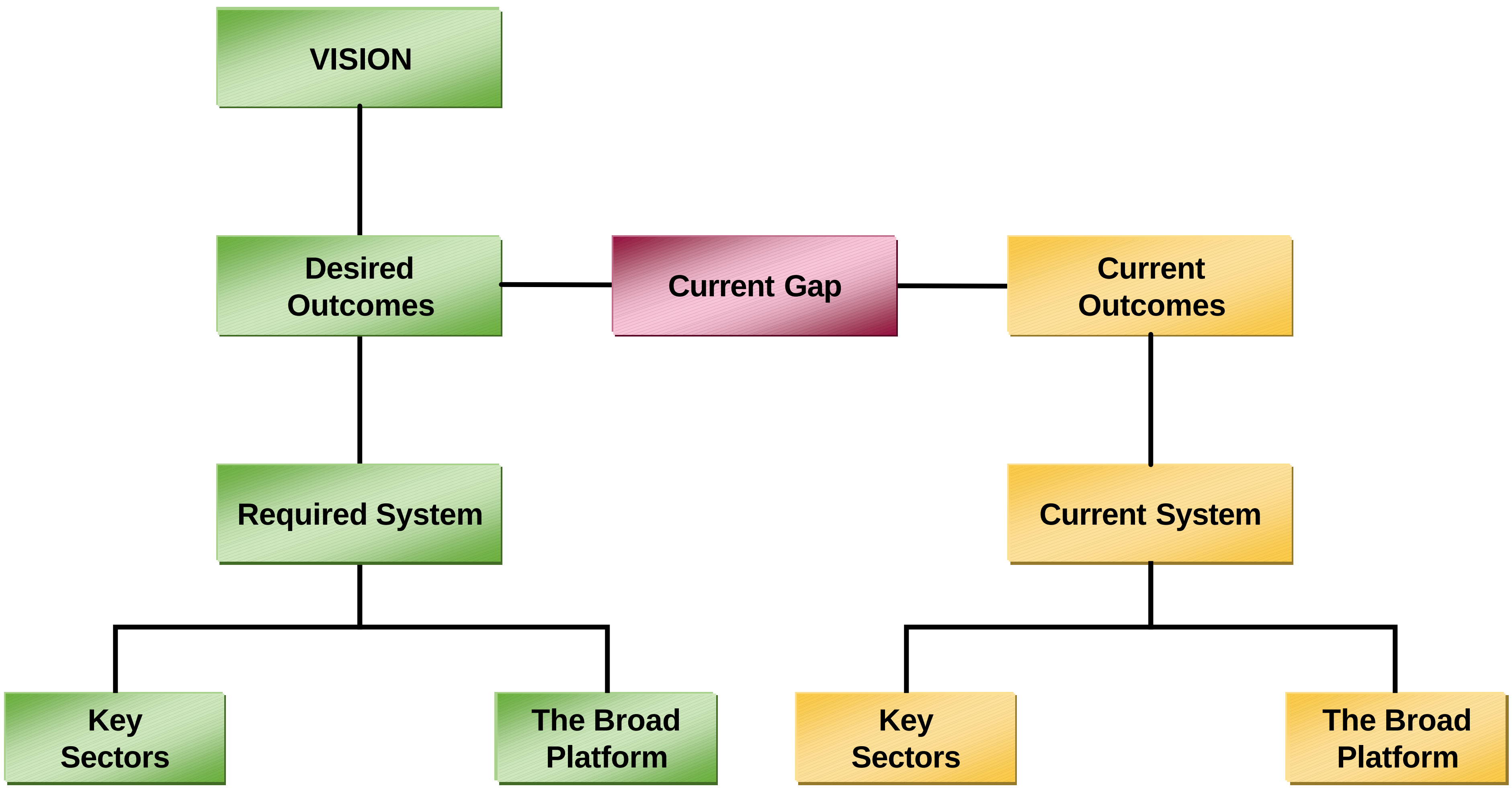
DURBAN AT THE WATERSHED

Executive Summary

Objectives of the Project

- To assist with the development of a clear vision for Durban
- To review the challenges being faced in Durban's economy
- To review the city's current approach to meeting those challenges
- To expand the range of options which Durban has to meet the challenges

The Approach



Agenda

Realising the Vision: Durban's Challenge

Durban's Current Economic System

Meeting the Challenge: The Need for a New Path

Building the Strategic Agenda

Building the Conditions for Action

Agenda

Realising the Vision: Durban's Challenge

- The vision and the Outcomes Required
- Current Outcomes
- The Gap

Durban's Current Economic System

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Durban’s Vision

Durban’s vision is to generate increased prosperity and quality of life for all of its citizens. The particular economic goals of the city (which align with those of the province) are:

- Increasing per capita income [to a level comparable to other emerging middle income economies]*
- Sustainable economic growth comparable to the highest growth rates
- Increased rate of sustainable job creation [leading to ‘full’ employment] in higher quality, skilled jobs
- Better distribution of wealth, of both incomes and assets, demographically and by size of business
- Skilled, entrepreneurial population

The Prosperity Challenge

The city needs to arrest the decline in prosperity and **double** per capita incomes in the next decade:

Per capita incomes are R19,900 versus R31 000 in Johannesburg and R33 000 in middle income countries. *Prosperity* has *declined* -0.34% over the last decade

To achieve the vision requires *growth* in per capita incomes of 7.5% per annum over the next decade*

The city needs a quantum leap in its current growth rates:

Output has grown only 1.8%
over the last decade

To achieve the vision requires *growth*
of 7.5% per annum over the next decade*

The Jobs Challenge

The city needs 50 times its current jobs growth:

There is 30–40% unemployment*

Jobs in the formal sector have grown only

0.7% over the last decade**

To achieve the vision requires job *growth*

of 3.1% per year to 2020***

The city needs to double the number of people employed in 'secure' sectors

Only 1 in 3 economically active people*
are employed in the formal sector.
50% of manufacturing jobs are in declining industries

To meet the vision, 2 in 3 Economically Active People
should be employed in
a healthy, growing formal sector**

The Skills Challenge

Durban needs to invest in upgrading skills of the population:

Durban has more poorly educated people than Cape Town
or Johannesburg*,
and fewer well-educated people than Johannesburg**.
Over 66% of labour force classified as ‘skilled’ but
a large number of graduates leave the city**

Durban needs to eliminate illiteracy, upgrade skills and
reverse the brain drain

The Distribution Challenge

To achieve the vision the city needs to eliminate poverty:

Durban has a GINI coefficient of 0.54 — lower than South Africa’s as a whole, but South Africa is higher than anywhere else in the world except Brazil.
7% of households earn no income at all and
45% of households earn less than R1500 per month

To achieve the vision requires
all citizens to be living above the poverty line
within the next two decades

The Empowerment Challenge

The legacy of Apartheid has disadvantaged African people in Durban in every area of life. To close the gap requires empowerment of the African population

Share of	Mean for Durban	Share of African Population in Durban	Share of White Population in Durban
Population Which Is Poor	44 %	67 %	2 %
Population Unemployed	31 %	46 %	6 %
University Degrees	3 %	1 %	10 %
Matric Qualification	24 %	17 %	40 %
Average Income	R 10,542*	R 4,570	R 32,389

The Service Delivery Challenge

Services charges in Durban are relatively high compared to other cities in South Africa, thus Durban needs economic growth — rather than increased service charges — to sustainably deliver improved services.

1 in 4 residents still have unmet basic needs*.
While Durban is *well-positioned* financially
to deliver the required services, it now has the highest
service charges in the country**

Without a growth rate of over 6% the city
will *not be able to* deliver the infrastructure and services
required to meet the quality of life goals***

Required Performance: The Challenge

Summary

Durban is facing a significant challenge. In the next two decades it needs to:

- Increase per capita incomes to R33 000 per annum
- Create 650 000 jobs, in the most sustainable areas of the economy
- Increase its growth rate to 7.5% per annum
- Improve the standard of living of the poorest 50% of its population
- Empower the African population to own an increasing share of assets
- Improve income distribution
- Deliver improved services to all in Durban
- Increase the contribution to GDP of small and micro businesses
- train the best formally educated population in the country, ensure across-the-board literacy, numeracy and entrepreneurial skills; and align skills to sectoral and growth need

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Durban's Economic System: The Broad Platform

Strengths in the System

There are strengths upon which Durban can build to achieve its economic vision:

- Growing world export markets (6.9% *per annum* growth over last decade) and increased SA market share of world trade (0.67%)

- Excellent infrastructure and position as a transport hub, positioned to respond to increased national, regional and international demand

- Strong presence in 'advanced' sectors of the economy: manufacturing, transport and communication, financial services, tourism

- Potential for industrial clustering
  - Particularly in chemicals, auto, wood and wood products, clothing and textiles, transport and logistics
  - Strong geographical clustering: manufacturing in the Southern Industrial Basin; tourism clustering in the Northern and Central areas
  - A network of related and supporting industries, particularly universities and research organisations

- Efficient local government with fiscal strength supportive of growth initiatives

Impediments in the System

However, there are also some severe structural challenges to overcome:

- Demand:
  - A weakening local market, driven by declining per capita income, decreasing retail demand to 10% of South Africa's total in 1999 from 13.2% two decades earlier
  - A weak national market with low growth rates (1.4% over the last decade), high interest rates and high unemployment limiting the potential for internal demand-driven growth
- Factor disadvantages including HIV / AIDS, crime and the loss of skills to other cities
- A small business sector struggling to build sustainable presence above subsistence levels
  - Competing in oligopolisitic industry structures
  - Low value adding, cost-based competition
  - Sub-scale, fragmented players limits ability to compete and take growth opportunities
  - Lack of skills and finance limits growth

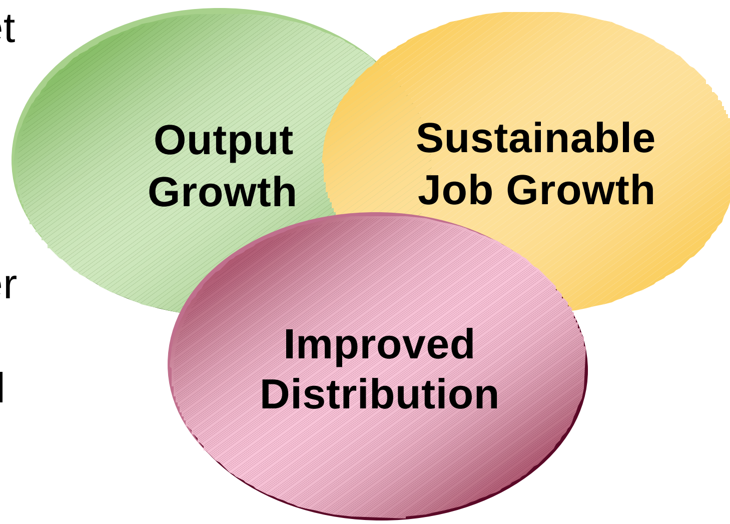
Durban's Economic System: The Broad Platform
Impediments in the System

- Competitive challenges to Durban's core areas of economic activity:
  - From global competitors in cost-based industries (e.g., textiles and clothing, motor)
  - From within South Africa in core areas valuable to Durban (Cape Town in tourism; Johannesburg as regional hub; Richards Bay as container port)
- Lags in investment in infrastructure (port, airport)
- An industrial base representative of the past
  - Dependence on lower value adding upstream activities
  - Under-representation in the world's fastest growing sectors
  - Diverse 'import-substitution' industrial base lacks sufficient strength and depth to build global competitiveness
  - Weak clustering of industries and firms with common goals in close proximity diminishes geographical clustering advantages

Durban's Economic System — The Sectors' Current Performance

Summary

Durban's industries are therefore not creating the desired outcomes



Output Growth

+ Of the fastest growing sectors only industrial chemicals exceeded target growth
- Manufacturing sector — largest single sector accounting for 27% of GDP — grew only 1% over the last decade, but declined overall if chemical and food sectors excluded
- Tourism growth low and slowing
- Loss of share to other cities

Sustainable Job Growth

+ Informal economy growing, but of questionable sustainability
- 10 000 jobs / annum lost since 1997 in formal sectors
- Manufacturing sector (34% of formal jobs) had negative growth in every labour-intensive sector over last decade. 50% of all manufacturing jobs are at risk
- "Jobless growth" in capital-intensive manufacturing

Improved Distribution

- Informal economy mostly low skilled, low wage
+ In general, manufacturing higher skilled, higher wage
- Little restructuring of ownership patterns in formal economy

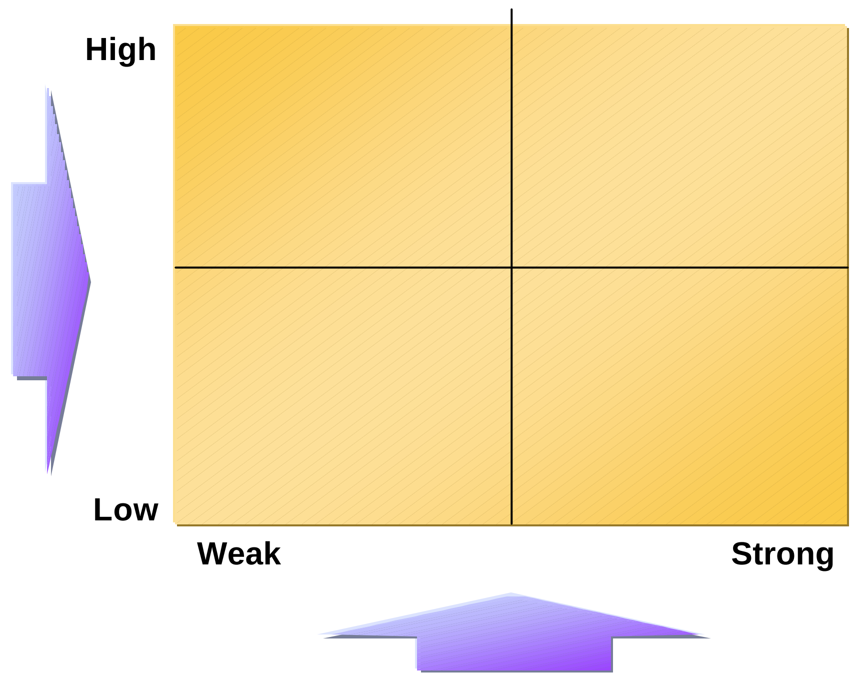
Durban's Economic System: The Sectors' Current Performance
Analytical Framework

The performance of different sectors against the economic goals of the city can be judged by two key criteria — their "attractiveness" to the city (what they contribute to realising the city's vision); and their competitiveness (their ability to contribute further over time):

ATTRACTIVENESS

- Numbers of jobs in the sector
- Quality of the jobs (avg. wage)
- Size of the sector (output)
- Profitability (value added)
- Growth

CAN BE WEIGHTED FOR RELATIVE ATTRACTIVENESS (different goals can be prioritised)



