Investment in KZN

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Although KwaZulu-Natal is the third-smallest province in South Africa, occupying only 7.7% of South Africaâ€™s land area, it is home to slightly more than 20% of the population and is the second largest provincial economy and of growing strategic and economic importance.

According to Trade and Investment KZN (TIKZN) the province contributes R324bn (at current prices) or 16.2% of South Africaâ€™s Gross Domestic Product (GDP) while the Durban metropolitan region alone contributes about 12% of national GDP and the province potentially as much as 18% to 19% of national GDP according to the Durban Investment Promotion Agency (DIPA).

Manufacturing is the largest sector in the provincial economy contributing between 21% and 25% of provincial GDP, followed by the business service industry at around 18%, trade at around 18% and financial services at around 15%.

Russell Curtis acting CEO of DIPA, a municipal-run investment promotion agency, says that manufacturing has been hardest hit by the current global economic recession and that because of the large percentage it plays in KwaZulu-Natalâ€™s economic mix, the province has been disproportionately affected.
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Trade is also showing a downward trend both as a result of the domestic recession as well as in a reduced demand for exports, primarily raw materials and manufactured goods.

However, despite the impact of the global downturn Curtis remains optimistic that there is opportunity in every adversity and says that Durban, and KwaZulu-Natal by implication, has a lot of competitive advantages and potential for growth.

Curtis says there was a lot of potential in agribusiness and food processing as a broad sectoral classification and that companies like Tongaat-Hulett Group were taking advantage of this and expanding the throughput of cane in mills as well as investing heavily in biofuels. Unileverâ€™s Robertsons is also investing quite heavily in the province in areas of food beneficiation, packaging and supply.

There is a global trend for businesses to migrate to coastal hubs and port cities in the drive to cut transport time and costs as well as logistic risks, and this is adding to Durbanâ€™s attractiveness as a business investment destination says Curtis.

Durban provides a unique lifestyle opportunity where you can mix business and pleasure and this is becoming increasingly attractive.Who is investing in KZN?

According to a report by fDiMarkets.com, a company monitoring cross border investments, KwaZulu-Natal had 44 foreign direct investment projects from 38 companies between January 2003 and May 2009. This excludes a number of projects mentioned by TIKZN as their focus, like that of DIPA, is on promoting investment, and is not limited to foreign direct investment (FDI).

The report noted that more than half of the projects were in manufacturing and 11% focused on the automotive component sector, while the top three cities for FDI in the province were Durban with 50%, Richards Bay at 9% and the provincial capital Pietermaritzburg at 7%.

TIKZN, the provincial arm of the national government investment promotion agency, Trade and Investment SA, said they facilitated the commitment of six new investment projects in the 2008/09 financial year. Although this is down from 11 the previous year the combined value of new investments amounted to R962mn and created 1,172 new jobs.

While DIPA said that R10bn had been invested in projects they has assisted with over the last seven years, creating 15,000 new jobs in the Durban area.

Examples of recent investments include an R80mn investment form the Peopleâ€™s Republic of China into a plastic plant in Newcastle, a R15mn investment from the UK into a five-star hotel near Ballito, as well as a R710mn joint venture investment with partners in India into pulp and paper manufacturing plant near Durban.

Other examples include a R21mn green tea project in the Nkandla District, a R49mn investment in a call centre on the Hibiscus Coast, a R100mn investment in a wood furniture plant near Pietermartizburg, as well as investments into the telecommunications market in Durban and investment by the Tata Group into a briquette plant in Richards Bay.

The Dubai Group has invested in real estate around Durban and is developing a themed entertainment park on the north coast and Apollo Tyres is investing in plants in both Ladysmith and Durban.

In terms of domestic investment, Curtis says Toyota SA is investing billions in expanding manufacturing operations and Durbanâ€™s municipality is also investing heavily in ICT to expand the fibre optic network in the city, while the hosting of the 2010 FIFA Soccer World Cup has also drive a number of hotel investments around Durban.

He says that one of the biggest investors has been Transnet with the expansions and reconfigurations at Durbanâ€™s Port, which will also continue to position Durban as South Africaâ€™s premier export port and logistics hub.

TIKZN takes a keen interest in understanding and communicating the investment incentives offered by the Department of Trade and Industry, and assists investors to gain access to these incentives says TIKZNâ€™s general manager of knowledge management, Nkosana Sifumba.

He explained that there are no provincial incentives, but some municipalities offer incentives like â€œrate holidaysâ€•, which help to promote investment there.

Curtis says DIPAâ€™s FDI strategy, as an agency to help an investor explore the feasibility of a project, relocate and establish a business quickly, was to work with the consular-generals to ensure that people who have an interest in investing in Africa know about Durban.

Durban is not one of the municipalities to offer incentives but Curtis thinks that within five years Durbanâ€™s time as an investor centre will have arrived. The rationale is simple â€“ the municipality has been investing double that of other major metropolitan regions to maintain and expand its infrastructure base â€“ and he expects the private sector to capitalise on this.

Curtis also warns that when focusing on investment-lead growth it is very easy to think too much about FDI, when at least part of the target should focus in existing business retention and growth. He explained that it was more cost-effective to do this than to chase new investment â€“ so FDI is not the first focus of DIPA, but it is a close second, he says.This article was wirtten by Sharon Davis for the Wits Business School Journal.