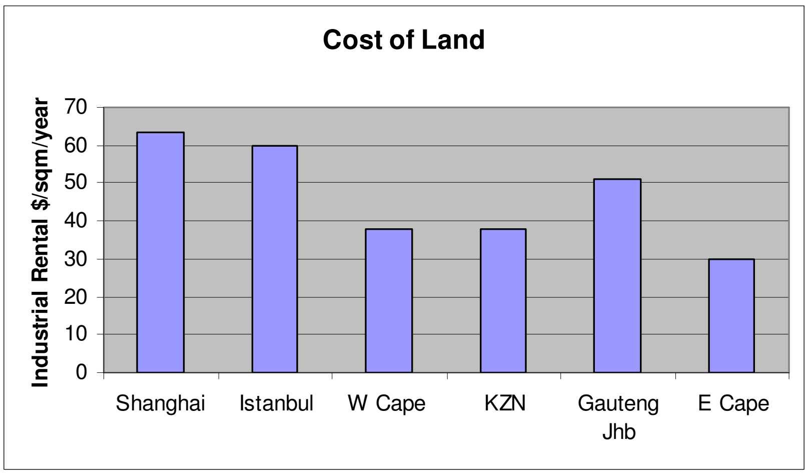

Figure 22: Cost of renting industrial land

Cost of land has in recent years become an issue in developed nations, whereas reliable water supply has been a negative factor in many developing countries. The cost of land in South Africa is a definite competitive strength, specifically so in the Eastern Cape. There are however perceptions that this competitive advantage is being eroded due to land shortages and increased cost of land in NMBM.

It is however not only the cost of land that is important, property rights also play an important role. In China, reform of property right legislation has ensured that property rights of individuals/companies are adequately protected, and this has had a dramatic positive impact on levels of investment. Protection of property rights, as can be seen in a later section, is one of the strengths in South Africa.

Cost and quality of water in NMBM is not an important factor when companies make investment decisions. However, availability of water is more important, especially for manufacturing, and there are concerns about the future availability of water in NMBM, due to infrastructural short-comings.

Road, rail and port infrastructure

The primary research revealed some interesting and important findings regarding road, rail and port infrastructure:

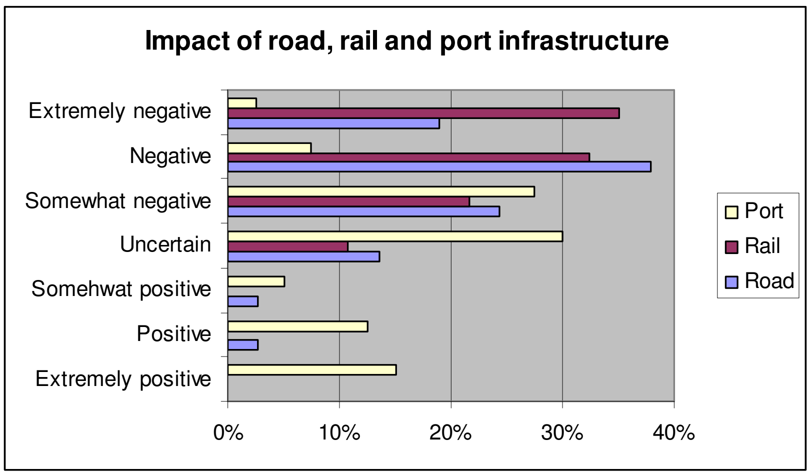

Figure 23: Impact of road, rail and port infrastructure in NMBM

- Exporters and importers regard port infrastructure as very important when making investment decisions. The port infrastructure in NMBM is however regarded to be adequate
- An important issue that requires attention is the cost of logistics in NMBM due to trade imbalances
- Road transport infrastructure is seen to be adequate at present, but some concerns were expressed whether future road infrastructure will meet requirements in light of the under-developed rail system, as well as increased road congestion in metropolitan areas
- The rail infrastructure was heavily criticized. Cost as well as service levels are deemed extremely negatively and the inadequate rail infrastructure is certainly a deterrent for investment
- Although port infrastructure is highly rated, the net effect of critical supporting infrastructure nullify the impact of excellent port facilities

3.4.4 Skills and technology endowment

The availability of skilled labour and advanced levels of technology development and innovation are important considerations when investment decisions are made, for a number of reasons:

- Innovation has become the basis of competition for many industries. This is of specific importance in the context of efforts in the Eastern Cape to stimulate downstream beneficiation which requires medium-to-high technology and state-of-the-art business processes. Industries of relevance to the NMBM are potential downstream metals processing (e.g. aluminium), agro-processing, pharmaceuticals and plastics, electro-technical as well as clothing and textiles
- The low level of R&D in South Africa has come under the spotlight in recent years, and international research has clearly shown that there is a positive correlation between levels of R&D and economic growth
- ISO certification (9000 and 14 000) has become a pre-requisite for international trade, and such certification inherently demands good business practices

Literacy rates and availability of skills

Definition	Literacy rates underpin basic skills available to the market and availability/level of skills available could be an inhibitor to companies
Assessment level	Regional and country level assessment
Indicator and scale	% of population age 15+ that can read and write % of companies ranking skills as a major constraint to business
Source	Rankings of World Bank Selected Indicators

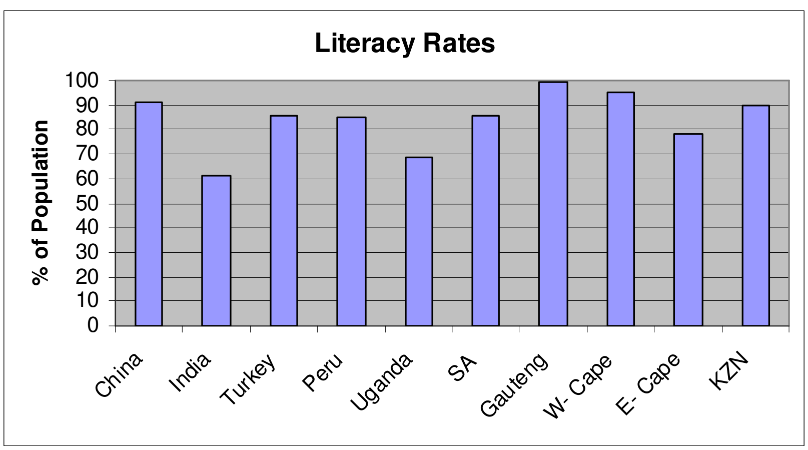

Figure 24: Literacy rates

Literacy rates in the Eastern Cape are lower than other major regions in SA and below that of China.

Literacy rates in India are the lowest of all countries and regions assessed. However, somewhat contradictory, fewer companies perceive the availability of skills in the Eastern Cape to be a major constraint, compared to other provinces in South Africa.[6] The same dichotomy exists in India, compared to China, literacy rates in India is lower that that of China, yet worker skills is perceived to be a major constraint in China compared to India. This in effect means that even though fewer people in India have basic literacy skills, those who do possess basic skills are better aligned to the requirements of businesses. It is however recognised that China has made massive investments in upgrading worker skills in recent years.

It is most disconcerting that in South Africa the percentage of companies perceiving worker skills as a major constraint is of the highest in the world. This is especially true in the manufacturing industry. However, it must be differentiated between lower and higher skill levels. Availability of low skilled workers is not seen to be that much of a constraint, in contrast to the availability of highly skilled workers, which is perceived to be a major constraint. Availability of skill is one of the most important considerations for all companies when making investment decisions.

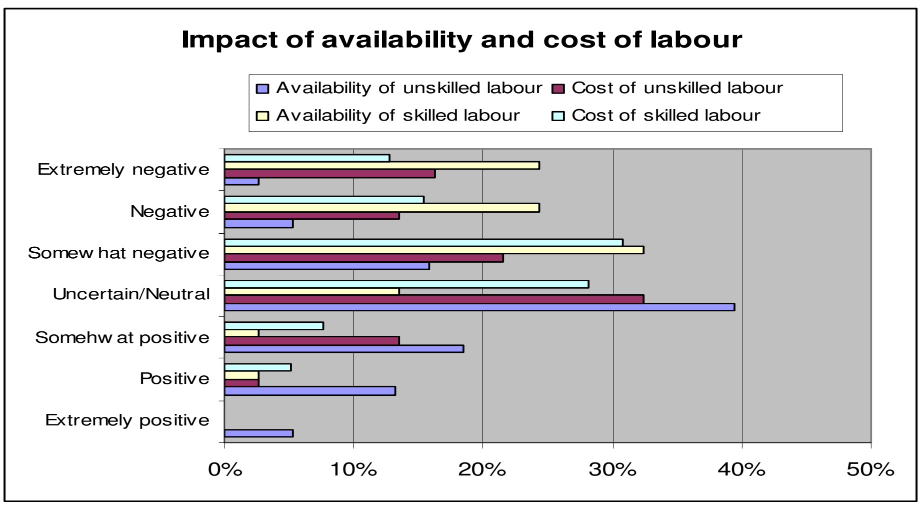

Figure 25: Impact of the availability and cost of labour

The results of the primary research (above) are somewhat contradictory to that of the secondary research. The primary research indicated that availability of skilled labour is a bigger problem in the

[6] Contradictory to research conducted by Garnett-Adams Management Consultants

Eastern Cape than in other provinces in South Africa. The secondary research (see figure below) reports the opposite. This could be due to the accelerated growth in economic activity in the Eastern Cape over the last three years that has placed a burden on the labour pool.

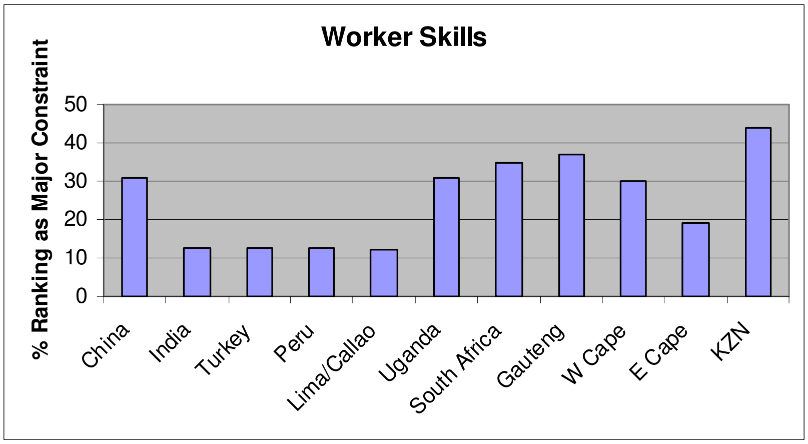

Figure 26: Worker skills perceived by companies to be a constraint to doing business

Technology readiness and R&D intensity

Definition	Technology readiness and R&D are important in attracting medium-to-high technology industries. This is of specific importance to South Africa/NMBM as it is recognised that future growth will be largely driven by such technology industries
Assessment level	Country level assessment
Indicator and scale	Technological readiness rank, with one best and 104 worst Total Expenditure for R&D as% of GDP
Source	Global Competitiveness Report World Bank Knowledge Assessment Measures

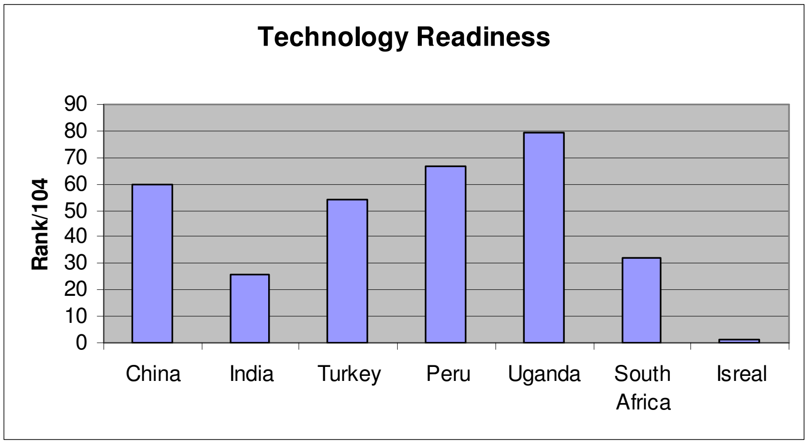

Figure 27: Technology readiness ranking

South Africa's technology readiness is hampered by telecommunications shortcomings (notably broadband access) as well as low levels of R&D. The latter has been recognised as a constraint and is being addressed by government increasing supply-side incentives aimed at companies to invest more in R&D.

India and China have taken bold steps in improving their technology readiness and innovation. China has established 44 science parks, aimed at commercialising technology. India has become the R&D platform for over a 100 large MNC's.