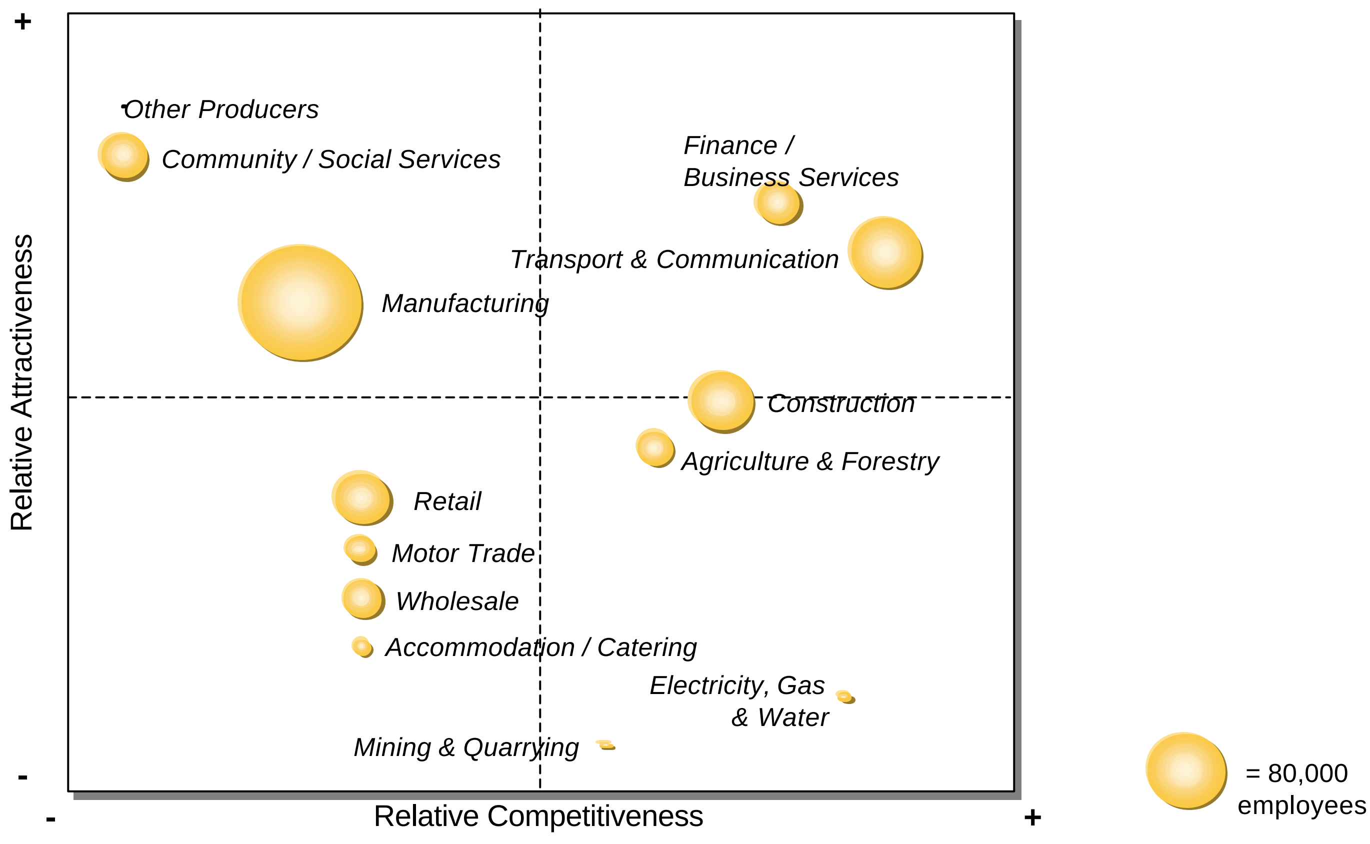
COMPETITIVENESS

- Productivity
- Share of world exports

Durban's Economic System: The Sectors

Current Performance

Few sectors are currently in a strong position to deliver Durban's vision into the future. Transport and communication, Finance / Business Services and construction are Durban's most attractive and competitive industries

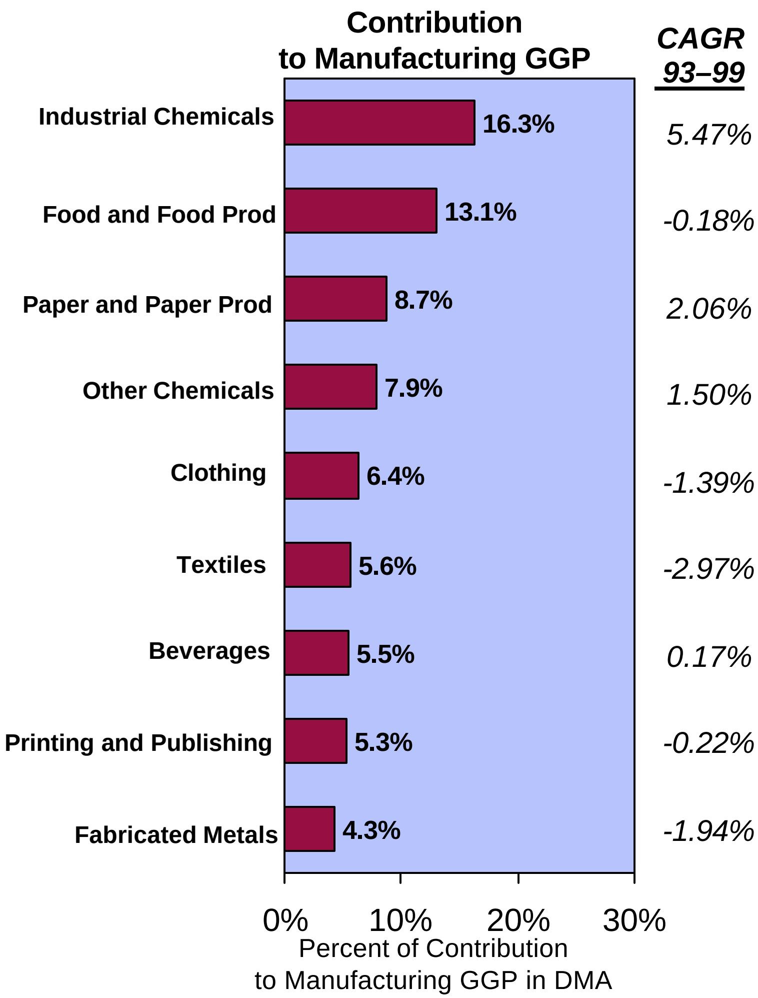


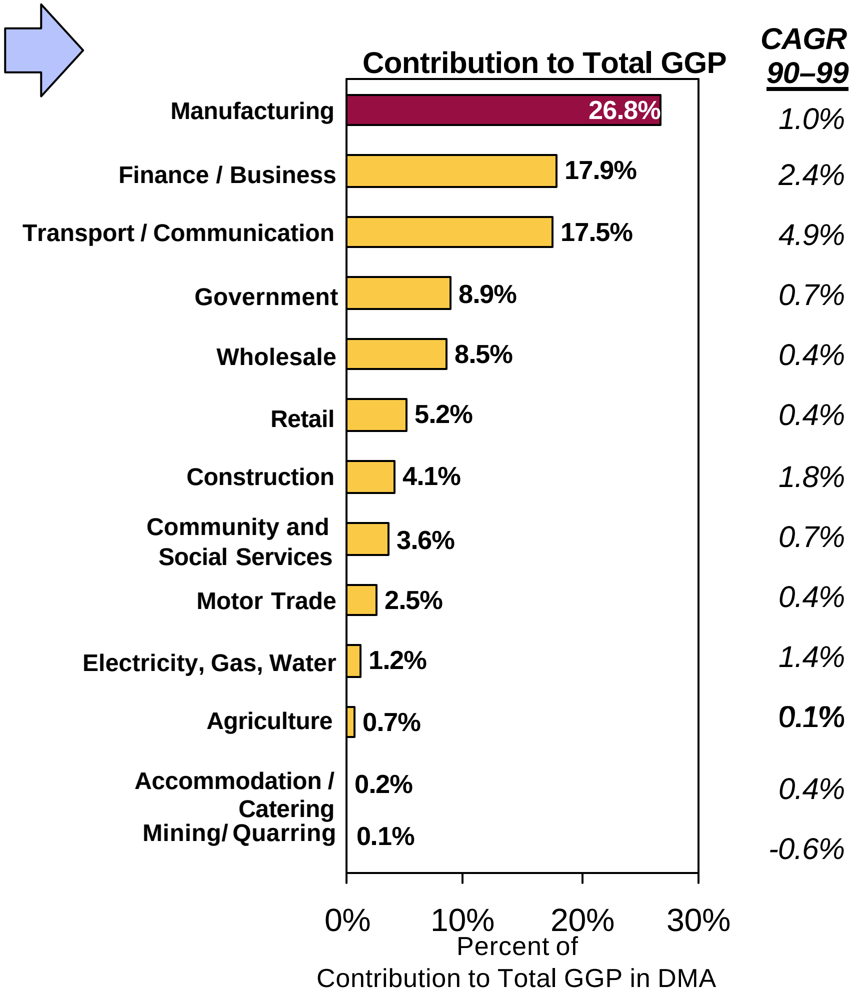
Note: Attractiveness weighting equal between criteria; competitiveness weighting 50% productivity growth and 50% export *propensity.* This is not as reliable as share of world exports, but SOWE data not available for Durban. However, we believe the findings are directionally correct.
Source: Econometrix, CSIR, National Productivity Institute, WEFA Trade Statistics; and Monitor Company Analysis

Repositioning Industrial Capacity

Manufacturing: The Historical Growth Driver in Durban's Economy

Manufacturing is the single largest contributor to GGP in Durban's economy. During the last decade it has had weak growth, at approximately 1% for the entire sector, which depressed Durban's overall growth rate to 1.8%. Transport / communication and finance / business services (associated with the manufacturing base) are also key





1.8%
GGP Growth 1990–99

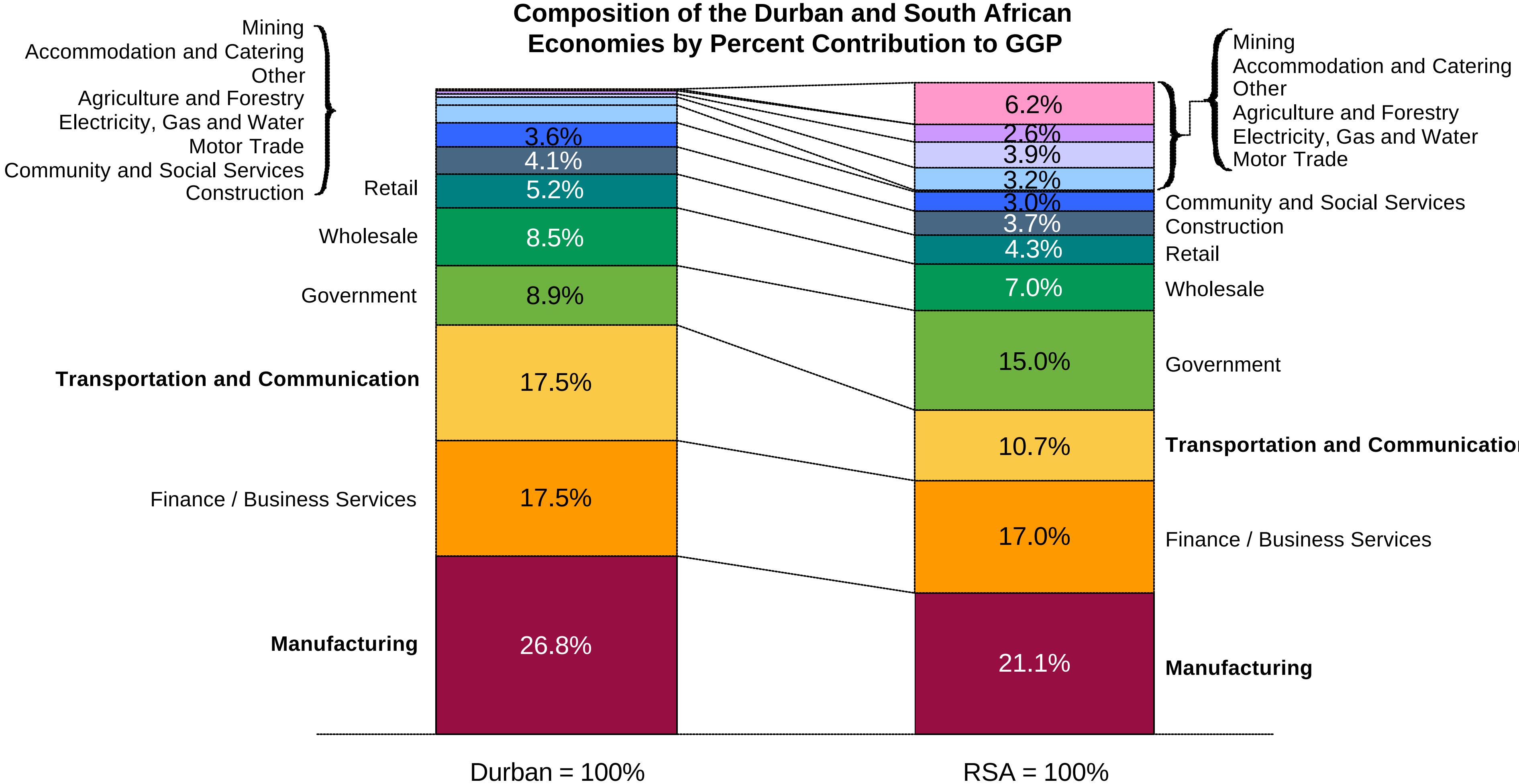
Source: Econometrix10

Repositioning Industrial Capacity

Durban Is Well Positioned in the Valuable Industries Relative to South Africa

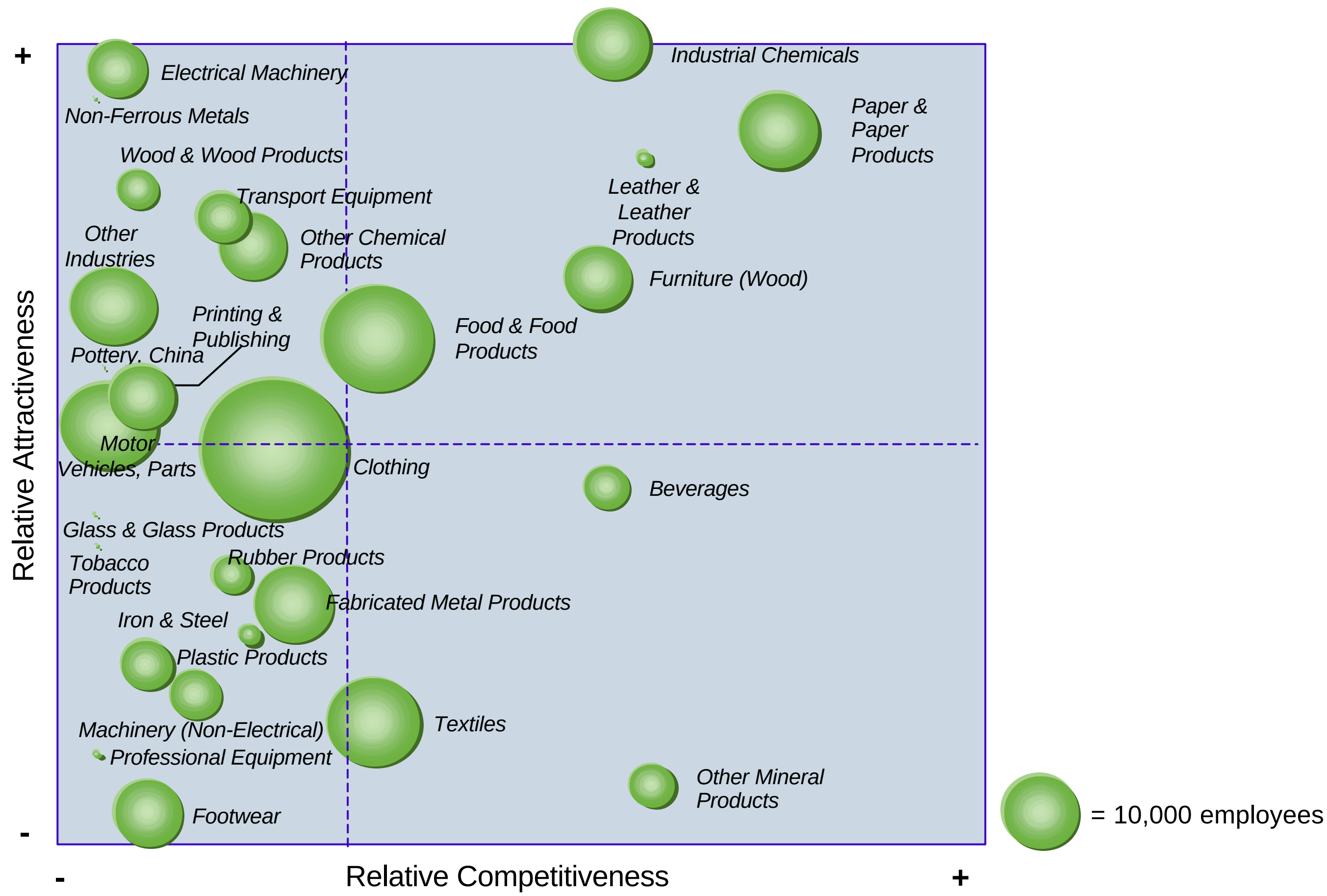
One of the underlying strengths of Durban's economy is its lower level of dependence on primary products like mining, agriculture and its strong manufacturing base, which is different from South Africa as a whole

Composition of the Durban and South African Economies by Percent Contribution to GGP



Durban's Economic System: The Manufacturing Sub-Sectors Current Performance

*There are more competitive sectors within manufacturing which can contribute to the vision. It is disturbing that the biggest employers are amongst the less competitive**



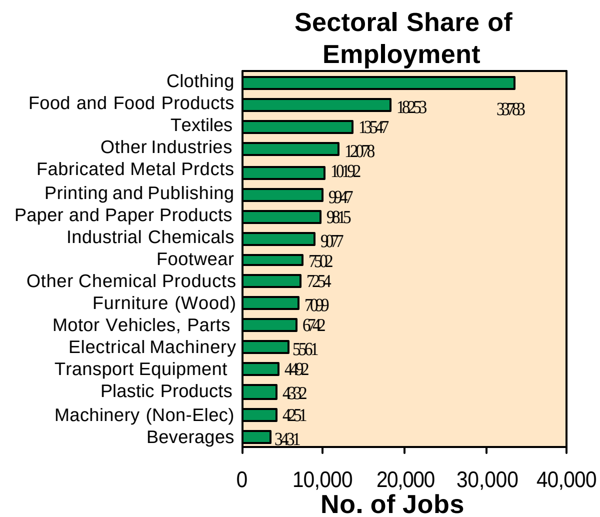
*As measured by the stricter, and more accurate, measure of share of world trade

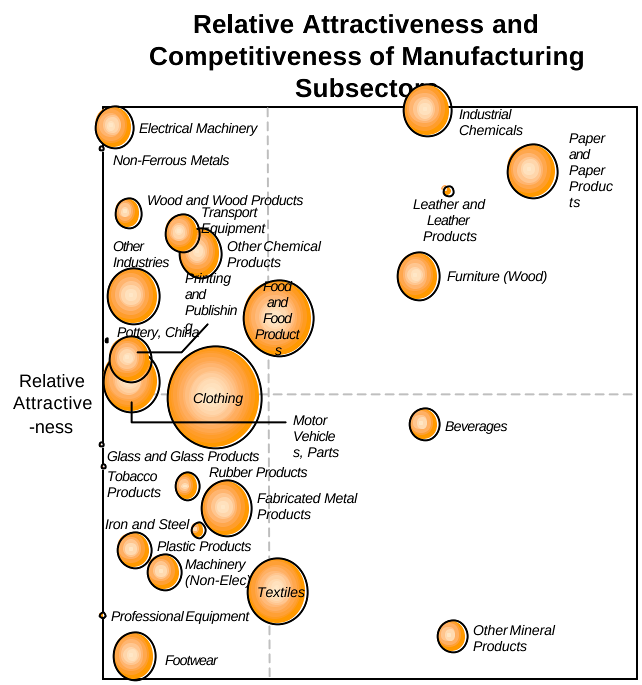
Source: Econometrix, IDC Sectoral Prospects 1998, WEFA Trade Statistics, and Monitor Analysis

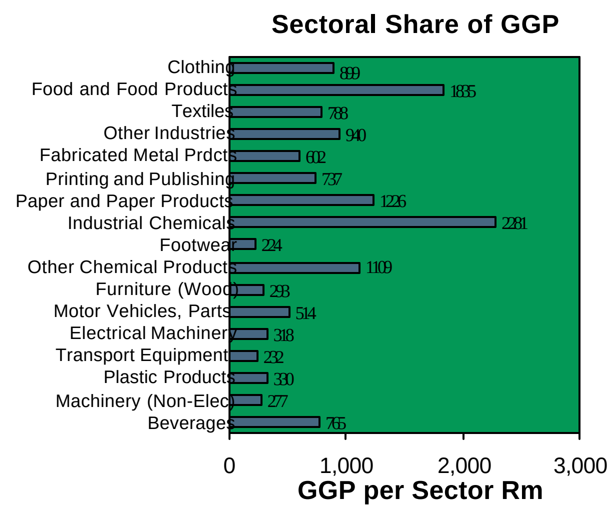
Relative Attractiveness and Competitiveness of Major Sectors

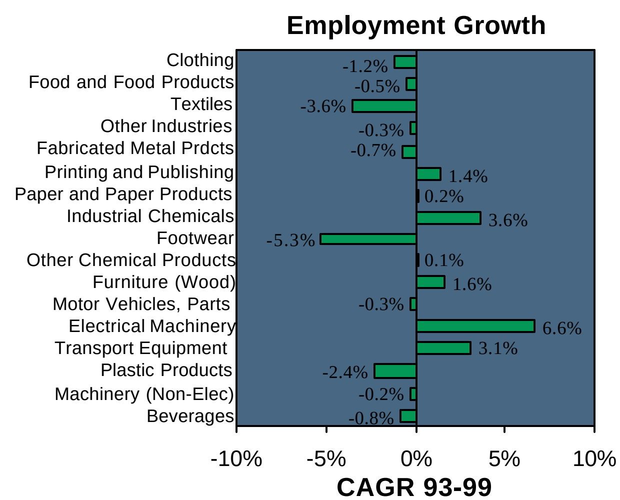
Explanation of the Drivers of Relative Attractiveness

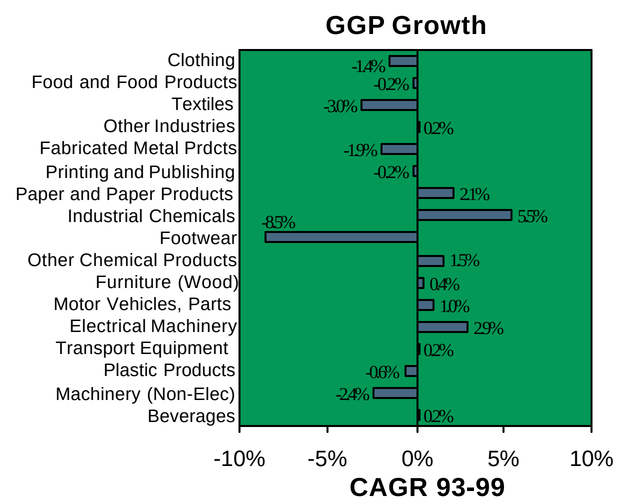
The importance of manufacturing in Durban requires detailed attention. The four variables on which attractiveness is determined are shown below. They are: contribution to employment, employment growth, contribution to GGP, and GGP growth over the last 7 years. In the base case, each variable is weighted at 25%











Source: Econometrix

Rising to the Challenge: Current Efforts

With a few notable exceptions, Durban's industries and planners have not been repositioning to meet the competitive challenges and realising the potential of the current platform:

- An insufficiently widespread and robust response to the competitiveness challenge
  - Few companies repositioning to meet the new basis of competition, not believing they can compete globally. There are leading exceptions
  - Few companies are leveraging their advantages in competing within South Africa
  - Migration of Head Offices to Johannesburg
- Declining investment in manufacturing over the last decade, correlating to declining growth rates. Investment has increased only in capital intensive, upstream industries where value added is low (chemicals and food); and in printing and publishing
- Port infrastructure is lagging demand, creating the possibility for other ports to aggressively enter the container and general freight industry
- Inadequate industrial land planning, resulting in inappropriate mixed use of land, particularly in the Southern Industrial Basin

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Meeting the Challenge: The Current Path

If Durban carries on along its current path, it will slide toward real crisis within 10 years:

- The city will continue to slide into poverty as per capita incomes drop towards R19,000
- Another 100,000 jobs will be lost, with unemployment growing by 350 000, if the current trends continue
- The gap between rich and poor will increase as jobless growth continues
- Skills will continue to drain out of the city
- Service delivery will decline as revenues to the city decrease

Meeting the Challenge: Improving The Current System

Improving the current system will not create the required outcomes. Durban's economy is incapable of delivering the vision, given its current structure

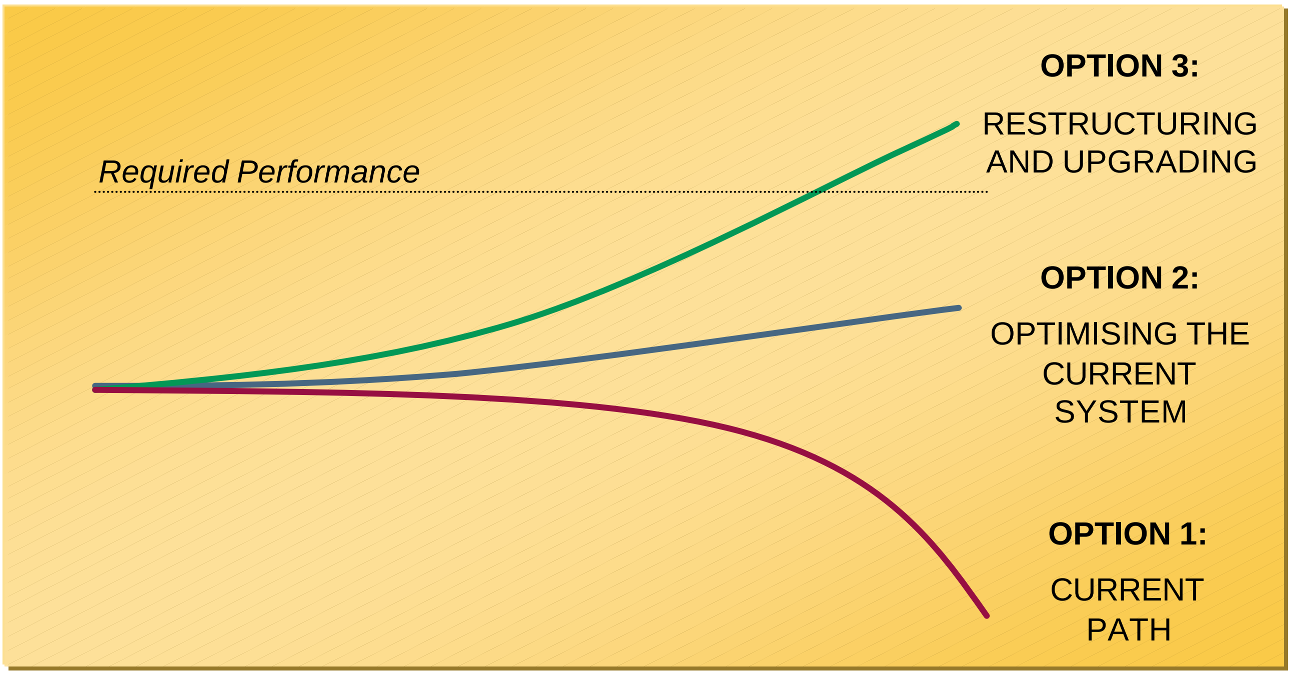
- The current economy can generate *maximum growth* of 4.5% per annum — still a *shortfall of 3% per annum*

- *Most optimistic* predictions are for growth of 3.2% per annum* in which:
  - Per capita incomes will increase, but not to the level required
  - Annual employment growth will be only 1% per annum — a shortfall of some 17 000 jobs / annum, widening each year
  - There will be no significant impact on distribution of wealth

* IDC Projections using the General Equilibrium Model. For these growth rates to be achieved requires a major turnaround to the current system (significant reduction in crime levels, growth in foreign and domestic investment, reduction in AIDS, infrastructure investment, etc.)