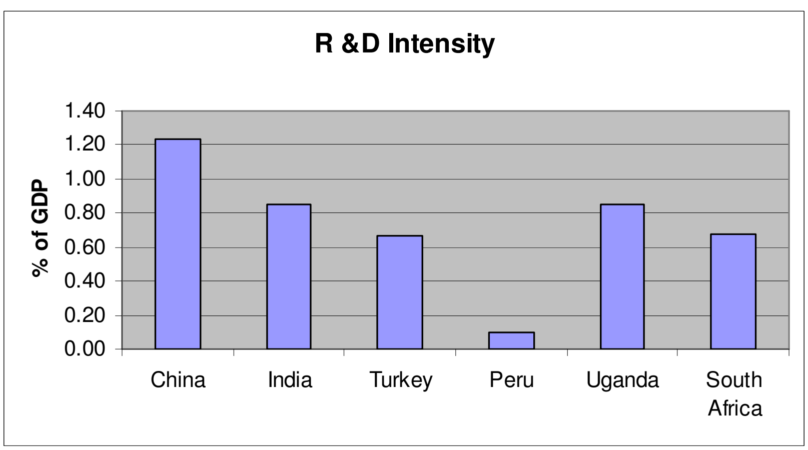

Figure 28: R&D Intensity

3.4.5 Labour Markets

Efficient labour markets are crucial to companies operating successfully. Although cost is a key issue, the flexibility of the labour market also needs to be considered. It is recognised that there is a fine line between over-regulating labour markets (stifling the market) and protecting worker rights.

Definition	Labour is a substantial cost component to companies. Ease of hiring and firing are flexibility indicators of the labour market, i.e. ease by which workers are entered into or exit from the work environment, at the discretion of the companies
Assessment level	Country level assessment, and provincial for SA
Indicator and scale	US$ per hour Difficulty of hiring index (0-100, with 1 best, 100 worst) Difficulty of firing index (0-100, with 1 best, 100 worst)
Source	ICA South Africa Cape/gateway World Bank Doing Business Survey

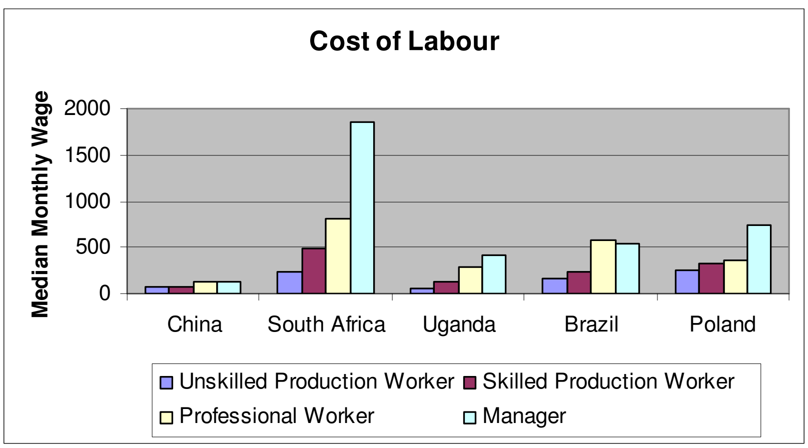

Figure 29: Cost of labour for various occupational categories

The primary research confirmed a similar situation in NMBM than in the rest of South Africa, where the cost of unskilled and lower skilled workers is relatively low and seen as less of a constraint to business, compared to the cost of high skilled labour which is perceived to be excessive. This is mainly due to a supply shortage of higher skilled workers.

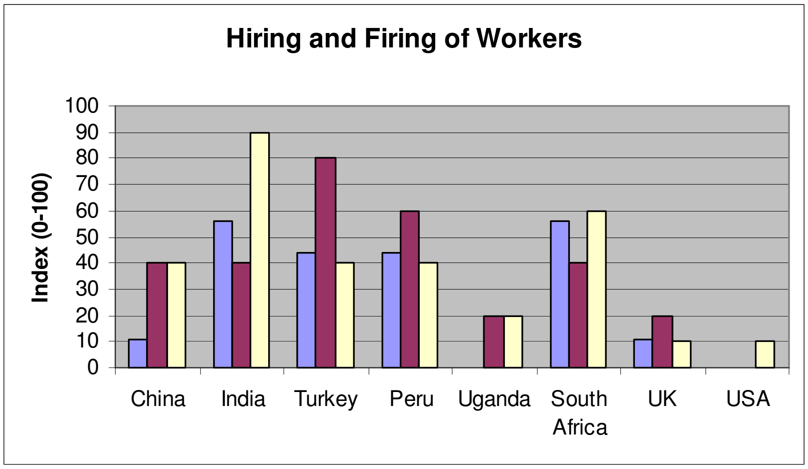

Figure 30: Ease of hiring and firing workers

SA's labour market approaches some of the more rigid ones in the world, which are typically the Asian countries. Extreme difficulty in firing workers in India contributes to high entry and exit barriers

Figures of Uganda reflect high levels of informalisation

3.4.6 Tax burdens

Definition	Tax impacts significantly on a company's profit generation and is always an important consideration for investors The ease/difficulty of paying tax also adds to the cost of doing business
Assessment level	Country level assessment
Indicator and scale	Tax as% of gross profit Rank of ease of paying tax, one is best
Source	World Bank Doing Business Survey

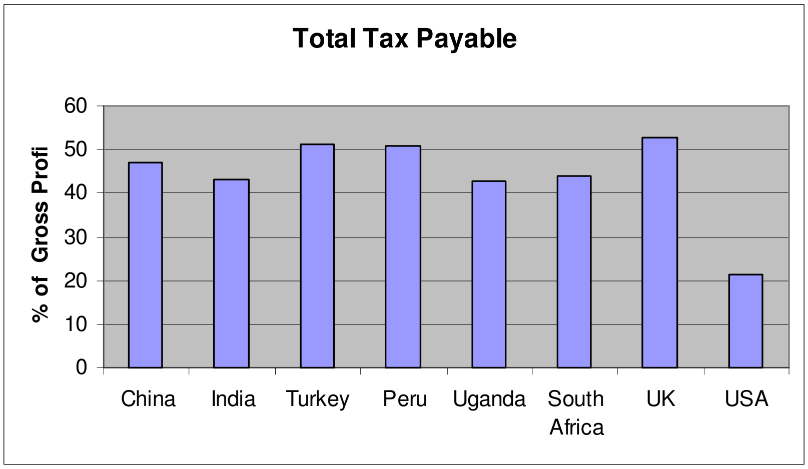

Figure 31: Tax as a percentage of gross profit

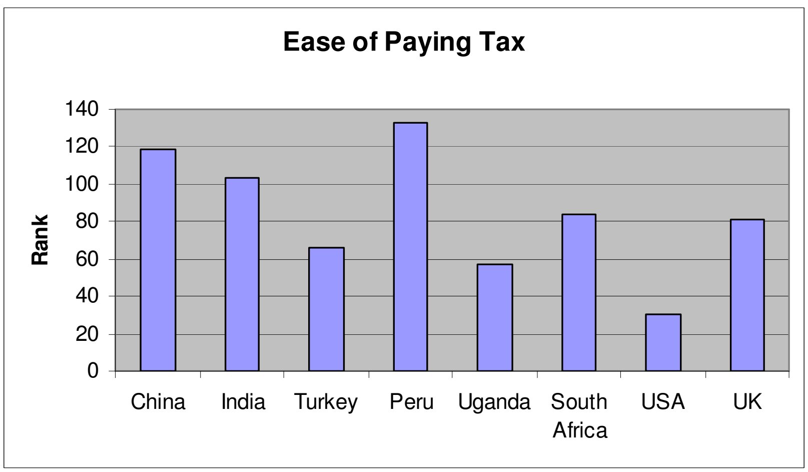

Figure 32: Ease of paying tax ranking – 1 is best

If company tax levels are the only consideration, as reflected above, the tax burden to companies operating in South Africa is less, or equal to that of countries compared. It is however recognised that there are other tax burdens on companies, such as VAT, indirect taxes such as fuel levies, as well as levies (e.g. training levies) which can add considerably to the total tax burden. The primary research echoed a situation where South Africa's tax burden is comparable to that of other countries. Municipal tax rates in NMBM are seen to be on par with other areas in South Africa, but better than many other international cities.

Although the ease of paying tax in South Africa is comparable to that of other countries, it is again recognised that such activities are often outsourced, and it may well be that SMME's regard it to be more of a burden than reflected in this research. Turkey has identified a reduced company tax level, and a more efficient tax system as a core way of becoming more investment competitive.

3.4.7 Corruption and Courts

Corruption and the judicial system are of specific importance to MNC's and listed companies. In terms of corruption as a part of "doing business" such companies need to adhere strict fiduciary and legal codes and need to show appropriate corporate governance.

The ability to enforce contracts and revolve legal disputes is also especially important to MNC's. Uncertainty regarding the above could be a major deterrent to investment for international companies. The legacy of corruption and in-effective legal systems has been a very important factor prohibiting investment in developing nations over many decades.

Corruption and bribery as a constraint to doing business

Definition	Corruption, i.e. the "requirement" to conduct unethical business practices such as paying bribes as part of doing business, is a deterrent for especially multinational companies.
Assessment level	Country and provincial level assessment
Indicator and scale	% of firms that rank corruption as a major constraint % of firms reporting that bribes are being paid
Source	ICA South Africa, India, Uganda, China and Peru

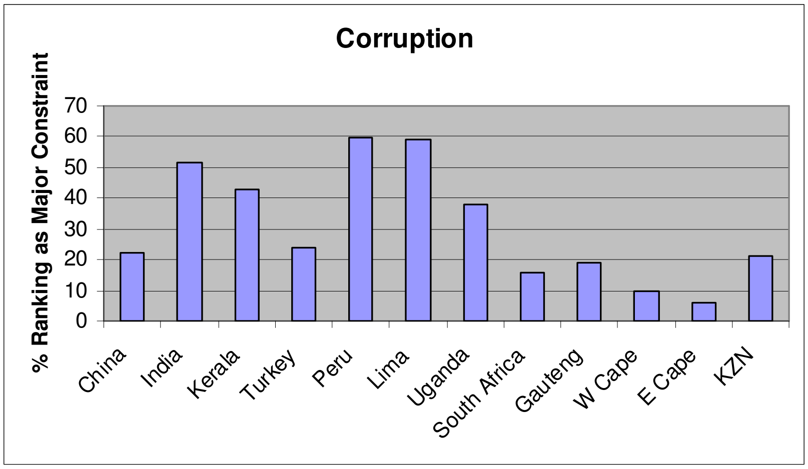

Figure 33: Corruption as a constraint to companies doing business

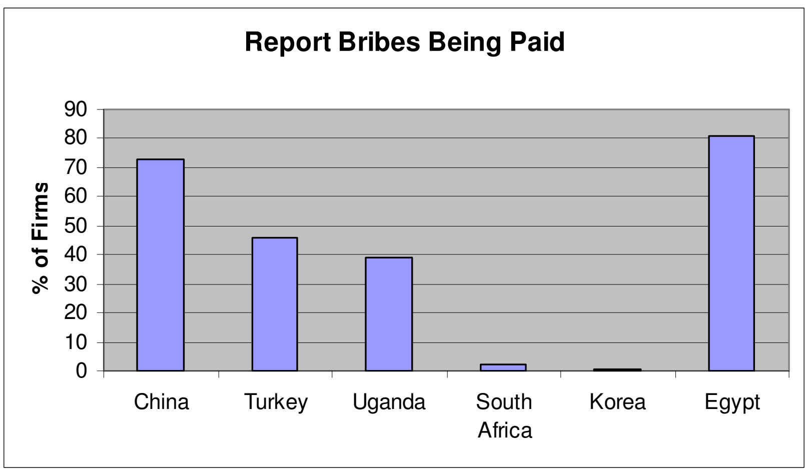

Figure 34: Firms reporting that bribes are being paid

Corruption in South Africa and the Eastern Cape is not seen as constraint to doing business, and no companies surveyed as part of the primary research reported that bribes need to be paid, or indicated that they believe corruption is a deterrent for investment. Corruption has historically been a major disincentive for investment by international companies in South American countries, as has it been in China and India.

Confidence in judicial system

Definition	Confidence in the judicial systems relates to issues such as contract enforcement, protection of property rights and dispute resolution.
Assessment level	Country level assessment
Indicator and scale	% of firms reporting confidence in the judicial system
Source	Source: World Bank Enterprise Survey

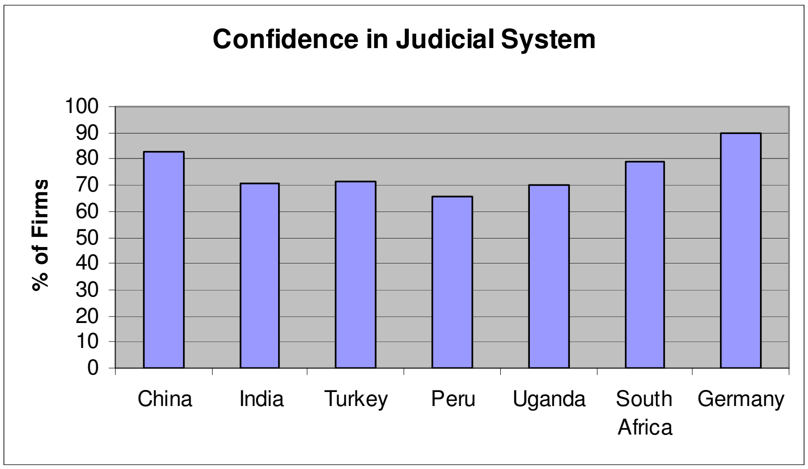

Figure 35: Percentage firms reporting confidence in the judicial system

Confidence in the legal system is especially important to foreign firms when investing. Of specific importance is the capability of the legal system to provide an adequate basis for contract enforcement and property rights. The reported number of months to settle commercial disputes in court varies across regions in China. In Jiangmen and Shenzhen, for example, it takes six months to settle a typical dispute. In Guiyang, Harbin, and Wuhan, on the other hand, it takes more than a year, which discourages firms from using the legal system to solve problems. South Africa has a competitive advantage compared to most developing countries in terms of the effectiveness of its judicial system.

In South Africa dispute resolution times (7 days) is approaching world-class (best is 3 days), with between 8 and 35 days being the norm. This is however only the case for labour-related disputes. Other types of dispute resolution which typically require litigation, take much longer and the primary research indicated that companies believe the system in South Africa should improve.

Corruption at customs and the inability of the legal system to deal with corruption have been major problems in Peru and India for many years

3.4.8 Finance

The existence of a sophisticated financial sector is important for MNC's for long term investment. The ability to obtain credit is of specific importance for SMME's.

Balance between internal finance for investment, bank finance for investment, and informal finance for investment and ease of getting credit

In many developing nations the financial services industry is weak and companies rely on informal sources of investment. In addition to the legal system, access to finance is also a key area in which some parts of China appear weak relative to many other middle-income countries. It seems that much of the business and investment in China is done in cash. In many cities fewer than half the firms surveyed have access to loans from the formal financial institutions. Usually 10 % or less of input is purchased using trade credit from the suppliers. As China develops and moves into more sophisticated production lines, these weaknesses in financial services will become more and more of a hindrance.

Definition	A well developed financial services sector and appropriate sources of finance (private, public and informal) are important for large international companies who need access to large amounts of funds.
Assessment level	Country level assessment
Indicator and scale	% of a specific source of finance utilised for investment Ease of getting credit ranking – one is best, 140 worst
Source	Source: World Bank Enterprise Survey

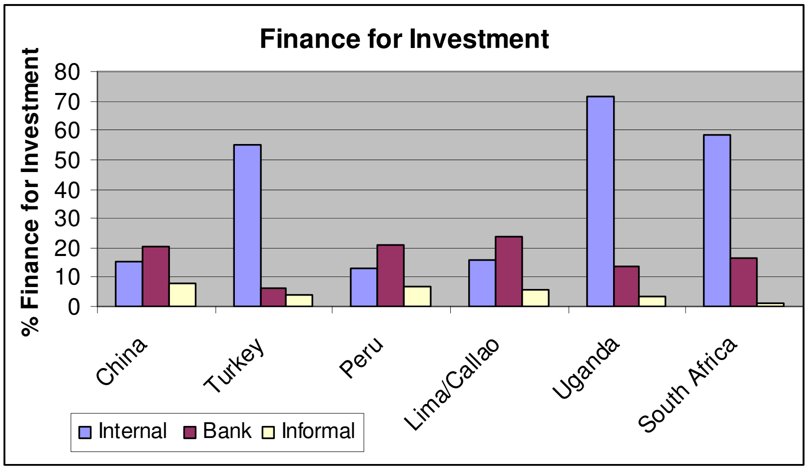

Figure 36: Availability of various sources of finance

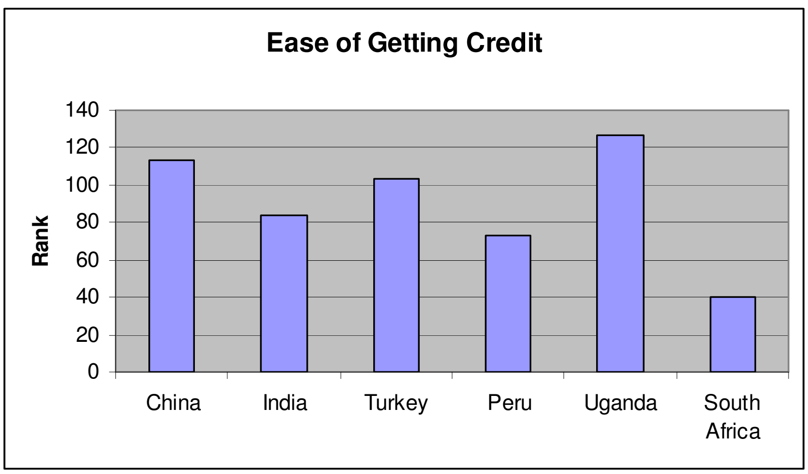

Figure 37: Ease of getting credit ranking

South Africa has a well developed financial service industry, and it is relatively easy to obtain credit. International as well as established local companies see access to finance as a positive factor. However, the cost of finance is seen to be high. Due to the high cost of finance, most (90% plus) international companies raise finance off-shore.

SMME's and high risk projects of established companies however regard access to venture capital as a constraint.

3.4.9 Trade

A number of trade related issues are important to investors

- The degree of trade agreements the hosting nation has in place
- The "openness" of the economy in terms of tariffs and Technical Barriers to Trade (TBT's)
- The efficiency of customs in facilitating imports and exports

Level of trade agreements in place and openness of economy

Since 1985, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. Turkey has signed or initiated negotiations on bilateral investment treaties with 79 countries. South Africa has entered into a number of trade agreements (specifically the EU) and is pursuing bilateral agreements with MERCUSOR and China. South Africa is considered a highly "open" economy with high levels of WTO compliance.

The SA-EU Free Trade Agreement (FTA) came into effect in 2000 as part of the SAEU Trade Development and Cooperation Agreement. The EU is committed to the full liberalisation of 95% of South African imports over a 10-year transitional period, while SA is to liberalise 86% of EU imports over 12 years. This will be most extensive and rapid in the case of industrial goods. The agreement also includes agriculture.

The Africa Growth and Opportunity Act (AGOA), which came into effect in 2000, is a unilateral trade agreement which significantly liberalises trade between the US and 37 sub-Saharan African countries, including South Africa. AGOA's three major benefits to exporters are:

- Duty-free treatment under the Generalised System of Preferences (GSP) until 2015
- An expansion of the product coverage of the GSP exclusively for the exports of sub-Saharan Africa. The Act includes duty and quota-free treatment of 1,800 tariff line items in addition to the standard GSP list of 4 500 items. These include apparel, footwear, wine, automotive components, chemicals, steel and some agricultural products
- Duty and quota-free access to the US market without limits for apparel made in sub-Saharan African countries. This is a significant stimulus for export growth in these commodities given the high limits set on the volume of these exports to the US

The Chinese economy, which has historically been a “closed” economy is increasingly becoming WTO compliant, and China reduced tariff rates by about two-thirds in the past two decades, from 49.5 % in 1982 to 16.8 % in 1998. Uganda launched major reforms in the late 1980s. The government began by liberalizing the trade regime, removing quantitative restrictions and eliminating onerous export taxes.

The primary research indicated that South African trade agreements are not viewed as being overly positively, except for AGOA.

Time to clear customs

The efficiency of customs operations is critical for imports and exports. Longer clearance times are often associated with lower efficiency in port operations management. More cumbersome procedures and higher total transport costs due to higher costs of storage and increased risk of damage and pilferage, in turn raise insurance premiums. From a firm’s perspective the variance in clearance times is critical since this determines the level of inventory of inputs they must hold to avoid a stock-out problem.

Definition	Days to clear customs (imports as well as exports) and procedures/signatures are good indicators of the efficiency of a country’s custom operations. It does however not reflect on the effectiveness of such operations
Assessment level	Country level assessment
Indicator and scale	Average time to clear direct exports/imports through customs (days) Longest time to clear direct exports/imports through customs (days) Procedures to clear customs Signatures required to clear customs
Source	World Bank Enterprise Survey World Bank Doing Business Survey

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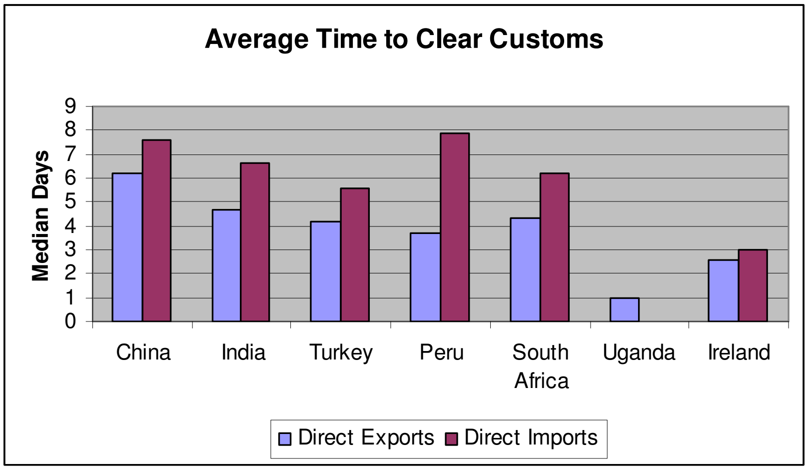

Figure 38: Efficiency of customs operations – time to clear customs

During the early 1990s, Peru started an important restructuring of its custom administration, with the objective of aligning its laws, procedures and regulations with international standards. In particular, the aim was to reduce the high levels of corruption and discretional behaviour of custom officers, to improve the collection of tariff revenues, and to simplify the procedures to clear goods at customs. At that time, clearance time for custom processing ranged from 15 to 30 days. By 1996 Peru had replaced its manual processing and paper based system with an automated one, enforced procedures and published regulations, reduced its cargo inspections from a level of 70-100 % to a maximum of 15 %, reduced and trained its remaining staff, while increasing its collection of revenues by more than 300 % in spite of the reduction of tariffs and inspections.

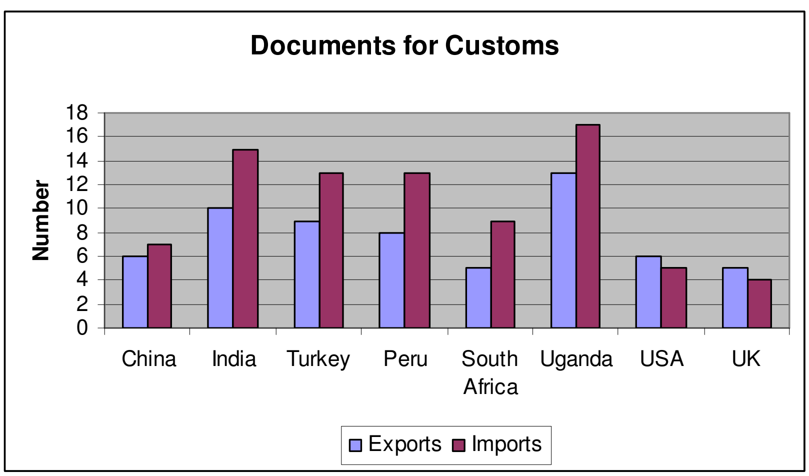

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Figure 39: Efficiency of customs operations – documents for customs

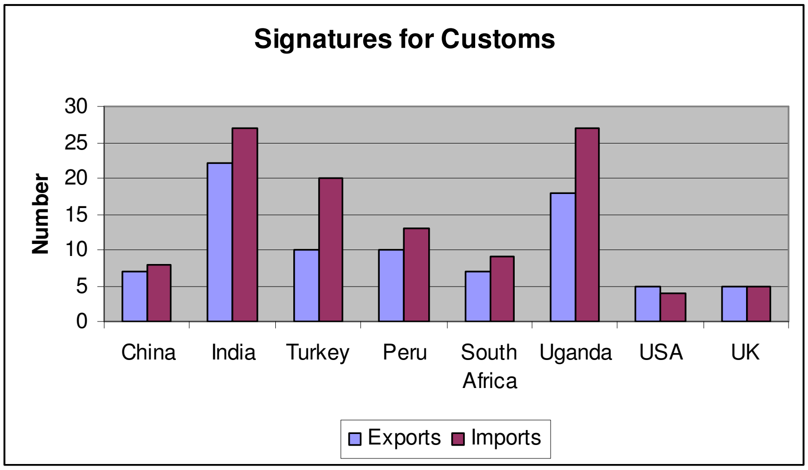


Figure 40: Efficiency of customs operations – signatures for customs

South Africa's custom operations compare well with that of other developing nations, but could improve further to levels achieved by developed nations.