Meeting the Challenge: What the Vision Requires

Thus, to achieve annual output growth of 7.5% and job growth of 3.5% will require Durban to ***significantly restructure and upgrade its current economic platform***



Either Durban immediately begins to act aggressively and ambitiously to close the gap between the vision and current reality **or** it faces slow decline into crisis

The Challenge

Building the Platform

The platform challenges are of three types:

Unwinding the Legacy

- Rise to the challenge of trade liberalisation
- Oligopolistic industry structures
- Low levels of skills

↓

- Survive and fix what is "bad" in the system

Building the Platform

- Make Durban a 'quality of life' destination
- Upgrade infrastructure
- Support clustering

↓

- Build the broad platform off which the firms will compete

Building Excellence

- Build logistics hub capabilities
- Focus on globalisation programmes for key industries
- Leverage port / SIB / clustering opportunities

↓

- Build particular areas of strength which will differentiate Durban's platform for global growth

Rising to the Challenge: The Case of Miami

There are cities which have turned decline to growth. In a single decade, Miami created greater prosperity for its citizens

	Demand Conditions	Firm Strategy, Structure and Rivalry	Factor Conditions	Related and Supporting industries	Government
From	• 4th poorest city • Unequal distribution with few ultra rich and 1 in 3 people classified 'poor' • 650,000 in Urban slums	• Decline in Fin. Services, tourism, Property • Under-represented in global growth areas • Loss of head offices	• Country's highest urban unemployment • 24% high school drop out • 33% of adults not finish school • Most violent city in the country	• Worst municipal credit rating • Gateway airport, but major airline company failed • Port, medical complex, military base,CBD near poor communities	• Spending on poverty mgt: 50% of gen. fund on criminal justice • Little funding directed at changing conditions and outcomes
10 Years Later	• Low cost of living relative to other major cities • Improving incomes in lower income neighbourhoods	• Focus on bio-tech, finance, tourism, etc. • "Gateway to the Americas" • Property boom • Tourism growth: cruise pax grew 20% in 7 yrs	• 100 000 new jobs • "Stay-in-School" programme lowers dropout rate • Increased workforce skills • Low crime rate	• Major dev't of infrastructure / airport • Port dev't trebled cargo, facilitated local industry dev't • Internet Access for poor residents • Entertainment, sport, culture centre	• Spending on poverty and growth in co-ordinated programme • Beacon Council for new investors • BEAT one-stop-shop assisting local businesses

The Key Lessons from Miami

Setting Durban on a growth path begins with the creation of the will to be great, without which only average results are possible:

- *"The political will to act is at least as important as the technical economic skills in a community. You live in a political economy, not a pure market economy."*

  – Jay Molina, Head of OCOG

A plan you create belief in and can involve people around is at least as important as the plan itself

- *"The process began with as much scepticism as optimism. But people put aside the experiences of the past, stayed involved, and worked together to produce a collective understanding"*

Durban needs a solid, ambitious growth plan in which it strongly believes. This is the strongest platform for action

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Executive Summary

The Strategic Requirements

Durban's economic vision will only be attainable by a strategic agenda which:

- Repositions Durban's industries in higher growth areas
  - Serve and compete in global markets where there is greater potential for growth than serving national markets
    - Industries offering greatest potential to do this include manufacture and tourism
  - Build industries in high global growth areas and with long-term growth potential
  - Turn around — or decrease Durban's dependence upon — negative growth industries
- Optimises Durban's industries potential to serve valuable local, national and regional markets (and national growth challenges)
  - Industries offering potential include transport, tourism and certain financial services
- Repositions economic activity in higher value adding activities
  - Increasing downstream production in manufacturing
  - Increasing presence in industrial and supporting functions and specialised inputs

Executive Summary

The Strategic Requirements (CTD.)

- Develop industries which can lead to increasingly sustainable job growth
  - Build the strength of the informal and small business sector
  - Build strength in job-creating manufacture and services
- Strengthen Durban's platform to support high-growing, value adding globally competitive industries
  - Deepen its advantage as a port, transport and logistics hub
  - Strengthen industrial and geographical clustering
  - Leverage the competitiveness of financial and business services
- Build Durban as a 'quality of life' city
  - Economic growth to fund service delivery
  - Attracting and retaining skills required for industrial development
  - Meeting the needs of citizens through the effective delivery and distribution of services
- Strengthen consumer demand, particularly in the retail sector
- Build Conditions for Action

Competing in High Growth Markets: Tourism: Vision and Desired Outcomes

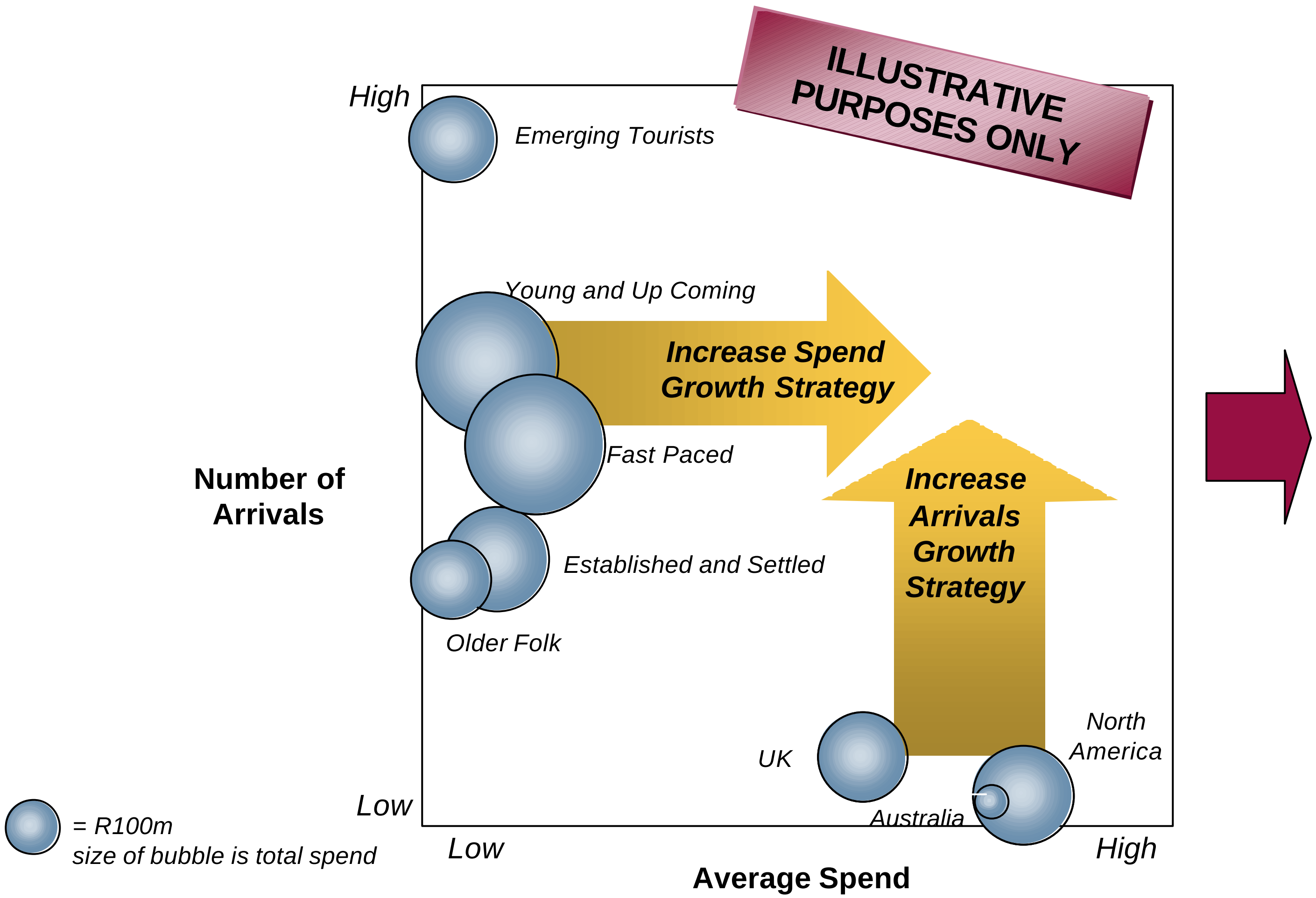
Tourism in Durban has the ability to generate jobs and growth for Durban and help counter the trend in declining local retail demand

- A conservative goal for tourism growth is 10% per annum over the next decade
  - International tourism to South Africa is growing at 10%
  - Potential to capture a greater share of international arrivals
  - Potential to increase domestic spend
- This would bring in additional revenues of between R7 billion and R10 billion over the next decade

Note: If Durban were to grow to South Africa's average, it would generate an additional R11 billion

Competing in High Growth Markets: Tourism

Durban needs to focus its tourism industry on the customers it chooses to serve. It must excel at serving the high value segments best

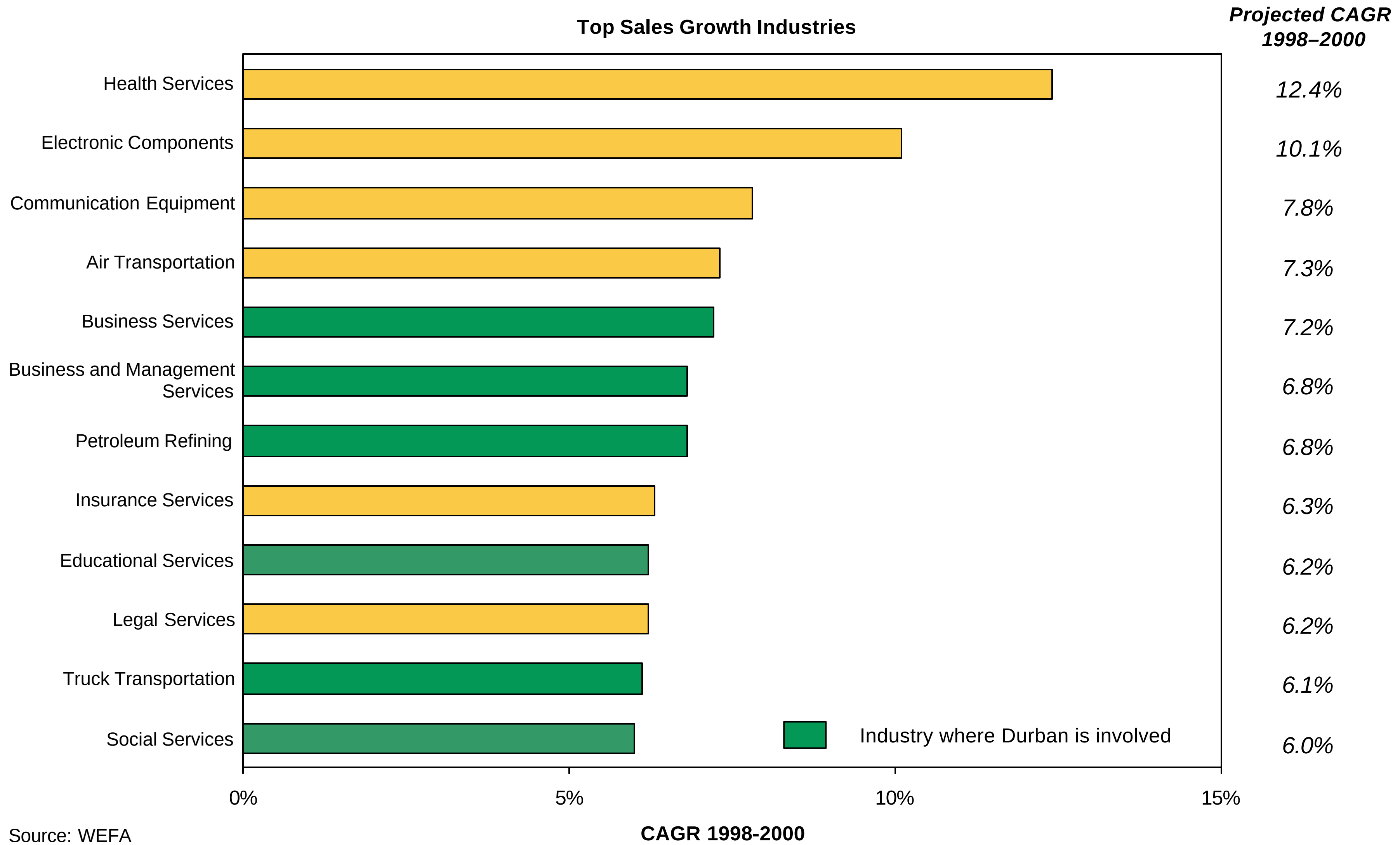


- Be customer, not product, centred
- Focus on high value segments; satisfy those segments with the service and production they want
- Strengthen and align the cluster which serves the segments

Note: This segmentation is preliminary and needs to be significantly improved before any decisions are based upon it

Global Growth Areas

High growth industries around the world are high-tech, healthcare-related, air transportation and business services. Price increases are expected to be modest in goods-producing industries due to expanding global supply. Durban is already significantly involved in some high growth industries, including petroleum refining and various forms of transportation