The primary research revealed that companies are satisfied with custom operations in Port Elizabeth and it can be regarded as a strength. Although companies believe the bureaucracy is not excessive, it is again noted that much of the activity is outsourced and it might very well be a constraint for SMME's.

4 SUMMARY OF THE INVESTMENT COMPETITIVENESS OF COUNTRIES ANALYSED

This section provides a concise summary of the investment climate in the countries assessed, with specific focus on strengths, weaknesses and strategies aimed at improving the investment climate.

4.1 IMPROVING THE INVESTMENT COMPETITIVENESS IN INDIA

Although India has been able to achieve above-average levels of growth over the last decade, it is generally accepted that India's economic performance was negatively affected by insufficient improvement in its investment climate, especially compared to other developing countries.

In the early 1990s India's average GDP growth was 6 % per annum, compared to 5.5 % in the 1980s, and much lower rates in the 1970s and 1960s. Although impressive, it is generally accepted that it could have been better, for example, India's Tenth Five Year Plan aims for 8 %. This can partly be attributed to India's inability to attract expected and required levels of FDI.

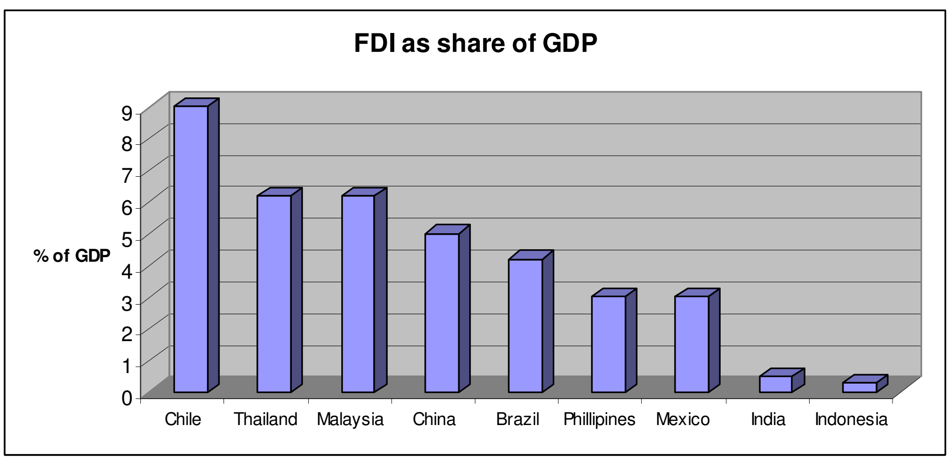


Figure 41: FDI as share of GDP

An assessment of India's investment climate revealed the following strengths and weaknesses:

- Although the cost of entry and exit regulation has dropped, it is still high compared to China, but is now more comparable to other developing and developed nations such as Brazil. The major reason for this improvement has been policy reforms that ended reserving certain industries for the public sector and abolishing licensing requirements in many industries. This means it has become easier for new companies to be established in many industries

- A specific weakness in India is still the time it takes to establish or close a business, specifically the latter, which is a staggering 10 years. The latter is due to two reasons. Firstly, the difficulty firms face in retrenching or redeploying workers. This is due to inflexible labour legislation which specifies that larger companies need state permission to retrench or redeploy workers, and that government can at any time abolish contract labour in any industry. The second reason is the cumbersome legal requirements to close a business
- On the positive side, India's labour market has become some what more flexible, and has maintained historical labour cost advantages in many industries such as textiles
- Indian firms face fewer tax and regulatory inspections than firms in Brazil and China, therefore reducing the time spent with officials and reducing the cost of doing business
- Through extensive re-engineering efforts India has been able to improve and streamline its customs operations, with average days to clear customs having reduced from 10.3 days in 2000 to 7.3 days in 2004. This has had a positive effect on trade, and had a positive impact on India's impressive growth in exports.
- Probably the most serious deterrent to investment in India is the unreliable and expensive electricity supply
- The investment climate within various states in India also varies considerably

India has identified three key areas for improvement:

- Firstly, a dramatic improvement in the electricity (and to some extent the telecommunications) infrastructure as a high priority.
- Secondly, to continue with reform of labour regulations in order to establish a more flexible labour market. This should increase labour productivity (reducing overstaffing) as well as reduce entry and exit barriers.
- Thirdly, there are continuous efforts to reduce the regulatory burden on business in general, which include issues such as reducing the procedures to start a business, time spent dealing with government officials, inspections etc.

It is estimated that the above reforms could eventually result in increasing GDP growth in India by more than 2% per annum.

4.2 IMPROVING THE INVESTMENT COMPETITIVENESS IN CHINA

China has reported growth of about 8% per year for the past 20 years, with the percentage of its population living on less than $1 a day falling from 64% in 1981 to less than 17% in 2001. China's economic success since the 1980s suggests that its investment climate has many positive features, especially those related to political and macroeconomic policy stability. Developments in trade point to greater integration into the global economy. Net foreign direct investment in China increased dramatically in the past decade, from $2.7 billion in 1990 to $37 billion in 2000. Moreover, it represents a larger share of GDP in China than in many other Asian countries,

Some of the activities that resulted in a significantly more competitive investment environment are of specific interest, especially contrasted with India which has not enjoyed the same levels of FDI or growth:

- China opened its market to FDI in 1979, while India did not openly welcome foreign investors until the early 1990s. China's decade-long head-start helps, in part, to explain its relatively stronger FDI flows
- One of the first steps towards massive capital inflows was when China began with a rudimentary system of property rights that created new incentives for a substantial part of its economy. This has had a dramatic positive effect on capital formation as individuals and companies were now able to invest in property
- In contrast to India, which can be considered to be a sprawling, messy democracy; China, on the other hand, has enjoyed two decades of relative tranquillity and has been able to focus almost exclusively on economic development
- China continues to invest heavily in upgrading its technology base. The central government provides $2 billion in annual funding to universities for technology research and has a $10 billion revolving fund for basic research. GDP per capita spending on R&D has doubled from 0.65% in 2001 to 1.3% in 2005 (on an annualised basis). China currently boasts with forty-four national science parks, many of them primarily focused on commercialising research developed in Chinese universities. The parks provide infrastructure, management and funding support for start-ups across a variety of industries.

There are however negative factors that need to be addressed. General barriers to investment that plague China include a lack of transparency, inconsistently enforced laws and regulations, weak [intellectual property rights] protection, corruption and an unreliable legal system incapable of protecting the sanctity of contracts.

- China's judicial system is weak. The Economist Intelligence Unit reports that "many [foreign firms] prefer arbitration because of concerns about the speed and impartiality of the courts. A related concern for foreign companies is the weak tradition of consistent implementation of court rulings
- China welcomes foreign investment and is bound under World Trade Organisation rules to open its industries further to foreign businesses, but it does not wish to see its control over important ‘strategic' sectors of its economy slip into foreign hands. Partly with this in mind, on July 25th 2004, China announced a significant structural change to its FDI regime that allowed foreign investment only in specific, government-designated sectors. This will dampen FDI in specific industries
- The U.S. Department of Commerce reports: "China's legal and regulatory system lacks transparency and consistent enforcement despite the promulgation of thousands of regulations, opinions, and notices affecting investment”. Foreign investors continue to rank the inconsistent and arbitrary enforcement of regulations and the lack of transparency as two major problems in China's investment climate

As China continues to integrate into the world economy, it is addressing a number of issues that should improve its investment climate. Continued skill upgrading (including reducing the relatively high level of illiteracy) is a priority. So is continued upgrading of the technology base. Government no longer controls all science and technology projects, with enterprises and nongovernmental institutions increasingly participating in government sponsored projects.

A key challenge facing China is regulatory reform. Under WTO obligations China requires that the country should shift from a governance system based on discretion to one that is based on rules and commercial criteria, and that government reduces its role in how firms operate.

Further regulatory reform is also needed to reduce entry and exit barriers to especially SMME’s as well as making it easier for SMME’s to obtain credit, as most credit currently still goes to state owned firms. The massive growth over the last two decades also calls for continued investment in infrastructure. There are already concerns amongst investors that serious bottlenecks could become prevalent as infrastructure investment does not keep pace with economic growth.

4.3 IMPROVING THE INVESTMENT COMPETITIVENESS IN TURKEY

Turkey has made significant liberalization efforts during the last two decades. Convertibility of the currency, reduction of protectionist barriers, invention of BOT and other schemes for private provision of electric power, and most recently the customs union with the EU are among the most important.

In January 1996, with the entry to the customs union with the European Union, Turkey's economic development efforts reached a new stage. Foreign investors' interest in Turkey as an export base to the EU amplified, especially in the automotive sector.

Over the last decades Turkey has improved its investment climate though a number of interventions:

- Unprecedented success in implementing the privatisation programme, resulting in record high levels of revenues
- Acceleration of comprehensive tax policy reforms. In 2006, the basic corporate tax rate was reduced from 30% to 20% and a uniform withholding tax of 15% will be applied to income from financial investment
- Reduced administrative barriers to investment, particularly the streamlining of work permit procedures for foreign investors
- The 2003 Foreign Investment Law liberalized rules governing foreign direct investment, guaranteed domestic treatment, and removed minimum capital requirements (I.E.F, 2006)
- Progress in establishing an investment promotion agency
- Bureaucratic "red tape" has been a significant barrier to companies, both foreign and domestic. However recent laws have simplified company establishment procedures, reduced permit requirements, instituted a single company registration form, and enabled individuals to register their companies through local commercial registry offices of the Turkish Union of Chambers

These policies were expected to bring about an upswing in international investment. The results have far exceeded the expectations. International direct investment in Turkey soared to US$ 9.7 billion in 2005, compared to an annual average of US$ 1.1 billion in the decade between1993 and 2002, US$ 1.8 billion in 2003 and US$ 2.8 billion in 2004.

However, there are various remaining challenges. Concerns over the pace of reform, security and lingering macroeconomic instability could be in part behind the country's lower ranking from 24th to outside the 25 most attractive markets globally.

- The underlying policy framework has been unstable; there have been frequent surprises and policy changes. The average life span of government has been less than 18 months, and in many cases the governments have been shaped by unstable coalitions. In many cases the governments have not sustained their economic and political strategies. Economic growth, although relatively strong on average over the last two decades, has been very irregular with many recessions. Inflation has been a constant problem, with large variation in the rate
- The electricity supply system is still relatively weak compared to most other European countries

To meet these and other ongoing challenges, it will be important for the Government to prioritise the following issues:

- Continue with privatisation and deregulation to improve competition
- Improve education and training to ensure better alignment with the needs of the private and public sectors
- Increase research and development, innovation, technology adoption and use of quality standards
- Improve infrastructure with a focus on transport and customs processing
- Access to and use of information and communication technology
- Accelerate the reduction of administrative barriers, particularly: licensing requirements, R&D approval processes, limited access to land and restrictions on imports
- Increase the efficiency of judicial processes
- Enhance the efficiency and flexibility of the labour market
- Deepen financial market development, including increasing access to finance, strengthening the regulatory framework for the insurance sector and broadening the equity market

4.4 IMPROVING THE INVESTMENT COMPETITIVENESS IN UGANDA

According to the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce, Uganda ranks among the ten African countries making the most progress in upgrading their business environment in 2000–03. The key to Uganda's performance has been its ability to design and implement good economic policies—an ability that has eluded most of its competitors in the region. Uganda saw private investment as a share of GDP more than double, from just over 6% in 1990 to 15% in 2002. Growth averaged 4% per year during 1993–2002 (or eight times the average in sub-Saharan Africa) and the share of its population living below the poverty line fell from 56% in 1992 to 35% in 2000. (Smith, 2006:3)

A number of issues, which has had a positive effect on improving Uganda's competitiveness as an investment destination, and its economy in general are noted:

- Uganda launched major reforms in the late 1980s.The government began by liberalizing the trade regime, removing quantitative restrictions and eliminating onerous export taxes. In 1990 it ended the allocation of foreign exchange, moved to market determination of the exchange rate, and made big improvements in fiscal discipline. During the 1990s it shifted its reform agenda toward promoting growth, tackling increasingly difficult challenges. Between 1992 and 1995 Uganda returned confiscated property to its rightful owners, mostly Ugandans of Asian origin. It liberalized the investment code by eliminating preferential treatment of domestic investors and making investment approvals virtually automatic
- In telecommunications the government achieved dramatic growth in access to services and big improvements in quality in just two years by relying on private participation and competitive markets
- In 2001, after securing enabling legislation for liberalization, the government established an electricity regulatory authority. In August 2002 the government awarded the concession for power generation on a competitive basis to Eskom Enterprises. Although power supply has improved over the years, its reliability and adequacy remain the leading infrastructure constraint for Ugandan enterprises
- Regulatory burdens have been reduced. The 1998 survey found that senior managers devoted 14% of their time to regulatory compliance. By 2002/03 the average had fallen sharply to 4%.
- To help attract investment to Uganda, the government has decided to set up an export processing zone, acknowledging the need for industrial land outside Kampala that is well planned, environmentally sound, and adequately serviced

4.5 IMPROVING THE INVESTMENT COMPETITIVENESS IN PERU

During the 1960s and 1970s, Peru's Gross Domestic Product (GDP) fluctuated at about the same rate as the rest of the world. However, during the following two decades, those fluctuations were more dramatic with huge negative rates in the early 1980s and again in the early 1990s. These large negative fluctuations resulted in a significant deterioration in some of the social indicators of the country.

Following significant adjustment and structural reforms, Peru's GDP grew at an average annual 7% between 1993 and 1997. Between 1998 and 2000 GDP growth suffered a slow down, with rates of only about 1%. Peru's poor economic performance during the later years of the last decade could be explained in part by the external shocks and the political crisis that afflicted the country, but also in part due to its failure to complete its reform program and successfully integrate into the world economy.

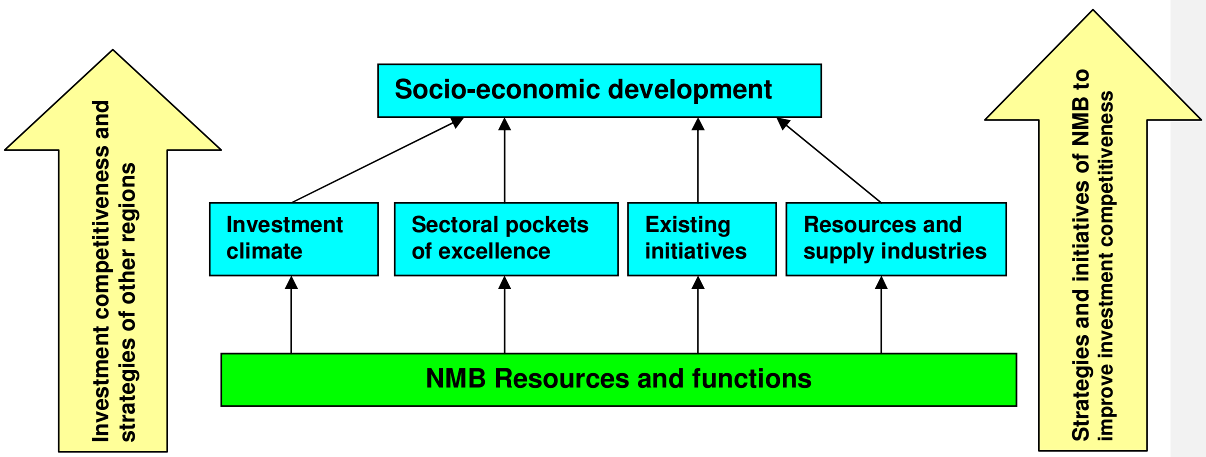
The vast majority of these investments went to infrastructure sectors (principally telecom and electricity) which have substantially improved their performance in terms of quality, speed and reliability of service.

During the early 1990s, Peru started an important restructuring of its custom administration, with the objective of aligning its laws, procedures and regulations with international standards. In particular, the aim was to reduce the high levels of corruption and discretional behaviour of custom officers, to improve the collection of tariff revenues, and to simplify the procedures to clear goods at customs. At that time, clearance time for custom processing ranged from 15 to 30 days. By 1996, Peru had replaced its manual processing and paper based system with an automated one, enforced procedures and published regulations, reduced its cargo inspections from a level of 70-100% to a maximum of 15%, reduced and trained its remaining staff while increasing its collection of revenues by more than 300% in spite of the reduction of tariffs and inspections.

5 KEY CONSIDERATIONS IN DECIDING ON A STRATEGY AND INITIATIVES TO IMPROVE THE INVESTMENT COMPETITIVENESS OF NMBM

The conclusions made must be seen in the context of a disappointing performance by South Africa in attracting FDI. To reverse this trend will require dedicated interventions, and NMBM has an opportunity to take the lead in this regard. It also needs to be seen in the context of strategies and initiatives implemented by competing investment destinations, as identified as part of this study.

A first and most important consideration is that the actions aimed at improving the various factors influencing the investment climate, as assessed in the previous sections of this report, must not be evaluated in isolation to broader socio-economic development. Therefore, although the conclusions in this section, and recommendations in the next chapter, are primarily focused on factors that impact investment competitiveness, it is done in the context of, and with reference to a broader spectrum of activity, as depicted in the diagram bellow



This section with the conclusions therefore follows the logic of the above model:

- The first section concludes lessons to be learned from the countries assessed and its implications to South Africa / NMBM
- The second section discusses conclusions concerning the investment climate in South Africa and NMBM

- The third section summarises the inherent importance of existing industries and especially supply industries in attracting investment
- The last section briefly describes the current core functions and programmes that are at the disposal of NMBM in facilitating investments

5.1 LESSONS LEARNED FROM THE COUNTRIES ASSESSED

The issues that is relevant to improving the investment competitiveness of NMBM, are as follows:

- First and foremost, it must be recognised that all countries appreciate the value of investment and are striving to become investment destinations of choice. The implication of this is that South Africa/NMBM needs to compete on a range of fronts, and considering its natural geographical disadvantage compared to many countries, needs to perform better to attract investment
- All countries assessed, except for India, have had significant improvements in FDI inflows, and are rated higher than South Africa in terms of its ability to attract FDI
- India's inability to improve its electricity network, and high entry and especially exit barriers are the two most important deterrents to investors. On the positive side, India has made progress in relaxing its very stringent labour regulations resulting in a more flexible labour market. The most important contributing factor is that India has reduced government approvals when companies want to retrench or re-deploy workers. A lesson for SA/NMBM is that an over-regulated labour market is not conducive to attracting FDI
- Although China has made improvements in reducing the regulatory burden on companies, excessive regulation is still seen to be hampering investment. It is noted that China is investing heavily on two fronts. Firstly in upgrading its skills base and secondly upgrading its technology base. Coupled with existing advantages such as cheap labour, high economic growth and political and economic stability, the rest of the world, including South Africa, is realising that unless it matches China in specifically these two areas, it will become increasingly a disadvantage as an investment destination
- From the Turkey example it can be seen how improvements on a number of fronts can lead to dramatic improvements in FDI. Reductions in tax and streamlining of administrative procedures have had a positive effect on Turkey's investment competitiveness. Recent laws have simplified company establishment procedures, reduced permit requirements, instituted a single company registration form, and enabled individuals to register their companies through local commercial registry offices of the Turkish Union of Chambers . From this the lesson is that

simplified and inexpensive processes for the establishment of businesses within the regulatory framework reduce entry barriers, for especially SMME's, and increase formalisation.

- Uganda is a good example of an under-developed country putting basic infrastructure such as electricity and telecommunications networks, and economic policies in place to improve its investment competitiveness. However, the most important contributing factor in recent years was political stability that has been attained. It is therefore imperative that South Africa does not retract on gains made in terms of political and economic stability in recent years.
- Although Peru has invested heavily in improving its electricity and telecommunications infrastructure as well as improving customs operations and implementing tariff reform, it is hamstringed by persistent instability in macro-economic policy and failure to integrate into the world economy. The implication to South Africa and NMBM is that gains made in achieving political and economic stability, as well as policy certainty, must be maintained as a competitive advantage

5.2 STRENGTHS AND WEAKNESSES OF THE INVESTMENT CLIMATE IN SOUTH AFRICA AND NMBM

5.2.1 <u>Strengths</u>

- Political and macro-economic stabilisation have been achieved and structural reform has resulted in fiscal discipline and reduction in external vulnerability
- A high degree of policy consistency and predictability
- Relatively equal treatment of foreign and local firms
- South Africa's entry and exit barriers are approaching world-class standards, for example the ease of starting or closing a business in South Africa compares favourably with that of developing nations
- The singular most prominent strength in South Africa is that it has the lowest electricity cost in the world, and world-class reliability. The port operation in Port Elizabeth is also perceived to be a positive factor
- The cost of land in South Africa is a definite competitive strength, specifically so in the Eastern Cape. Protection of property rights is one of the strengths of South Africa.
- Corruption in South Africa, and the Eastern Cape is not seen as constraint to do business, and very few companies report that bribes need to be paid

- South Africa has a competitive advantage compared to most developing countries in terms of the effectiveness of its judicial system
- South Africa has a well developed financial service industry, and it is relatively easy to obtain credit. This represents a competitive advantage to the NMBM and is especially important to SMME's
- South Africa's custom operations compare well with that of other developing nations, but could improve further to levels achieved by developed nations

5.2.2 <u>Weaknesses that have contributed to South Africa and NMBM not realising the levels of investment that could be expected</u>

- Although macro-economic stability is regarded to be a strength, many companies, and especially exporters, are concerned about the fluctuations in the currency exchange rate
- Crime was cited by companies as a major negative factor impacting investment decisions
- Although entry and exit barriers (ease of starting a business, etc) were found to be low, it is noted that most companies outsourced the administrative work associated with opening a business, as it is seen to be complex and time consuming. This has an implication for SMME's that typically do not have the resources to utilise the services of "experts" to complete the procedures of starting a business
- Poor or unclear regulations in key sectors, such as telecommunications, are disincentives to investment
- Companies are by-and-large unaware of business incentives offered by the NMBM, and those that are aware of them regard their impact to be minimal when making investment decisions
- South Africa's cost of telecommunications is considered relatively high, and coupled with relatively low broadband penetration, is regarded to be a competitive disadvantage. Uncertainty around telecommunications policy in South Africa is also seen to be a deterrent to investment
- It is most disconcerting that in South Africa the percentage of companies perceiving worker skills as a major constraint is of the highest in the world
- South Africa's technology readiness is hampered by telecommunications shortcomings (notably broadband access) as well as low levels of R&D. The latter has been recognised as a constraint and is being addressed by government increasing supply-side incentives aimed at companies to invest more in R&D

- SA's labour market leans towards some of the more rigid ones in the world, which are typically the Asian countries
- SMME's and high risk projects of established companies regard access to venture capital as a constraint
- Clustering can improve and supportive industries are under-developed
- The primary research indicated that South African trade agreements are not viewed as being overly positively, except for AGOA.

5.3 SECTORAL POCKETS OF EXCELLENCE AND SUPPLY INDUSTRIES

The NMBM's Economic Growth and Development Strategy (EGDS) aims to restructure and fast-track economic growth through sector diversification, infrastructure development, destination marketing and integrated human resource development. It is recognised that the NMBM has a number of sectoral pockets of excellence, which provides an attractive base-industry for investors.

5.3.1 Clothing and textiles

The Eastern Cape is known for its textiles and clothing manufacture as it has a major raw material supplier base as the province is a major producer of wool and mohair. Currently key products are seat covers, fabric and upholstery, industrial hosing, medical fabrics, clothing and the use of natural fabrics for bags, matting, and carpeting. This is a key challenge of entering higher-value markets, which requires links with designers. Areas being examined are the use of new materials like hemp, wool and mohair fashion items, and indigenous Xhosa designs in high quality fashion clothing. Two key opportunities that have been identified are:

- A fiber processing plant to spin wool and mohair fiber into yarn
- A textile mill, centered on cotton, poly-cotton and acrylic fabric

5.3.2 Automotive

More than 90% of the automotive component manufacturers and vehicle assemblers who export from South Africa can be found in the industrial areas around NMBM. Component suppliers in the NMBM will be well positioned to serve top Eastern Cape exporters Volkswagen South Africa and General Motors in the Nelson Mandela Metro, DaimlerChrysler SA in East London as well as assemblers based in Gaunteng province. The deliveries are so reliable that companies like the Ford Motor Corporation of Southern Africa and Nissan already use Port Elizabeth as the harbour of choice for their imported components.

5.3.3 Agro-processing

Agro-processing in the Eastern Cape revolves primarily around three industries, namely dairy products, food processing and wool & mohair. The Eastern Cape produces 20% of milk consumed in South Africa. There are opportunities to expand processing to Ultra High Temperature (UHT) milk, milk powder, and specialty cheese. There are opportunities for new canning and juicing plants close to major sources of raw material. The Eastern Cape is a leading world producer of high-quality merino wool and mohair fibres. However, three-quarters of the wool and mohair clip is exported semi-processed and about 20% completely raw. Only 5% is used in South Africa to make final wool and mohair products. The challenge is to bring together designers, technology and investors to produce higher value goods and exploit new export opportunities.