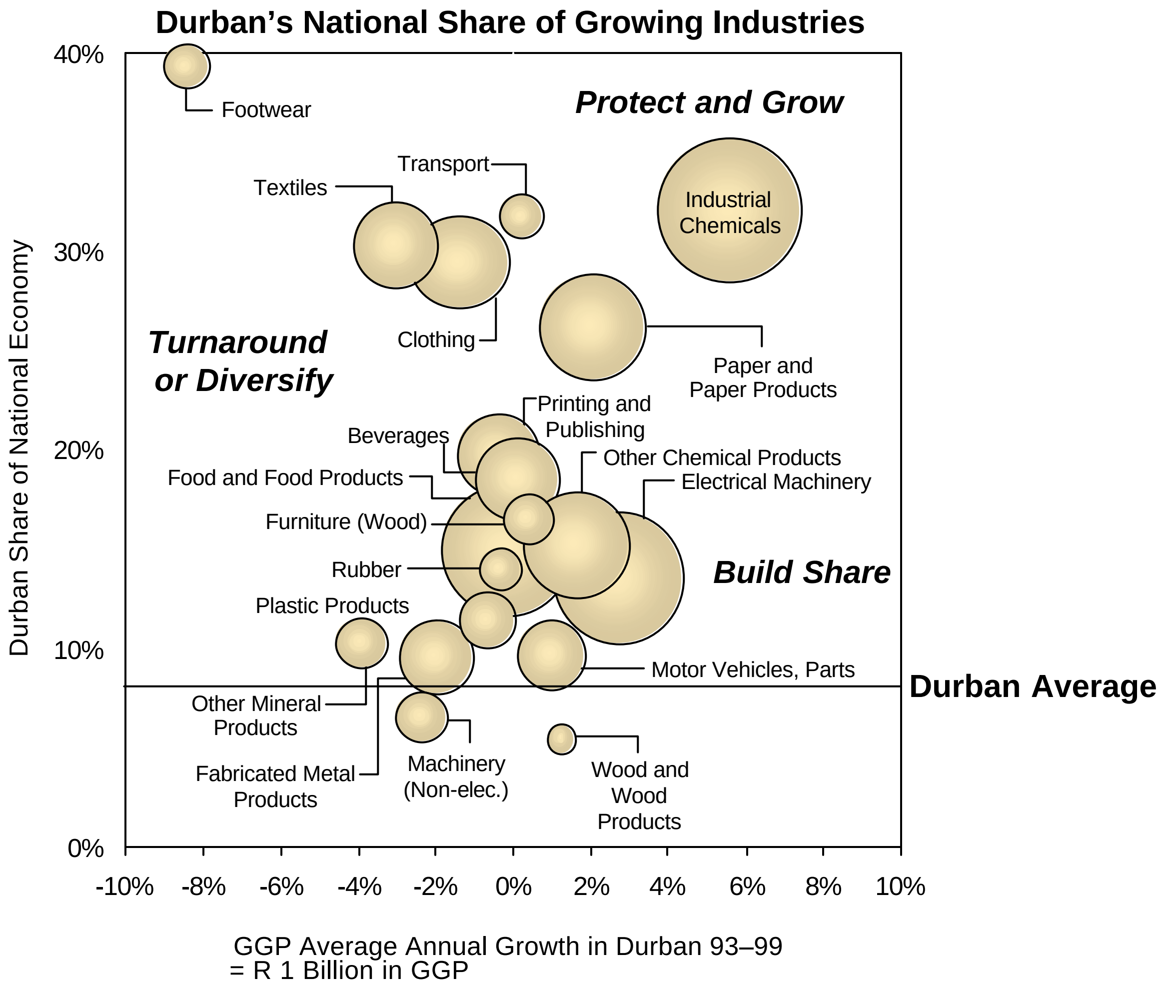


Source: WEFA

Repositioning Industrial Capacity

Turning around Negative Growth Industries

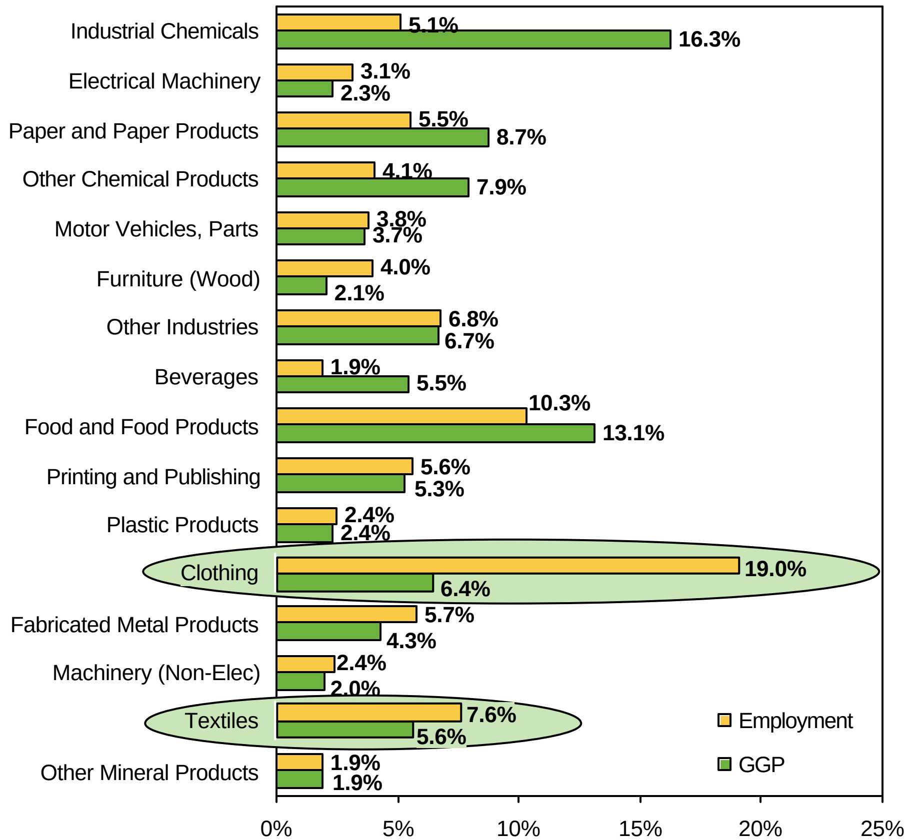
Durban's "portfolio" is insufficiently strong in growing industries. It has a high share of declining industries. It is imperative that this portfolio is restructured



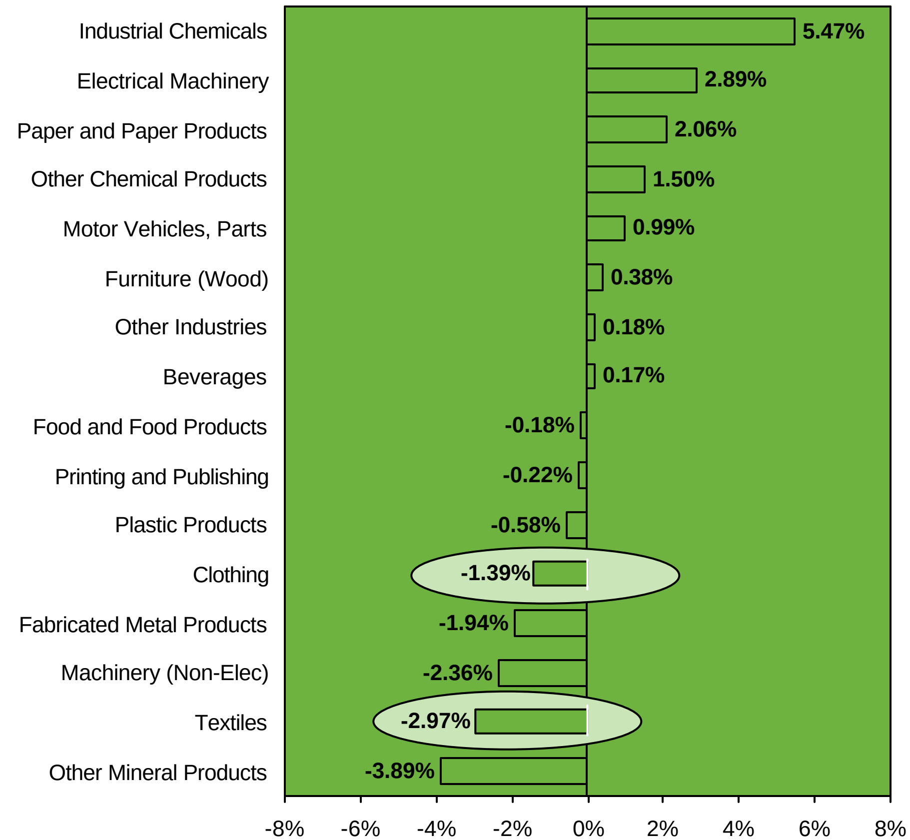
Turning Around Negative Growth Industries

Whether to turn around or divest depends upon long-term market opportunity and strategic capability. Where turnaround of large employers / GGP contributors are not possible, Durban needs to decrease its dependence on them. For this reason Durban must immediately give attention to textiles and clothing

Sectoral Contribution to Employment and GGP



Compound Annual Growth of Key Manufacturing Subsectors 1993–1999



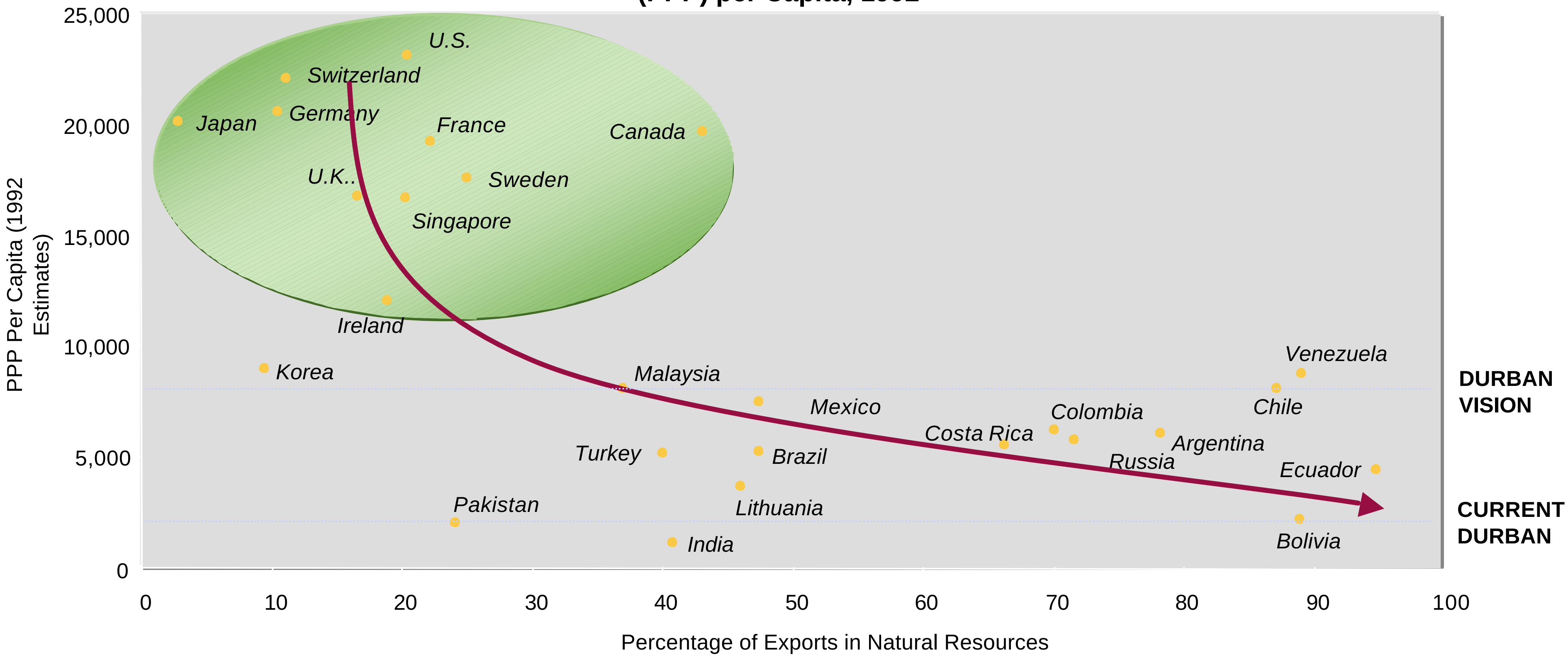
Note: GGP and Employment by sector in 1995 Real Figures
Source: Econometrix Master Reda

Durban's Economic System: The Broad Platform

Current Versus Required Performance

*Durban's vision will be achieved only if it creates a stronger economic platform as a whole. Whilst less dependant on natural resources than SA, Durban needs to increase production of downstream high value added products and services**

Percentage of Nation's Exports in Natural Resources Versus Purchasing Power Parity (PPP) per Capita, 1992



* To 60–65% of exports

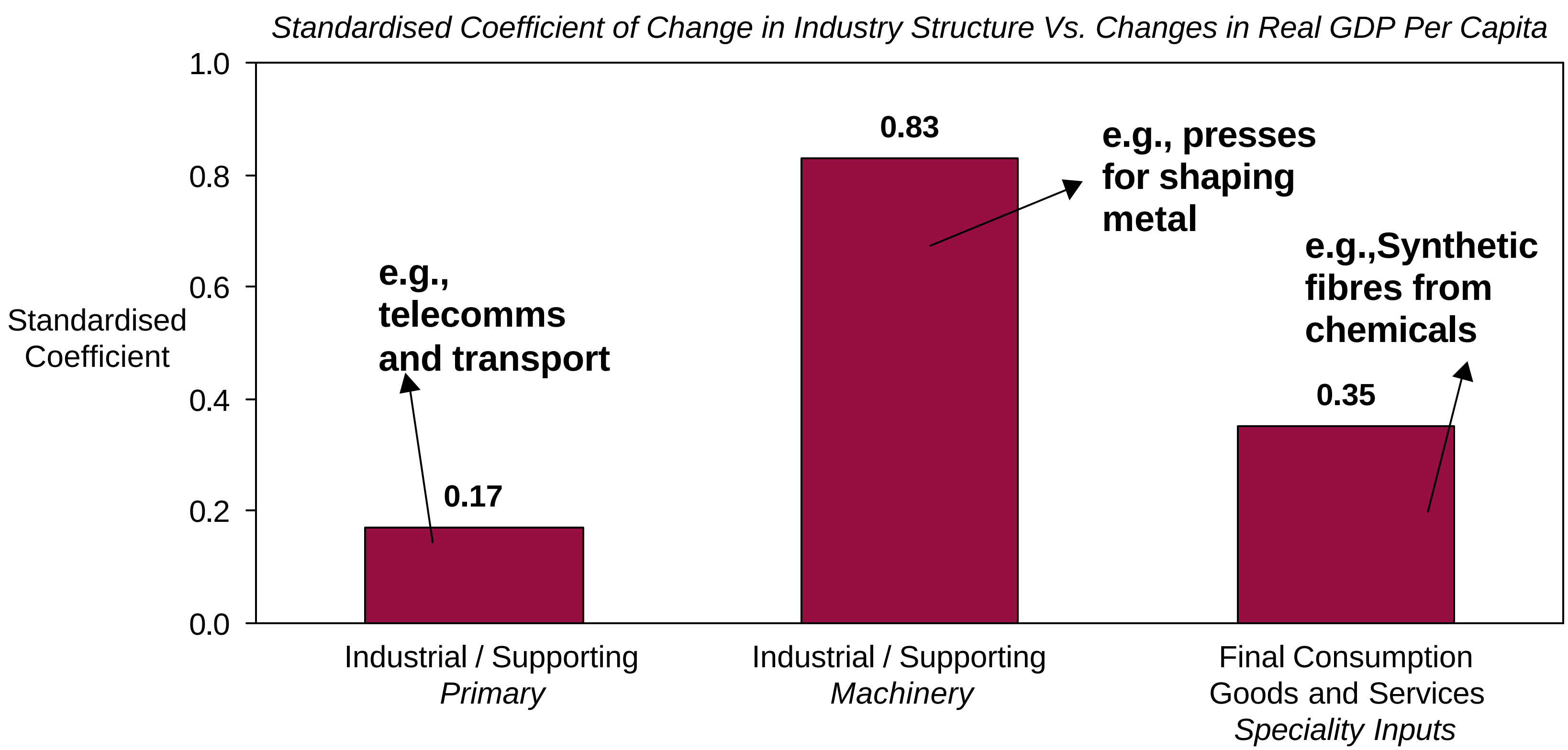
Note: Purchasing power parity is standard in this presentation as opposed to gnp because it is an estimation of exchange rate changes based on keeping prices of goods in different countries fairly similar by offsetting inflation differentials with changes in the currency exchange rates; correlation coefficient determines the relationship between two properties, coefficients closer to 1 indicate that variations in one variable are perfectly explained by variations in the other; arrow illustrates the -0.66 correlation between purchasing power parity parity and exports in natural resources

Source: Un Sitc Trade Statistics Data Revision 2, World Bank, World Tables 1994

Rationale for Building Industrial and Supporting Clusters

A growth in industrial strength and exports in the advanced sectors of the economy will yield a significant positive influence on per capita GDP

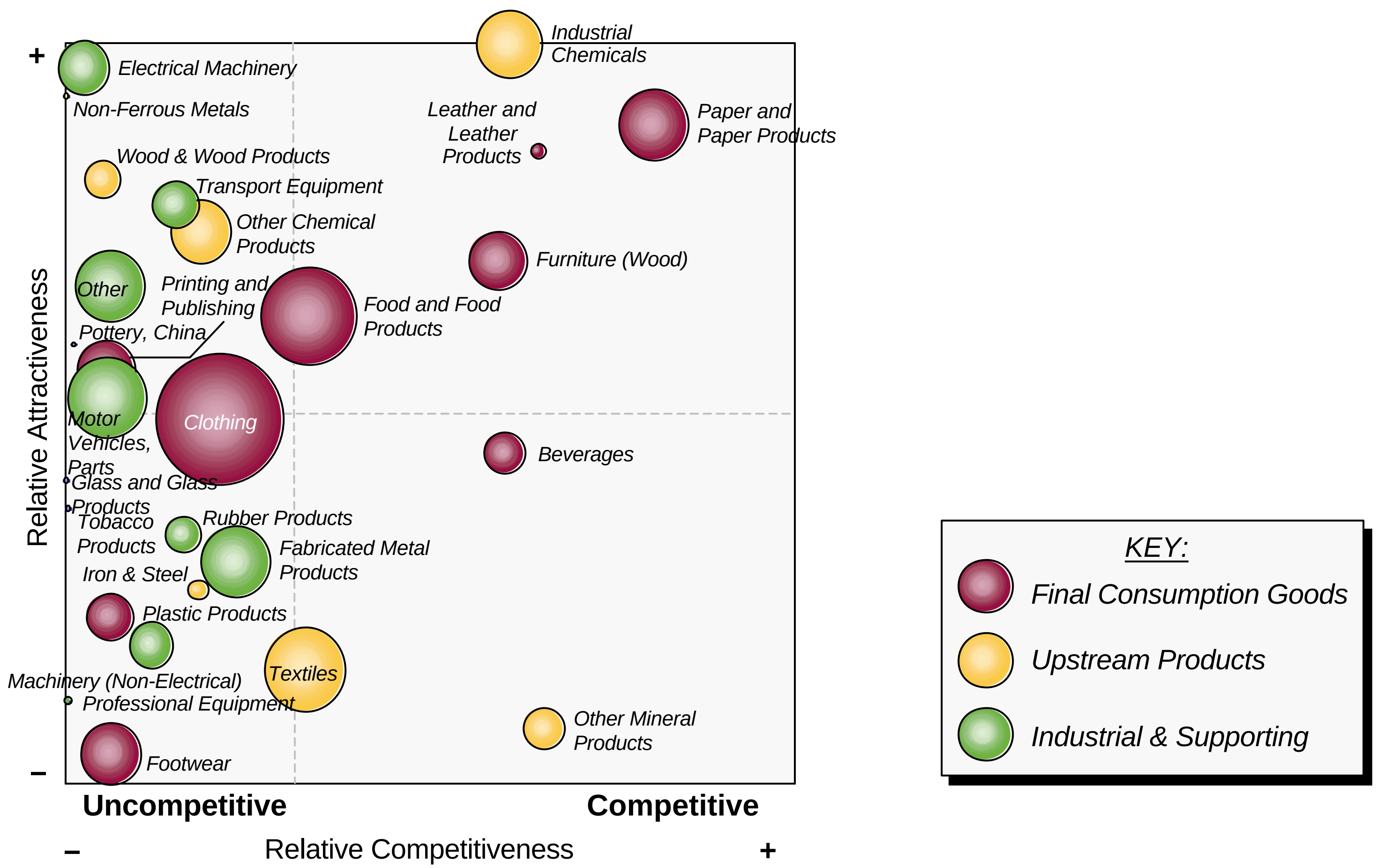
Impact of Changes in Export Structure on Changes in Prosperity



Note: Standardised coefficient measures the standard deviation changes in the dependent variable resulting from a 1 standard deviation change in the independent variable

Building Industrial and Supporting Industries

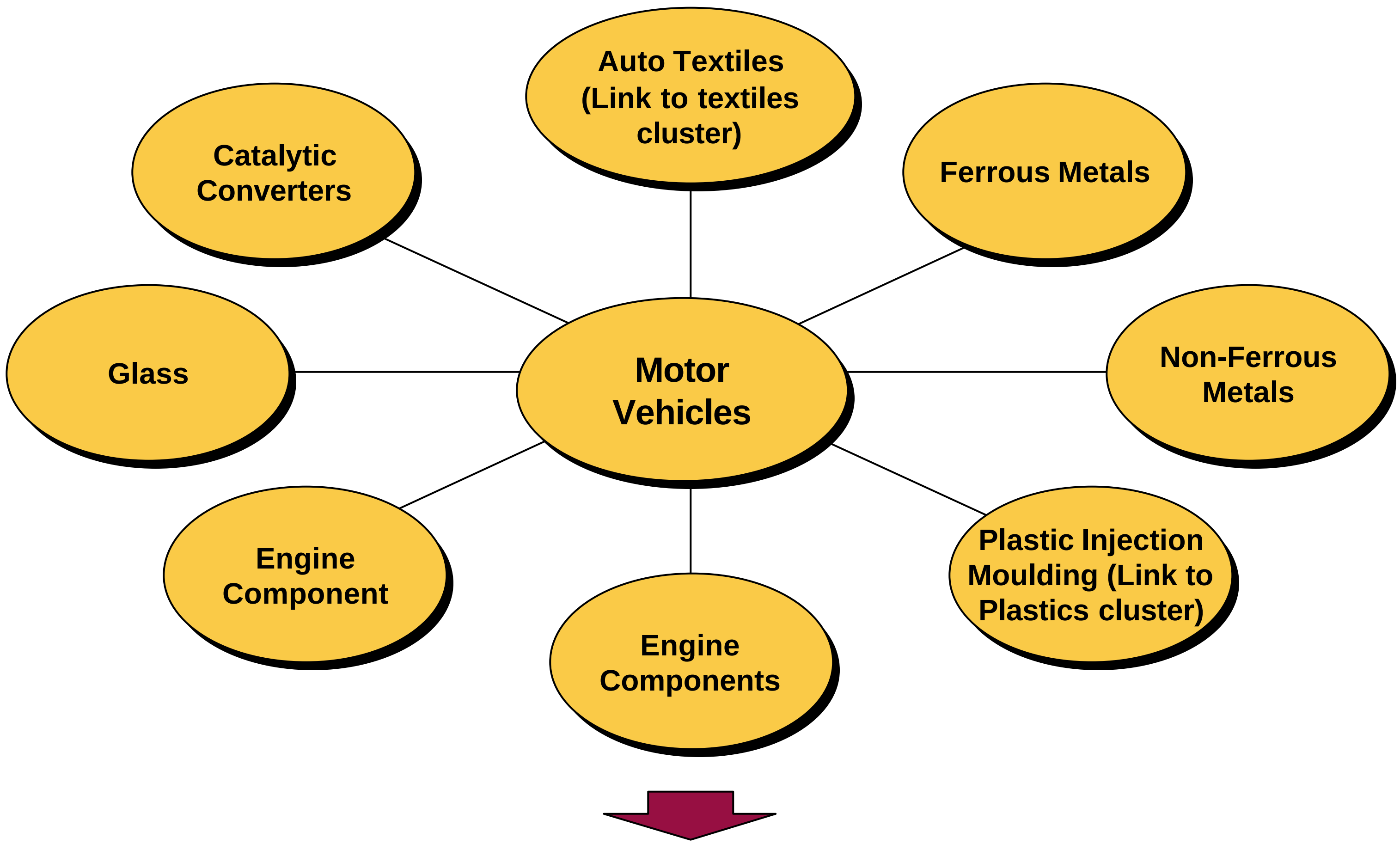
But Durban is uncompetitive in industrial and supporting functions. A strategic weakness in Durban's manufacturing is that its competitive sectors are in upstream products or final consumption goods



*Categorisation into 3 industrial stages is not exact, as it is better done at sub-sector codes. However, the categories are directionally correct.
Source: Econometrix, IDC Sectoral Prospects 1998, WEFA Trade Statistics, and Monitor Analysis

Capturing Value Through Industrial and Supporting Cluster: Motor

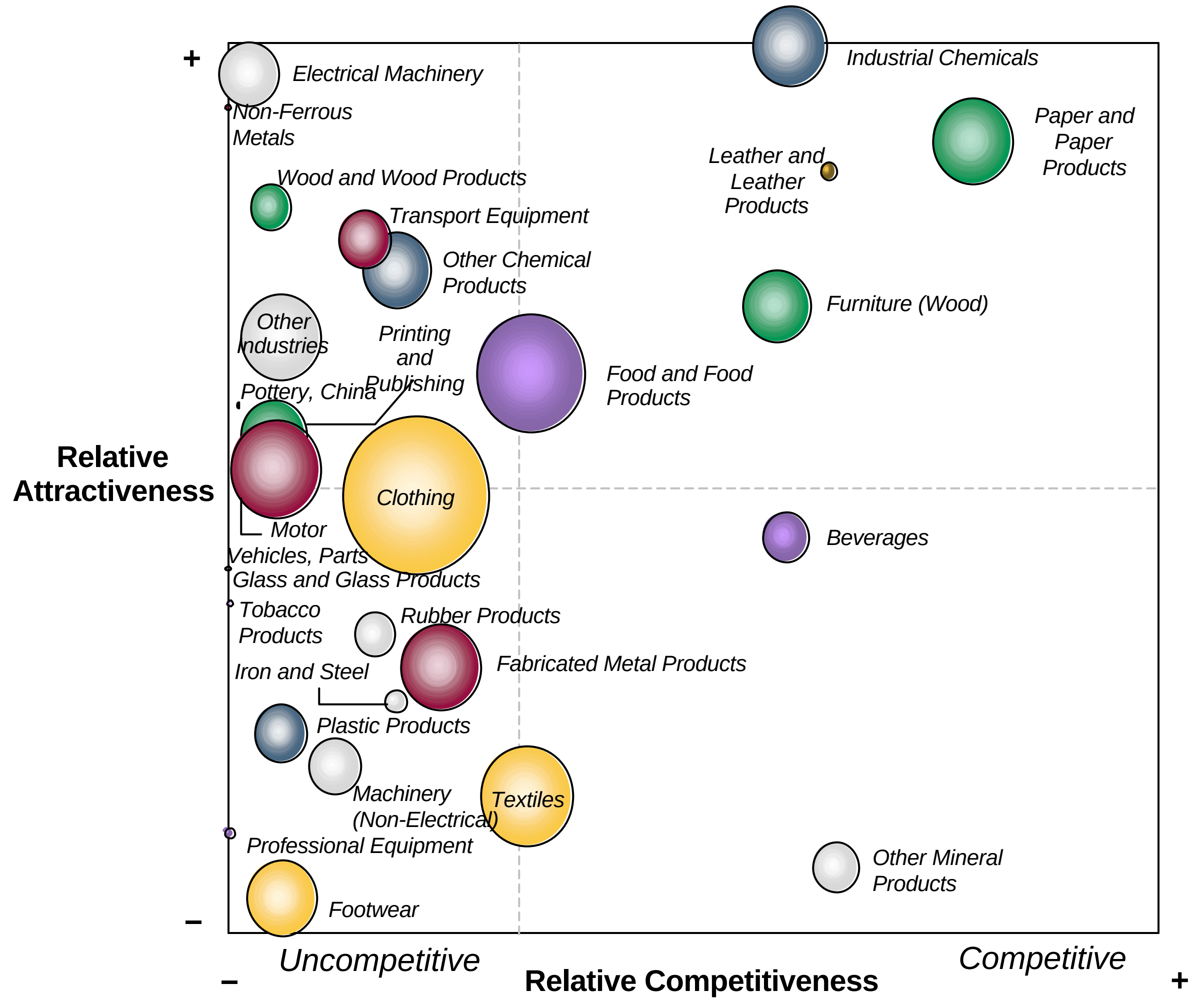
The motor industry has deep, high links to the Durban Economy. Strength in motor has a multiple impact on the economy



The importance of securing the Toyota II platform for Durban is key in the medium term to secure growth of the industry. In the long term, using it's advantages, Durban can become a key player locally and internationally in a number of high value components

Clustering Opportunities

Within Durban's manufacturing sub-sectors are many potential cluster relationships which the city can help build. Businesses in Durban rarely communicate within their clusters and do not take full advantage of cluster opportunities



KEY:

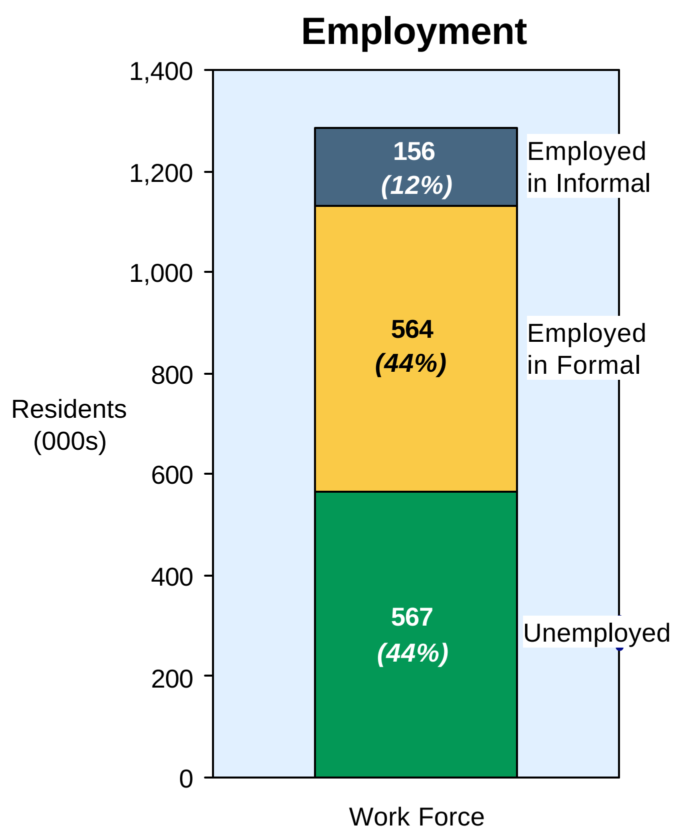
- *Clothing, textiles, footwear: how to respond to industry restructuring*
- *Food, beverage: identify opportunities for global expansion*
- *Wood, paper, furniture: global market opportunities; leverage strengths to build other products*
- *Metal, motor: cluster upgrading and competitiveness building (process technology, skills, etc.)*
- *Chemicals, Plastics: seek new opportunities which can leverage the strength in industrial chemicals*