5.3.4 Chemicals

The key chemical industries in the Eastern Cape are plastics and pharmaceuticals. The Eastern Cape plastics industry is small but highly diversified. Key sub-sectors are automotive, packaging, moulding and extrusion, household and construction. The need for a chlorine plant to serve the potential aluminium smelter in the CIDZ could be considered.

5.3.5 Metals and minerals

The CIDZ is in the process of establishing a metals cluster, with an aluminium smelter as anchor. Due to access to lower cost energy and adequate manpower reserves CIDZ can obtain a competitive process cost margin. The CIDZ's development can occur with a degree of independence from internal national infrastructural shortcomings, although there are concerns about availability of electricity. The CIDZ will be in a good position to obtain advantage from carbon credits in the relocation of production from existing industries. Potential future industries are a stainless steel plant, a zinc processing plant and a magnesium smelter.

5.3.6 Services and infrastructure

A key finding of the primary research conducted as part of this project is that the services industry in NMBM is under-developed. This has relevance on services such as logistics, which is key to industrial development. An important issue that requires attention is the cost of logistics in NMBM due to trade imbalances.

Although the port infrastructure in NMBM is regarded to be adequate, the rail infrastructure was heavily criticized. Cost as well as service levels are deemed extremely negatively and the inadequate rail infrastructure is certainly a deterrent for investment. Road transport infrastructure is seen to be adequate at present, but some concerns were expressed whether future road infrastructure will meet requirements in light of the under-developed rail system, as well as increased road congestion in metropolitan areas.

5.3.7 Tourism

Tourism can be seen as an important area of growth for the Eastern Cape. Not only do NMBM and the surrounding areas possess the necessary attractions, but it is also the start or the end of a trip through the Garden Route. Key attractions include wildlife and outdoor, cultural, historical as well as adventure and sport related activities/attractions. One of the issues identified in the NMBM is a shortage of infrastructure, especially considering the 2010 World Cup.

SA tourism industry contributes R 31 billion (3%) to national GDP, and employs almost 500 000 people directly and over 1.2 million people indirectly. South Africa attracts 1,5 million international and 4.5 million African visitors per annum. Key developments in the tourism industry that should be considered by NMBM are:

- Shorter stays and fragmented holidays
- Clients who are price sensitive
- Ease of access to and from customers is on the rise
- Frequent last minute bookings
- Greater demand for customised holidays
- All about authentic experience of holiday destination

The implications for tourism in the NMBM are:

- Increased need for security
- Increased competition from travel and tourism suppliers
- Low cost airlines and cheaper alternatives of transportation
- Travellers are more mature and experienced

5.4 EXISTING INITIATIVES AND RESOURCES AIMED AT IMPROVING THE INVESTMENT CLIMATE

5.4.1 <u>Business incentives</u>

The primary research conducted as part of this study revealed that incentives are important for companies. What is of concern is that many companies are not aware of NMBM specific incentives, and almost 20% of companies surveyed indicated that current incentives have no positive impact when investment decisions are made. This contrasts with more than 90% of companies being aware of national level incentives. Such companies expressed varied degrees of satisfaction with current incentives, with many indicating that the collective suite of national and local incentives are not competitive with the offerings of many other investment destinations.

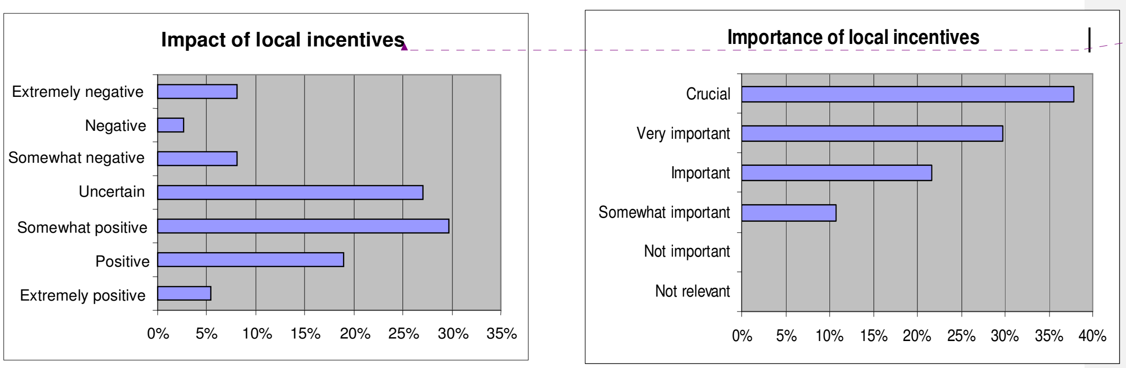


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Figure 42: Importance and impact of local incentives

The automotive industry in specific is concerned about the potential abolition or change to the MIDP.

5.4.2 <u>Specific initiatives and functions</u>

This study takes cognisance of the following current initiatives and functions relevant to economic development and investment promotion in NMBM:

The Coega industrial development zone (CIDZ):

Coega Industrial Development Zone (IDZ) is the biggest project of its type on the African continent.

The IDZ is custom designed to meet the needs of tenants. It combines the benefits of world-class logistics, communications, infrastructure, labour and environmental standards.

Dedicated clusters within the zone ensure maximum efficiencies. Key proposed clusters are metals, chemicals, automotive, electronic and textiles. Costs are reduced through the sharing of services. They include a sophisticated Information Communication Technology (ICT) system that includes a customer contact centre.

Nelson Mandela Bay Development Agency

The Mandela Bay Development Agency (MBDA) aim is to project-manage regeneration of the Port Elizabeth "inner city" with a view to promote economic and tourism development against the backdrop of urban renewal. The mandate area of the MBDA includes the central area of the city, including the CBD, as well as the existing harbour. The objective of the MBDA is to generate sustainable economic and tourism growth and social transformation to the benefit of the whole Nelson Mandela Metro community. The Development Agency must therefore initiate, promote and manage private and public economic, social, cultural, environmental and infrastructure programmes, transforming the mandate area into a growth point in the Nelson Mandela Metro. It is important to develop the necessary bylaws regulating the regions Tourism Industry. It will also support SME development if the local HDI SMME facilities can be graded to assist them in attracting business.

Nelson Mandela Bay Business Centre

The Nelson Mandela Bay Business Centre coordinates, facilitates and provides business support services to all sizes and types of businesses and investors to promote the economic objectives of the NMBM and its partners. The Nelson Mandela Bay Business Centre aims:

- To be a single point of entry and exit for businesses and investors
- To improve investor and business access to a holistic support system
- To coordinate provision of quality investor and business support services
- To strengthen the implementation of Council’s development policies
- To provide support to special investment initiatives e.g. Coega IDZ

Automotive Logistics Mapping of the Nelson Mandela Metropolitan Municipality, AIDC, 2005

The following conclusions from the research are relevant to this report:

- The road infrastructure in and around the NMBM is seen as well planned and not congested
- People stay close to their place of work, putting less pressure on the current infrastructure
- Imbalances exist regarding road transport, increasing transport cost due to empty vehicles travelling either to or from companies
- More tires are exported from the metro than transported to the metro
- More cars are exported from the metro than to the metro than from the rest of the South Africa
- More car parts are exported to from the rest of South Africa to the metro than from the metro
- Rail transport is not time and cost effective

NMBM Resource development initiative

From the research report "Nelson Mandela Bay Human Resources Development Plan (Phase 1)" the following conclusions can be made:

- A human resource development strategy and plan for the region must be designed and put in place.
- The Joint Initiative on Priority Skills Acquisition (JIPSA) recommendations are of critical importance to the region. This should be supported by a provincial skills development plan to address the human resource requirements that are aligned with provincial economic development strategies
- The region will not achieve the envisaged growth if the necessary skills cannot be provided
- The focus is on working within the current HRD framework with the support of role-players
- Scarce, critical or "rare" skills are outlined as a focus area
- The identification of information management systems as a tool for planning and managing skills development
- The role of the HE and FET institutions being raised as key drivers of human resource development

6 STRATEGY AND ACTION PLAN FOR THE NMBM TO IMPROVE ITS COMPETITIVENESS AS AN INVESTMENT DESTINATION

6.1 STRATEGIC FRAMEWORK

The assessment of the investment competitiveness of NMBM as conducted by this study shows that there is considerable scope to improve the investment competitiveness of NMBM. This will however require dedicated and concerted efforts from all stakeholders.

The strategic framework for action considers the specific factors that contribute to investment competitiveness as well as the broader environment.

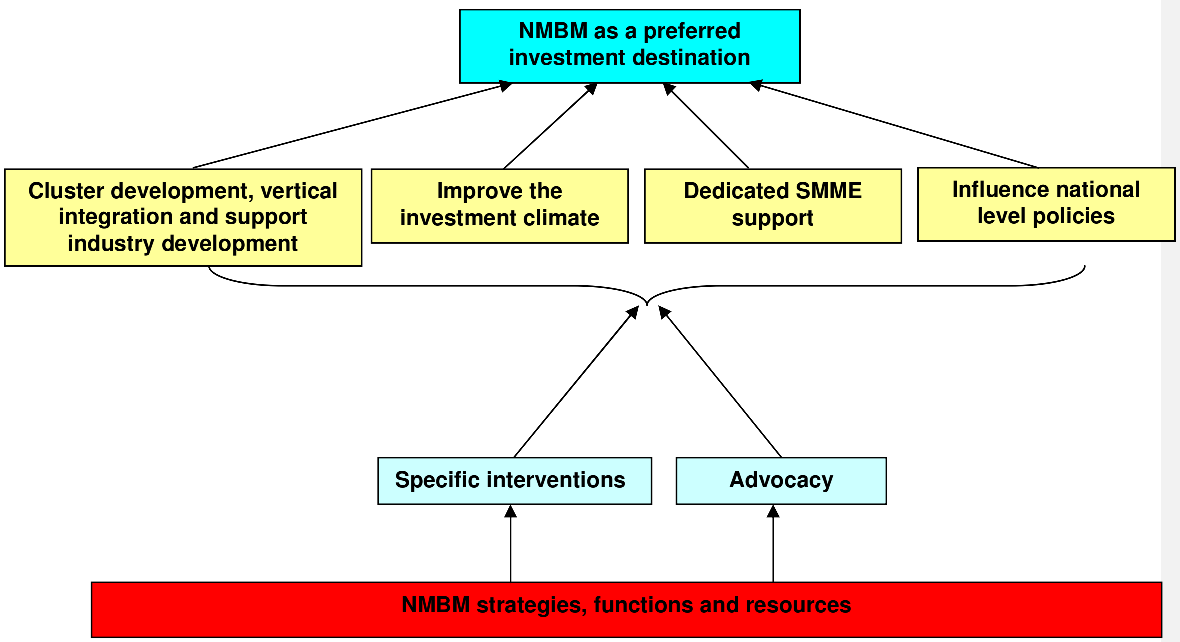

Figure 43: Strategic framework to improve investment competitiveness

The overarching goal and strategic objectives, and associated high level measurement of success depicted above can be summarised as follows:

	Objective	**Measurement of success**
Overarching goal	The overarching goal is for NMBM to become a preferred investment destination	Capital formation in NMBM
Strategic objective A	Accelerated development of key industry clusters and vertical integration	Sectoral output and employment growth
Strategic objective B	Improve the investment climate	International benchmarking of factors contributing to the investment climate
Strategic objective C	Dedicated SMME support	Sector output and employment.
Strategic objective D	Influence national level policies and programmes	Status of national level policies

The recommendations formulated in the next sections are therefore linked to the attainment of the strategic objectives identified.

Most important recommendations are marked in bold italic.

6.1.1 Strategic objective A: Accelerated development of key industry clusters and vertical integration

It is recognised that the NMBM already has many initiatives in place to develop key industry sectors. This study however found that a number of issues should be addressed:

Investors are of the opinion that clustering can improve. Initiatives such as the Logistics Park are seen to be positive developments, also the development of metals, textile, chemicals and agro-processing clusters in the CIDZ. There should be more emphasis on vertical integration, especially downstream beneficiation. ***NMBM should accelerate efforts to develop downstream industries around existing industries***

Local incentives need to be aggressively promoted. The research shows that investors are by-and-large unaware of local incentives. ***It is recommended that the Nelson Mandela Bay Business Centre (NMBBC) embark on an aggressive marketing campaign to promote local incentives to inventors***

Supply industries are considered weak. As part of vertical integration**, *NMBM should identify and develop weak supply industries in the complete value chain of key industries***. Natural processes will support horisontal development/integration of key vertical industries (i.e. a strong ICT support in the motor industry will benefit all industries)

The NMBM needs to address the cost of logistics due to trade imbalances. ***It is recommended that the causes of trade imbalances and its impact on logistics be further investigated and a strategy to deal with such imbalances be formulated***

Emphasis should be placed on increasing through-put via the harbours

Linking into the international shipping routes

Increasing local production to reduce dependency on imports to the region

6.1.2 Strategic objective B: Improve the investment climate of NMBM

A two-pronged approach is recommended. Firstly, there are a number of factors that can be considered as strengths. These should be maintained and enhanced. However a number of weaknesses, some more critical than others, should be addressed.