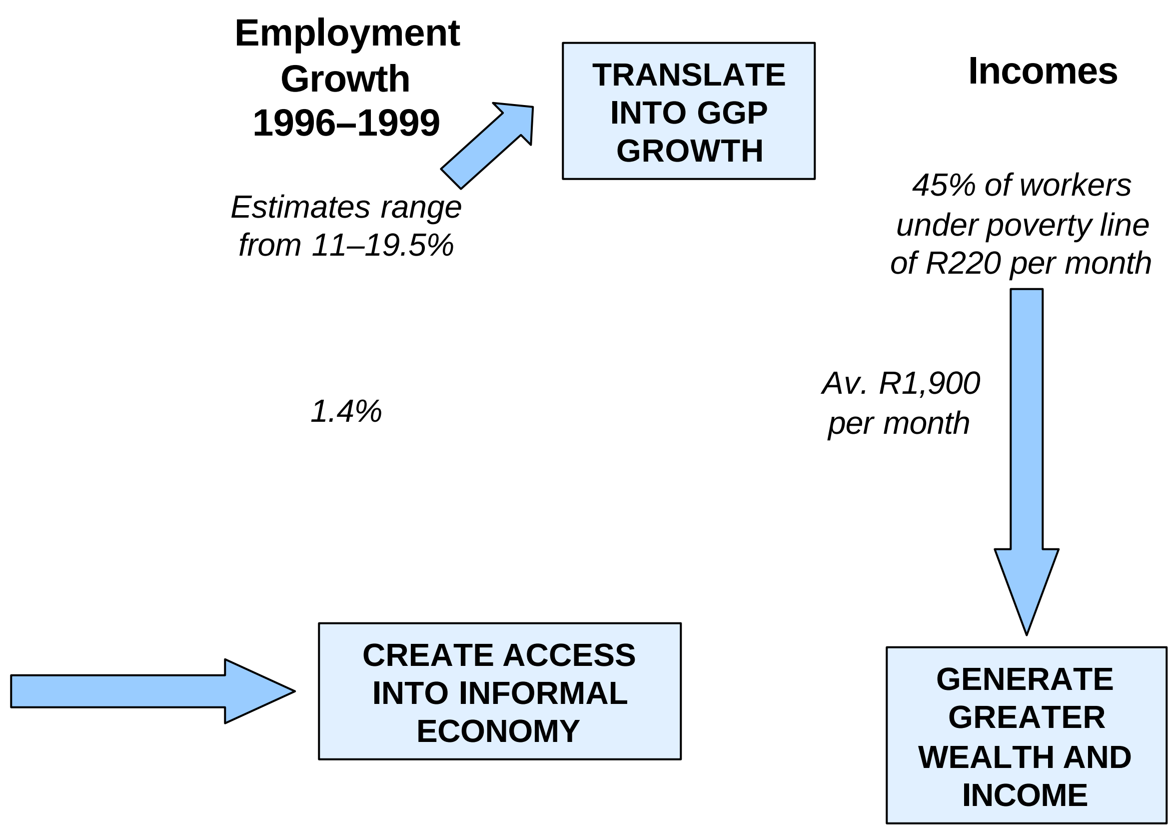
Source: Econometrix, IDC Sectoral Prospects 1998, WEFA Trade Statistics, and Monitor Analysis

Build Sustainable Jobs

Strengthen Informal and Small Business Sector

From the point of view of job creation, the 'sector' is being very successful. However, since the intention is to create higher income, sustainable jobs, build empowerment and generate gains in prosperity, the outcomes are not sufficient

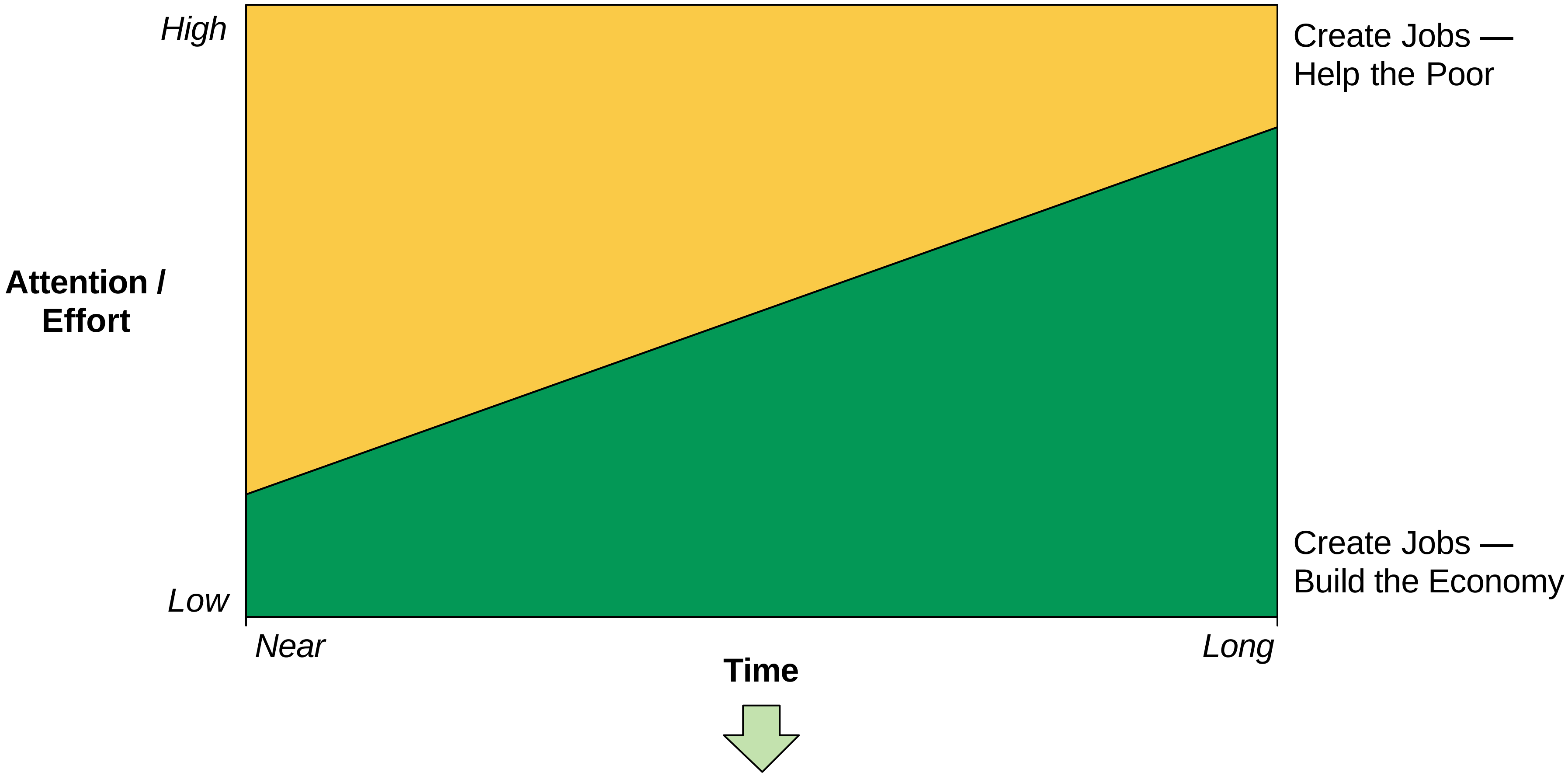




Build the Strength of Informal and Small Business Sector

Striking the Balance

Currently, a great proportion of the City's effort is being put into creating jobs to help the poor. In order to meet the City's economic vision, over time, that emphasis will need to shift to job creation aimed at building the economy



What is suggested here is not that poverty relief efforts are not important. Rather, it is that in order to move towards the City's vision, over time, it will be necessary to consciously shift attention from job creation to wealth creation. The alternative is to fall into a vicious cycle which ultimately moves the City away from instead of towards its vision

Build the Strength of Informal and Small Business Sector

The Opportunity

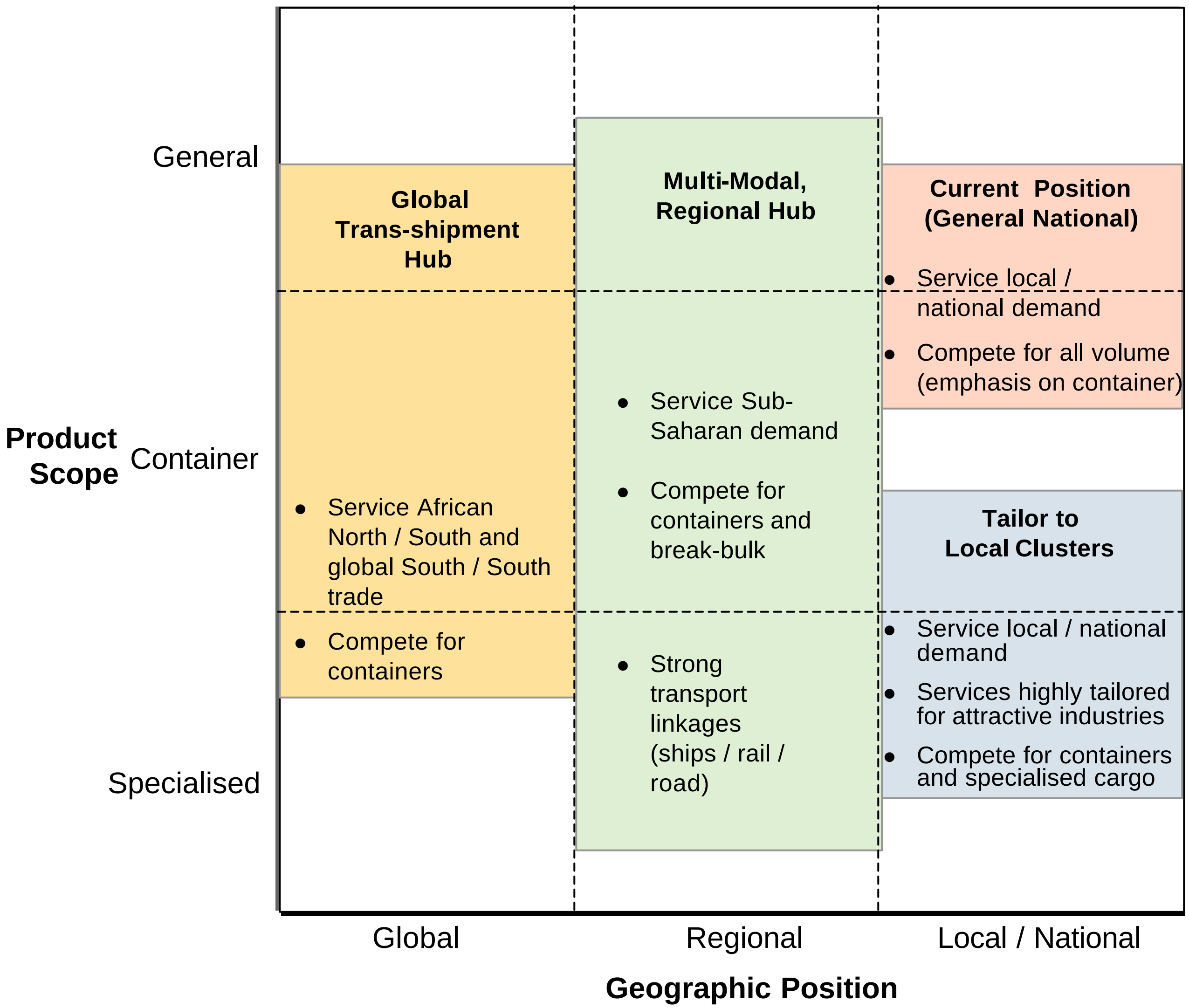
The City will need to seek three different types of situations in which it might identify opportunities to create jobs within small businesses that will ultimately build the future economy:

- Areas of untapped growth which could be absorbed by small businesses
- Areas of growth in which small businesses can compete with larger businesses on an even footing
- Areas of growth in which small businesses can benefit from mutually beneficial, co-operative relationships with larger business or preferential treatment in the government's tendering processes

Strengthening Durban's Platform

The Port: Future Options

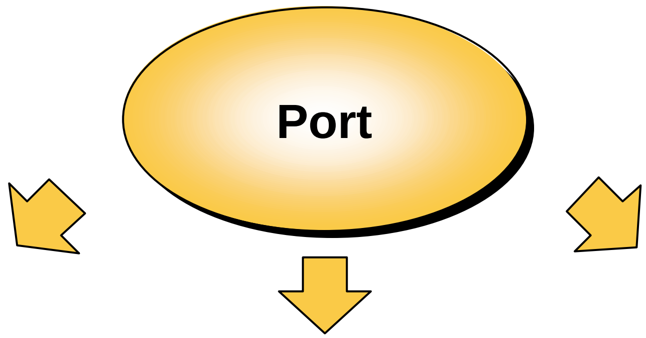
The port is currently facing a choice about how to position for the future. The port may become a global or regional hub port, remain a general port serving South Africa, or may even become a more specialised port serving particular industries, depending upon what is optimal



Strengthening Durban’s Platform

The Port: Desired Outcomes

From Durban’s point of view it is important for the port to position to serve the growth strategy. The port has the potential to create Durban’s desired outcomes not only as an industry in its own right, but ***as a facilitator of competitiveness of Durban’s firms***



Logistic Cost Advantage

- **Beer Industry**: Breweries have own Port terminal, where they receive imported malt and brew so as to decrease transport costs
- **Automotive Industry**: Rail link between the Port and Isiping — where cars are assembled — enables Toyota to lower costs

Distribution Cost Advantage

- **Paper and Pulp Industry**: Several companies use the Port facilities as handling and storage space
- **Sugar and Molasses Industry**: Many companies use the Port as warehouse and storage facilities as well as distribution center

Access to Foreign Markets

- Manufacturers located close to Port have a more direct access to foreign markets

Strengthening Durban's Platform

The Port: Inputs and Influences

It is not likely that within the next decade the port will be a regional or global hub, although it may begin to position to be such. The decision as to which direction the Port will take will be influenced by many factors:

- Strength of local and regional demand for the port's services ...
  - The port will respond to the strongest demand conditions
- . . . particularly in high value adding areas in Durban where proximity to the Port and tailored services create competitive advantage . . .
  - The Port will seek higher value adding services to improve its returns
- A clear vision for industrial growth ...
  - Given the long-term, high fixed cost nature of its investments, the Port will favour investing in areas where it sees secure long-term growth
- City investment and city-based spatial developments
  - The Port requires City co-operation in the provision of infrastructure, land planning, services, etc.
  - The Port may require a common strategic approach with the City given a changing regulatory environment and potential competition from other ports

Note: "While reviewing the whole containerisation scene in South Africa and the Southern African region, we came to the conclusion that for that particular site we, at least in the next 10 years, would not entertain the option of a development site at the Durban International Airport" — Siyabonga Gama, Chief Executive of Portnet — The Star, 11/09/00

Strengthening Durban's Platform

A Systemic Approach

The decision on how to upgrade the Port is best made in the context of the overall economic system required to achieve the vision. For example, in order for Durban to become a base for high value-added manufacturing, the following is required:

To Build a Hi-Value Added Manufacture Hub:

Port	• **Focus current port on specialized services for manufacturing**
Airport	• **Moves if space in Southern Industrial Basin is constrained**
Southern Industrial Basin	• **Focus on high value-added clusters** • **Tailored services / logistics**
Industrial Development Zone	• **In Southern Industrial Basin**