Maintain and enhance strengths of the investment climate:

- Political and economic stability, as well as policy certainty is a strength. As could be seen in countries such as Peru, without economic stability and policy certainty micro-level interventions to improve the investment climate often do not bring the desired result. This can be further enhanced as follows:
  - Exchange rate volatility creates uncertainty and makes planning difficult, especially for exporters. Stability of the Turkish currency is a good example of what can be achieved**. *Senior management of NMBM needs to play an advocating role in bringing the negative effect of exchange rate volatility to the attention of national level policy makers***
  - Policy certainty in sectors such as the automotive industry should be a priority
- Although entry and exit barriers as ease of doing business in terms of issues such as ease of paying tax, complying with regulatory obligations etc. are seen to be a positive factor by investors, it is also recognised that SMME's need assistance in this regard

- ***It is recommended that the NBMBC includes in its scope of activities a support function to SMME's to assist them with matters such as the process of registering a business, completing tax returns, etc.***

- Although the low cost and reliability of electricity is a considerable strength, investors have recently started querying the sustainability of these advantages as well as availability of future supply. Turkey improved their electricity supply by attracting private investors.
    - ***It is recommended that senior officials of NMBM should continuously interact with Eskom and the Department of Minerals and Energy (DME) to ensure that they are fully informed on plans and developments in order to factually engage investors regarding this uncertainty***
- The port operations in Port Elizabeth are also seen to be a positive factor.
    - ***It is recommended that the effectiveness and efficiency of customs and other critical activities be benchmarked against other ports in South Africa, and improvements be made where necessary to become "best in SA" and world class***
- Corruption in South Africa, and the Eastern Cape is not seen as a constraint to doing business, and very few companies report that bribes need to be paid. There are often misconceptions that corruption is inherent to all countries in Africa
    - ***It is recommended that NMBM aggressively promote the fact that levels of corruption in NMBM and SA is of the lowest in the world.*** The same applies for high levels of confidence expressed by investors in the judicial system as well as the well developed financial services sector

<u>Critical weaknesses that need to be addressed:</u>

A) Skills shortages

Skills shortages were identified as probably the most critical aspect that needs to be addressed. China is one of the countries that spend billions in ensuring that its relatively low skilled labour force is skilled enough to support industry requirements. In a recent study of the top 200 universities several Chinese universities were listed and not a single South African university. In this regard the following is recommended:

Current incentive programmes can be adapted to facilitate specific HR needs of companies wanting to invest in the NMBM

- Bursaries to specifically identified employees

- Bursary programme in conjunction with University and colleges
- Focus on the developed skills matrix for the region and adapt it via special requests from industry

The recommendations of JIPSA should be implemented and not duplicated:

- Work in conjunction with the Departments of Education, Labour, Science & Technology, Public Service & Administration and others, as well as Sector Education & Training Authorities (SETAs), private sector and organs of civil society to intervene at different stages of skills development
- Focus on the scarce and critical skills which will enable the country to deliver on the ASGISA commitments and targets. JIPSA should make a sustainable intervention and relate to the universities, technicians and schools, which have a much broader mandate
- Support skills development in poorer schools and increased efforts to support maths, science and English language skills in schools. JIPSA will be focusing specifically on teachers of these subjects. Teaching is regarded as a scarce and a priority skill
- Support the alignment of Further Education & Training (FET) colleges and Higher Education (HE) institutions in their work of producing graduates that can be employed who meet the demand and needs of employers in the public and private sectors. JIPSA will therefore work with both higher education institutions and employers, all of whom are represented in JIPSA
- Focus on adults, particularly those who are illiterate and poor who need to be actively drawn into the economy. JIPSA will indirectly support the Department of Education's work in Adult Basic Education and Training (ABET)
- Ensure that a credible plan with targets and timeframes is developed to train and supply artisans. FETs, the private sector and State Owned Enterprises (SOEs) are critical to delivering artisan training for the nation

Except for the specific skills identified by the NMBM, a skills audit on the following is of critical importance:

Based on the ASGISA priorities, the following working areas for JIPSA have been identified:

- High level, world-class engineering and planning skills for the 'network industries', transport, communications and energy, all at the core of the infrastructure programme
- City, urban and regional planning and engineering skills are desperately needed by the municipalities

- Artisan and technical skills, with priority attention to those needed for infrastructure development
- Management and planning skills in education, health and in municipalities
- Teacher training for mathematics, science, ICT and language competence in public education
- Specific skills needed by the priority ASGISA sectors starting with tourism and business process outsourcing and cross-cutting skills needed by all sectors, especially finance, project managers and managers in general
- Skills relevant to the local economic development needs of municipalities, especially developmental economists

Specific actions recommended for NMBM are:

(a) The regional stakeholders should consolidate a position on the HRD challenges facing the NMBM. Communication and buy-in at all levels should be ensured. All expectations relating to employment creation should be addressed and managed

(b) The NMBM should take the lead in advocating the region's position within the JIPSA process

(c) Align objectives and initiatives with the National Skills Development Strategy

(d) Position the HRD plan within the Provincial Skills Development context (This assumes that the latter is in place)

(e) Establish partnerships with national skills development role-players to ensure support for the NMBM HRD Plan

(f) Establish an implementation structure within the NMMM for the HRD plan that aligns with the JIPSA initiative

B) Crime

Crime was cited by companies as a major negative factor impacting investment decisions. In this regard two actions are recommended:

- NMBM officials to continuously highlight the negative impact of crime on investment with local and national level officials responsible for safety and security
- ***As part of the development of industrial areas, make the provision of security an inherent part of infrastructure development and services provision***

C) Telecommunications cost and availability of broadband

A number of issues need to be addressed:

- The negative effect on investment due to the uncertainty of the telecommunications policy, needs to be brought to the attention of policy makers
- The negative effect of the high costs need to be brought to the attention of policy makers

The NMBM should consider investing in the establishment of broadband infrastructure in the region. International studies[7] have shown that it has a significant positive effect on economic development and in fact stimulates private telecommunications investment and competition in such a region. India and China have taken bold steps in improving its technology readiness and innovation. China has established 44 science parks, aimed at commercialising technology. ***It is recommended that a feasibility study be conducted for NMBM to establish a regional broadband infrastructure.***

D) Road and rail infrastructure

Although the road infrastructure is currently considered adequate, investors expressed concern about the ability of the road infrastructure to meet requirements in the long term, especially in light of the under-developed rail system, as well as increased road congestion in metropolitan areas. ***It is recommended that NMBM conducts further research in this regard and review the long term road development strategy.***

E) Rigidity of the labour market

The rigidity of labour regulations is a highly contentious issue, and can not be addressed directly at provincial or regional government levels. ***The NMBM can however bring the findings of this study under the attention of national policy makers.***

F) R&D intensity

A number of recommendations are made to improve R&D intensity in NMBM.

- The NMBM should align itself with the National R&D Strategy and take full advantage of additional incentives and programmes of the Department of Science and Technology

[7] Does Municipal Supply of Communications Crowd-Out Private Communications Investment? An Empirical Study, Applied Economic Studies – February 2005
Broadband and Economic Development: A Municipal Case Study from Florida

Incentives for innovation and R&D should be promoted to business. India has become the R&D platform for over 100 large MNC's

- ***The feasibility of NMBM specific incentives for R&D should be investigated***
- ***The NMBM should pursue the establishment of Centres of Excellence for key industries such as textiles, electronics, chemicals etc. as part of both the DTI and DST centre of excellence programmes***

6.1.3 Strategic objective C: Dedicated support for SMME's

SMME's require dedicated assistance in a number of areas:

- Advice on procedures to start a business
- Advice on regulatory compliance requirements as part of starting and operating a business
- Assistance in completing tax returns, claiming for training according to regulations of the skills development fund
- Information of national and local government incentives and advice on how to access such incentives
- Access to credit and venture capital
- Information on opportunities and the requirements to access international markets

A number of institutions can play a role (for example Khula), but the central, single point of support should be the Nelson Mandela Bay Business Centre, which has a crucial role to play.

It is recommended that the activities, skills, processes and mechanisms of the NMBC be reviewed to ensure that it can provide comprehensive support to SMME's on the above

6.1.4 Strategic objective D: Influence national level policies and programmes

The importance of the advocacy role of NMBM in influencing national and regional policies was alluded to throughout. ***It is recommended that the NMBM identify specific functions and resources (officials) and make it an explicit part of their responsibilities to engage with policy makers in all spheres of government.*** As part of this study important issues that need to be brought to the attention of policy makers were identified:

- The negative impact of fluctuations in the currency exchange rate
- Crime was cited by companies as a major negative factor
- The rigidity of the labour market
- The primary research indicated that SA trade agreements are not viewed as being overly positively, except for AGOA

- Inadequacies of the current rail infrastructure
- Concerns about the availability and reliability of future electricity supply
- Policy uncertainty in certain areas, e.g. automotive and textiles
- Improve trading conditions with specific trade agreements. Turkey boosted trade with the EU by becoming part of customs union of the EU

Vision 20/20 projects

It is also recommended that the vision 20/20 projects are evaluated against the recommendations of this report, focusing on economic outcome, rather than social, legacy and other issues

Vision 20/20 project	Task team score	Project relevance
North End Beach	7.25	Med
International Convention Centre	7.16	Med
Xhosa Cultural Village	6.86	Med
Njoli Square Development	6.65	High
Beachfront Development	6.51	High
Read Location Museum Precinct	6.41	Low
Bayworld	6.19	Med
Freedom Statue	5.22	Low
Science Centre	2.71	Low
Van der Kemp's Kloof	2.44	Med

7 CONCLUSIONS, THE ROAD AHEAD

This study identified a number of strengths that the NMBM can effectively leverage in attracting investment. These include high levels of political, economic and policy stability, reasonably low entry – and exit barriers, the port infrastructure, a strong judicial system as well as low levels of corruption. The most significant strength that emerged is probably the low cost of electricity.

On the negative side there are however key factors that are deterring investment, and need to be addressed. The most significant weakness identified is the lack of a skilled labour pool. Coupled with labour laws that are perceived to be inflexible, this can be considered the one area that requires urgent attention. This report argues that actions to address this should be strongly aligned with JIPSA. Other weaknesses are the high cost and low levels of broadband penetration, weak rail infrastructure, lower than expected levels of R&D intensity, average custom operations and crime.

This report shows that actions to improve the investment climate by leveraging strengths and eliminating weaknesses need to be executed in a holistic manner, considering the broader environment. The following, in addition to specific recommendations contained in the report, is therefore of importance:

- This study showed that the development of core industries such as textiles, agro-processing, metals, tourism, etc. is hampered by weak supporting industries (especially logistics) and that downstream beneficiation can be further developed. It is therefore recommended that consideration be given to formulating an explicit policy of vertical integration, complementary to existing policies aimed at horizontal industry diversification.
- Throughout the study it became clear that although many factors that contribute to the ease of starting and operating a business, such as company registration, paying tax and levies, complying with labour regulations, etc. are perceived not to be overly onerous, a distinction needs to be made between SMME's and large companies. Large companies often outsource such activities, and would therefore not be burdened. SMME's on the other hand need to perform such activities in-house, and are often ill-equipped to do so. It is therefore recommended that the NMBBC provides support services in this regard.
- It is recognised that many factors that contribute to investment are national, and not under direct control of NMBM. This should however not deter senior officials from playing a strong advocacy role at provincial and national government level.

The implementation of the above will require dedicated and coherent actions from NMBM.

To initiate this, the following action items are suggested:

- A NMBM internal dissemination and discussion of the outcomes of this study
- Implementation responsibilities formalised in job descriptions and performance management processes

- A NMBM internal workshop where specific roles and responsibilities related to the implementation of recommendations are allocated
- Queries from the above can be directed to Garnett Adams for clarification

APPENDIX A

- Implementation Plan -

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Implementation Plan

Intervention	Outcome	Responsible Person	Implementation Plan	Measurement	Period
Accelerated development of key industry clusters and vertical integration		**EDTA**		Capital formation in NMBM	
	1. Focus on clustering initiatives such as the Automotive Logistics Park, metals, textile, chemicals and agro-processing clusters in the CIDZ. 2. Focus on key industries such as tourism, metals and minerals, chemicals, agro processing, automotive and clothing and textile		• Build a database of local (national and regional) and international companies in selected sectors (i.e. textile, chemicals, etc.). • Develop value propositions in each of these sectors, based on current regional benefits o Work with Coega and NMBLP o Form industry sector work groups with DTI, ECDC, Percci and industry • Design marketing brochures/presentations to explain the competitive advantages in these sectors to investors • Start road show/ e-mail/mail marketing to local, national and international companies • Update value propositions and brochures on a regular basis as investment climate improve	Increase in the number and size of current businesses in these sectors Achieve growth of 0.5% (GDP) over and above the SA national GDP Monitor progress via the *Economic Monitor*	Annual

		• Environmental Services
		
		• NMBT
			• Constantly update value proposition based on market knowledge
			• Ensure an integrated approach between all role players (i.e. Percci, ECDC, DTI, Coega, NMBLP, etc.)
			• Tourism industry must be developed to include HDI
			  ○ Develop necessary bylaws to regulate tourism industry
			  ○ Assist HDI businesses
			  ○ Grade and upgrade HDI accommodation facilities
			  ○ Create accommodation JV's with big business
			• Utilise natural resources
			  ○ Increase number of protected areas as referred to in the NMBT short term tourism projects plan
			  ○ Develop niche tourist routes		

	Local incentives need to be aggressively promoted. The research shows that investors are by-and-large unaware of local incentives.		• Establish the Nelson Mandela Bay Investor Service Centre (NMBISC) • It is recommended that the (NMBISC) embark on an aggressive marketing campaign to promote local incentives to inventors • Agreements regarding available incentives need to	Increase in the number of companies that apply for incentives to an average of 20. Incentives need to be	Per Annum

			be finalised with NMBM • Increase the value of the incentive fund from its current base of R 2M	awarded to 5 companies Fund value need to be increased with R 3 million per annum over the next 5 years	
	NMBM should accelerate efforts to develop downstream industries around existing industries		• Survey the services industry to determine the gaps in down and upstream needs. • Select critical industries such as ICT and technical maintenance ○ Support City Connectivity project • Negotiate with key role players in selected industries to determine drivers to attract them • Assist these industries to set-up • (Incentives, buildings, contacts, etc.) • Survey manufacturing industry to determine opportunities in upstream and down stream beneficiation • Select viable options such as high quality sheet metal or aluminium for motor industry to implement • Determine drivers necessary to implement	Need a 0.5% decrease of imported goods and services in relation to industry growth, new manufacturing and services industries per targeted industries Monitor via *Economic Monitor*	Per annum

	The NMBM needs to address the cost of logistics due to trade imbalances.		• It is recommended that the causes of trade imbalances and its impact on logistics be further investigated and a strategy to deal with such imbalances be formulated o This is addressed by the AIDC Transport and Logistic Study • Emphasis should be placed on increasing through-put via the harbours o Produce a plan (i.e. balance rail/road volumes between Gauteng and NMB) o Value proposition to indicate value of plan to stakeholders o Need sign-off on plan from all stakeholders • Linking into the international shipping routes o Produce a plan o Value proposition to indicate value of plan to stakeholders o Need sign-off on plan from all stakeholders • Increasing local production to reduce dependency on imports to the region	Reduced logistic cost Short term (link between industries to ensure optimal utilisation of empty legs) Long term (increase production volumes) measured via Economic Monitor Reduce logistic cost inline with SA avg. over the next three years and move closer to US cost over next 10 ears (logistic cost as % of GDP)	Three year and 10 year plan measured per annum

Improve the investment climate of NMBM		EDTA	Strengths should be promoted, strengthened and maintained, weaknesses should be addressed	Sectoral output and employment growth	
Strength (a)	Political and economic stability, as well as policy certainty is a strength. As could be seen in countries such as Peru, without economic stability and policy certainty micro-level interventions to improve the investment climate often do not bring the desired result.		• Exchange rate volatility creates uncertainty and makes planning difficult, especially for exporters. Stability of the Turkish currency is a good example of what can be achieved. • Senior management of NMBM needs to play an advocating role in bringing the negative effect of exchange rate volatility to the attention of national level policy makers. Build relationship with banks. • Policy certainty in sectors such as the automotive industry should be a priority. Always be aware of industry needs	Long-term legislative and monetary policy changes and stability	
Strength (b)	Although entry and exit barriers as ease of doing business in terms of issues such as ease of paying tax, complying with regulatory obligations etc. are seen to be a positive factor by investors, it is also recognised that SMME's need assistance in this regard		• It is recommended that the NBMBC includes in its scope of activities a support function to SMME's to assist them with matters such as the process of registering a business, completing tax returns, etc**.**	Improved efficiency and effectiveness of SMME's with a resulting growth Produce a workable action plan	
Strength (c)	Although the low cost and		• It is recommended that senior	A clear	

	reliability of electricity is a considerable strength, investors have recently started querying the sustainability of these advantages as well as availability of future supply. Turkey improved their electricity supply by attracting private investors.		officials of NMBM should continuously interact with Eskom and the Department of Minerals and Energy (DME) to ensure that they are fully informed on plans and developments in order to factually engage investors regarding this uncertainty
			• Information should be relayed to local industry on a regular basis
			• Invest in alternative sources of energy and update investors on a regular basis
			    ○ Produce a plan
			    ○ Value proposition to indicate value of plan to stakeholders
			    ○ Need sign-off on plan from all stakeholders
				roadmap indicating electricity supply planning,, reducing industries uncertainty	

Strength (d)	The port operations in Port Elizabeth are seen to be a positive factor.		• It is recommended that the effectiveness and efficiency of customs and other critical activities be benchmarked against other ports in South Africa, and improvements be made where necessary to become "best in SA" and world class
			    ○ Produce a plan
			    ○ Value proposition to indicate value of plan to stakeholders
			    ○ Need sign-off on
				Increased industry support and increased port utilisation	

			plan from all stakeholders		
Strength (e)	Corruption in South Africa, and the Eastern Cape is not seen as a constraint to doing business, and very few companies report that bribes need to be paid. There are often misconceptions that corruption is inherent to all countries in Africa		• It is recommended that NMBM aggressively promote the fact that levels of corruption in NMBM and SA is of the lowest in the world. • The same applies for high levels of confidence expressed by investors in the judicial system as well as the well developed financial services sector	Increase in investor confidence	
Weakness (a)	**Skills shortages** Skills shortages were identified as probably the most critical aspect that needs to be addressed. China is one of the countries that spend billions in ensuring that its relatively low skilled labour force is skilled enough to support industry requirements. In a recent study of the top 200 universities several Chinese universities were listed and not a single South African university. In this regard the following is recommended:		• Current incentive programmes can be adapted to facilitate specific HR needs of companies wanting to invest in the NMBM • Bursaries to specifically identified employees • Bursary programme in conjunction with University and colleges • Focus on the developed skills matrix for the region and adapt it via special requests from industry • The recommendations of JIPSA should be implemented and not duplicated • Except for the specific skills	Growth in industry and a reduction of skills shortages	

			identified by the NMBM, a skills audit on is of critical importance • The regional stakeholders should consolidate a position on the HRD challenges facing the NMBM. Communication and buy-in at all levels should be ensured. All expectations relating to employment creation should be addressed and managed • The NMBM should take the lead in advocating the region's position within the JIPSA process • Align objectives and initiatives with the National Skills Development Strategy • Position the HRD plan within the Provincial Skills Development context (This assumes that the latter is in place) • Establish partnerships with national skills development role-players to ensure support for the NMBM HRD Plan • Establish an implementation structure within the NMMM for the HRD plan that aligns with the JIPSA initiative		

			• Need to increase the accreditation of FET's that as centres of excellence • Need to complete skills audit to identify skills gaps • Need to monitor number of bursaries and learnerships and increase by 1% per year • Monitor the number of people in on the job training and increase by 1% per year • Improve integrated labour information system 1. Need a partnership agreements between CDC, government and private sector to fully utilse the system. • Need to increase the number of funding agreements in respect of HRD		
Weakness (b)	**Crime** Crime was cited by companies as a major negative factor impacting investment decisions. In this regard two actions are recommended:		• NMBM officials to continuously highlight the negative impact of crime on investment with local and national level officials responsible for safety and security	Reduction in crime statistics	

			• As part of the development of industrial areas, make the provision of security an inherent part of infrastructure development and services provision • Utilisation of shared high technology infrastructure to support SAP		
Weakness (c)	**Telecommunications cost and availability of broadband** The negative effect on investment due to the uncertainty of the telecommunications policy, needs to be brought to the attention of policy makers The negative effect of the high costs need to be brought to the attention of policy makers		• The NMBM should consider investing in the establishment of broadband infrastructure in the region. • International studies[8] have shown that it has a significant positive effect on economic development and in fact stimulates private telecommunications investment and competition in such a region. India and China have taken bold steps in improving its technology readiness and innovation. China has established 44 science parks, aimed at commercialising technology. • It is recommended that a feasibility study be conducted for NMBM to establish a regional	Growth in industry and a reduction in the cost of broadband	

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			broadband infrastructure.		

Weakness (d)	**Road and rail infrastructure**
	Although the road infrastructure is currently considered adequate, investors expressed concern about the ability of the road infrastructure to meet requirements in the long term, especially in light of the under-developed rail system, as well as increased road congestion in metropolitan areas.
			• It is recommended that NMBM conducts further research in this regard and review the long term road development strategy.
			• External roads/rail need to be addressed through the Logistic Study
			  ○ Produce a plan
			  ○ Value proposition to indicate value of plan to stakeholders
			  ○ Need sign-off on plan from all stakeholders
			•		

Weakness (f)	**R&D intensity** A number of recommendations are made to improve R&D intensity in NMBM.		• The NMBM should align itself with the National R&D Strategy and take full advantage of additional incentives and programmes of the Department of Science and Technology Incentives for innovation and R&D should be promoted to business. • India has become the R&D platform for over 100 large MNC's • The feasibility of NMBM specific incentives for R&D	Increase in the number of R&D in companies and new organisations	

			should be investigated • The NMBM should pursue the establishment of Centres of Excellence for key industries such as textiles, electronics, chemicals etc. as part of both the DTI and DST centre of excellence programmes • CSIR need to increase relationship and contribution to benefit local companies • Chemical, automotive and ICT centres of excellence need to be fully utilised or funding and performance mechanism need to be evaluated • Innovation forum to be initiated to stimulate R&D		
Weakness (e)	**Rigidity of the labour market** The rigidity of labour regulations is a highly contentious issue, and can not be addressed directly at provincial or regional government levels.**.**		• The NMBM can however bring the findings of this study under the attention of national policy makers • Interact with unions to ensure a stable environment	Competitive and stable labour market	
Dedicated SMME support		EDTA		International benchmarking of factors contributing to the investment climate	

	SMME's require dedicated assistance in a number of areas: ○ Advice on procedures to start a business ○ Advice on regulatory compliance requirements as part of starting and operating a business ○ Assistance in completing tax returns, claiming for training according to regulations of the skills development fund ○ Information of national and local government incentives and advice on how to access such incentives ○ Access to credit and venture capital ○ Information on opportunities and the requirements to access international markets .		• It is recommended that the activities, skills, processes and mechanisms of the NMBC be reviewed to ensure that it can provide comprehensive support to SMME's • A number of institutions can play a role (for example Khula), but the central, single point of support should be the Nelson Mandela Bay Business Centre, which has a crucial role to play • Build relationships with supporting organisations and clearly identify roles and responsibilities • Have single joint offices • These recommendations should form part of the NMBM/SEDA implementation plan • It is recommended that the activities, skills, processes and mechanisms of the NMBC be reviewed to ensure that it can provide comprehensive support to SMME's on the above via SEDA	Strong SMME base for growth	

Influence national level policies and programmes
The importance of the advocacy role of NMBM in influencing national and regional policies was alluded to throughout.
		EDTA	• Improve trading conditions with specific trade agreements. Turkey boosted trade with the EU by becoming part of customs union of the EU
			• It is recommended that the NMBM identify specific functions and resources (officials) and make it an explicit part of their responsibilities to engage with policy makers in all spheres of government.
			• As part of this study important issues that need to be brought to the attention of policy makers were identified:
			  ○ The negative impact of fluctuations in the currency exchange rate
			  ○ Crime was cited by companies as a major negative factor
			  ○ The rigidity of the labour market
			  ○ The primary research indicated that SA trade agreements are not viewed as being overly positively,
				Sector output and employment.	

			except for AGOA o Inadequacies of the current rail infrastructure o Concerns about the availability and reliability of future electricity supply o Policy uncertainty in certain areas, e.g. automotive and textiles • Political intervention at senior level		

- END -