Strengthen Durban's Platform

Clarity of the Vision

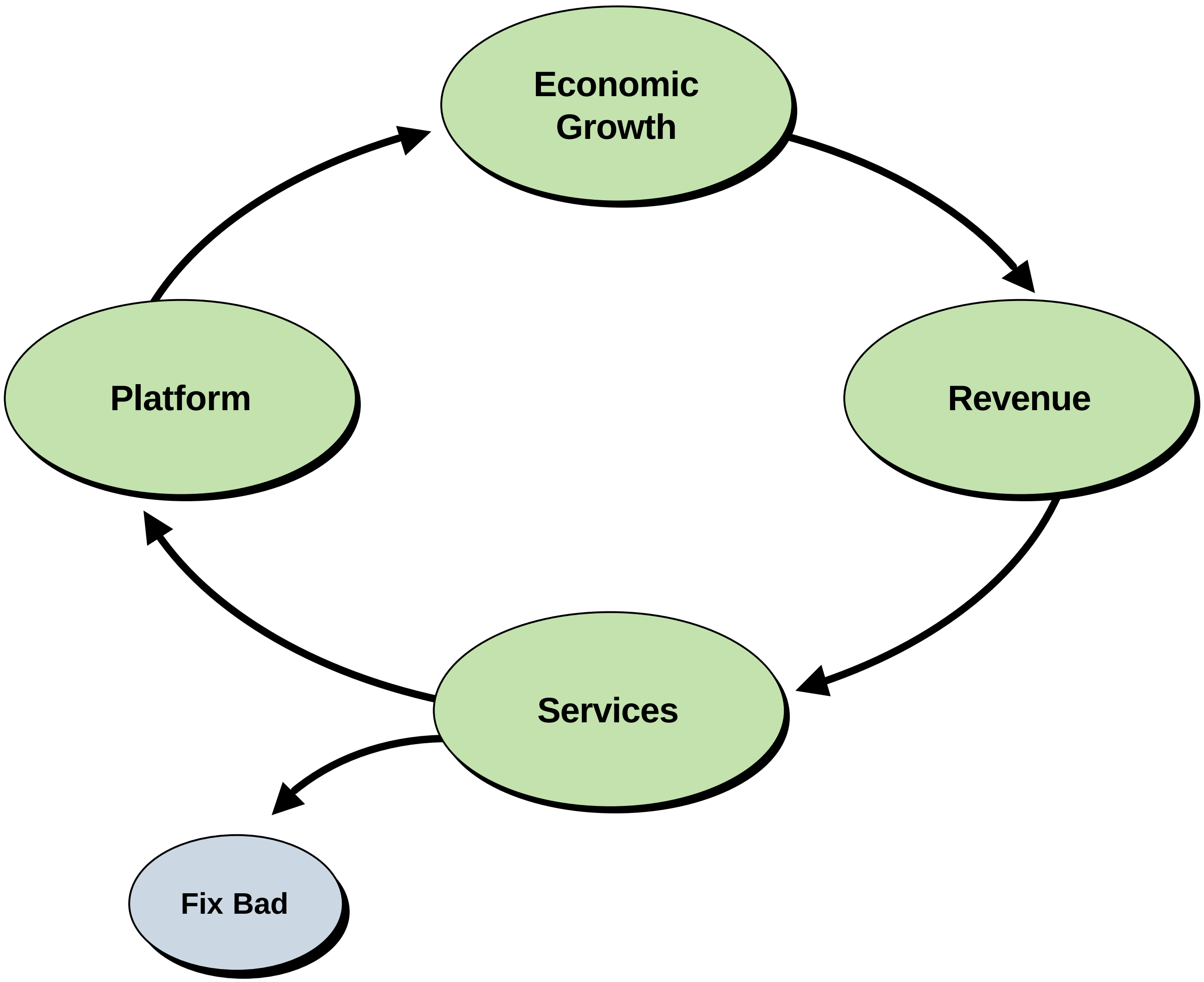
Durban needs to focus its vision of what kind of platform it needs to build in order to deliver the prosperity it desires. Successful cities have all had clear visions behind which coherent choices are made and the core platform built:

City	Positioning	Choices Made
Singapore	• The most globally connected city in the world	• Major investment in telecom infrastructure • Best-in-world business airport • Obligatory education for at least first ten years • Removal of all international capital flows • Support for local companies investing overseas
Seattle	• Gateway for high-tech to the Pacific North***east***	• Build export capability to Asia • Focus on creation of "family wage jobs" • Creation of marketing agency for software and biotech • Inner City Visits
Buenos Aires	• The environmental quality of life city	• High vehicle emissions standards • Zoning barring industry to outskirts • Diverse and sophisticated cultural offerings • High quality city services (electricity, water, education)

Building the Platform

Economic Growth and Service Delivery

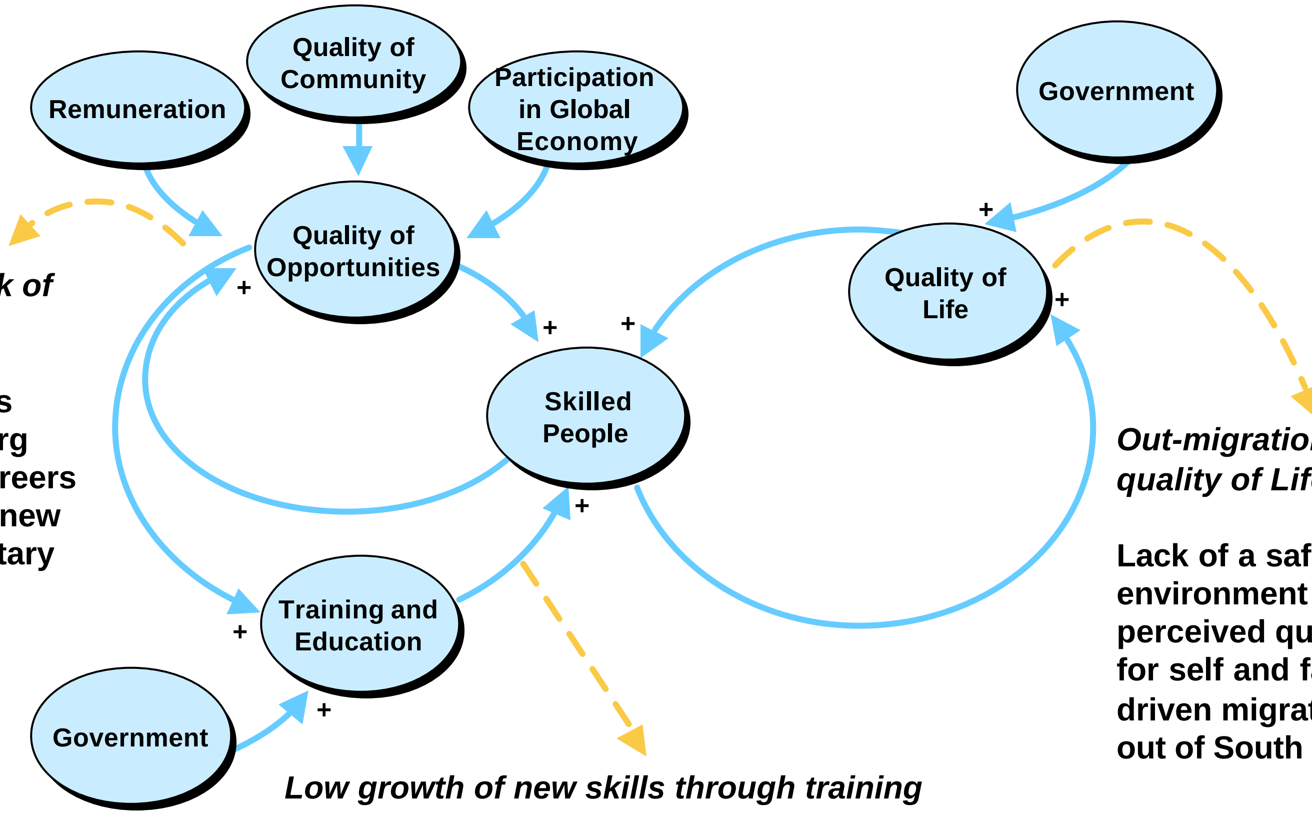
The challenge for an integrated economic and service delivery strategy is to build a platform to support growth and enhance quality of life



Building the Platform

Quality of Life

Reinforcing influences are resulting in low retention, attraction and growth of skilled labour, which will hamper future growth. In addition, skilled labour is required to support innovation and the growth of new sectors and capabilities within the Durban economy



Out-migration due to Lack of Local Opportunity

Lack of opportunity drives migration to Johannesburg and globally to pursue careers in new industries, to find new community and for monetary reward

Low growth of new skills through training

Not only is retention and attraction of skills low, but Durban has not grown sufficient local talent to overcome skills constraints

Out-migration due to low quality of Life

Lack of a safe environment and perceived quality of life for self and families has driven migration (largely out of South Africa)

Quality of Life

Current Outcomes — What is the Gap?

While data from the QOL survey indicates that needs differ across Durban's households, it also shows that there is a significant gap between households' needs and what the City is currently providing

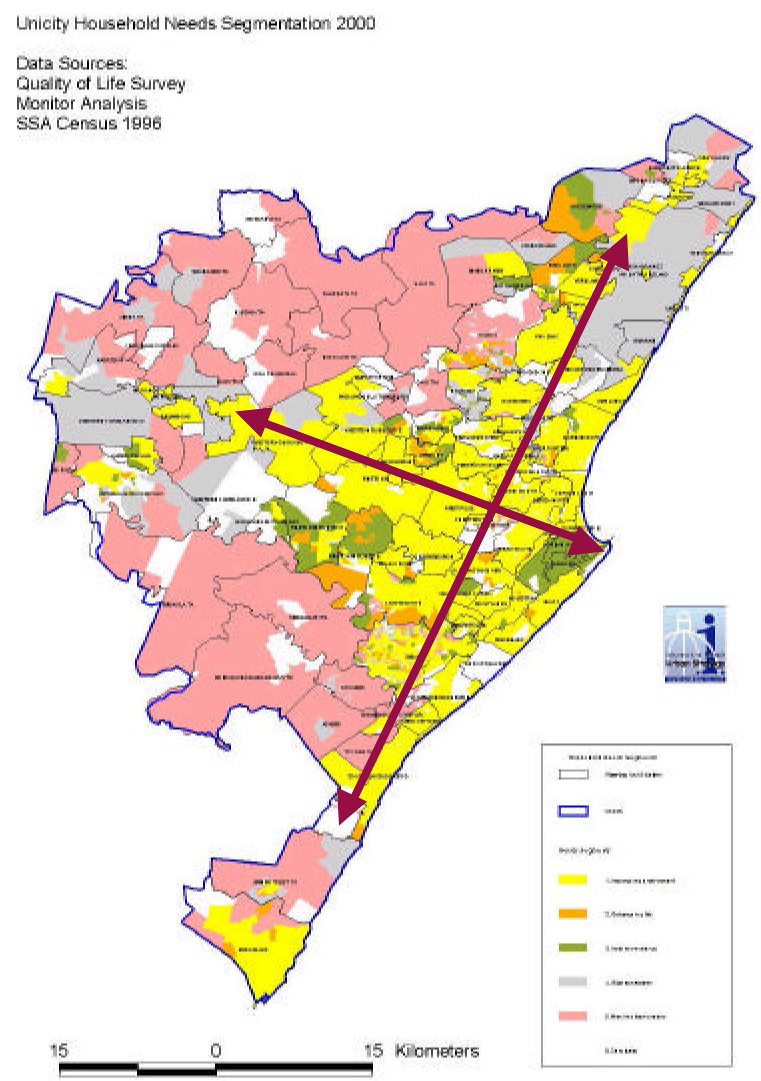
	Meet My Basic Needs	Give Me Access	Help Me Move Up	Enhance My Life	Improve My Environment
Primary Needs	Water (39.8%) Sanitation (35.0%) Housing (34.7%)	Roads (38.2%)	Education Facility (25.2%)	Parks (18.5%) Library (14.8%) Sports Facility (13.1%)	Parks (16.3%) Police (14.7%) Sports Facility (14.4%)
Secondary Needs	Roads (28.3%) Electricity (27.2%) Telephone (17.2%) Education Facility(11.8%)	Water (28.4%) Housing (24.7%) Sanitation (20.4%) Sports (19.6%)	Water (17.7%) Police (15.5%) Roads (15.0%)	Telephone (10.9%) Pavements (10.1%) Clinic (8.4%) Hospital (7.8%)	Library (10.5%) Hospital (10.2%) Pavements (9.9%) Telephone (8.5%)
Problems	Crime (61.7%) Unemployment (43.3%) Water (11.1%) Under-development (10%) Housing (9%) Opportunity (7.8%) Cost of Living (7.7%)	Crime (69.5%) Unemployment (46.2%) Under-development (10.9%)	Crime (54.6%) Unemployment (40.8%) Under development (2.9%)	Crime (55.1%) Unemployment (30.6%) Cost of Living (6.3%)	Crime (61.2%) Unemployment (33.0%) Traffic (10.2%) Pollution (9.7%)
	16.5% of sample	*3.3% of sample*	*6.0% of sample*	*18.8% of sample*	*55.4% of sample*

Note: Percentages in parenthesis refer to the portion of segment respondents naming each factor

Source: Quality of Life / Key Performance Indicator Survey, Monitor Analysis

Current Outcomes — Where Is the Gap?

This data can be plotted against the new Unicity Map revealing that many of the most dire needs exist on the geographic periphery of the City



Executive Summary
The Key Thrusts

There are four pillars on which Durban should build its future economic system:

- Build Durban as a centre of excellence in high value-added manufacturing
- Build Durban as a centre of freight logistics excellence, providing differentiated capability for high value added exports
- Build Durban's presence in global growth industries, particularly in tourism
- Build Durban as a centre of entrepreneurial activity, particularly for micro and small businesses

Required Performance: Meeting The Challenge
Summary

A successful implementation of the strategy will deliver:

- Target per capita incomes
- 150 000 jobs in manufacturing within a decade, on target for
  - Full employment in 20 years
  - Sustainable, high wage employment
- Growth of 7.5% per annum
- Improvement in the standard of living of the poor
- Increased strength of small and micro businesses
- Areas where impact needs additional work are:
  - Training and education
  - Empowerment of the African population to own an increasing share of assets

Required Performance: Meeting The Challenge

Summary: Jobs Outcome of the Growth Strategy

Over 20 years 650 000 new jobs are required to meet the vision

- A 7.5% growth rate driven by manufacturing will create 150 000 jobs in manufacturing over the next decade; even though most sectors will become more capital intensive
- Transport and communications, construction, retail and business and financial services will also grow strongly; following and supporting the growth of the economy (over 100,000 jobs would be created)
- Robust tourism growth will also lead to strong job growth
- These jobs are of higher value per employee and the growth in numbers will swell the income of the middle 50%; reducing income inequality
- Improved small business initiatives will lead to greater value and security of the poorest 25%

Agenda

Realising the Vision: Durban's Challenge

Durban's Current Economic System

Meeting the Challenge: The Need for a New Path

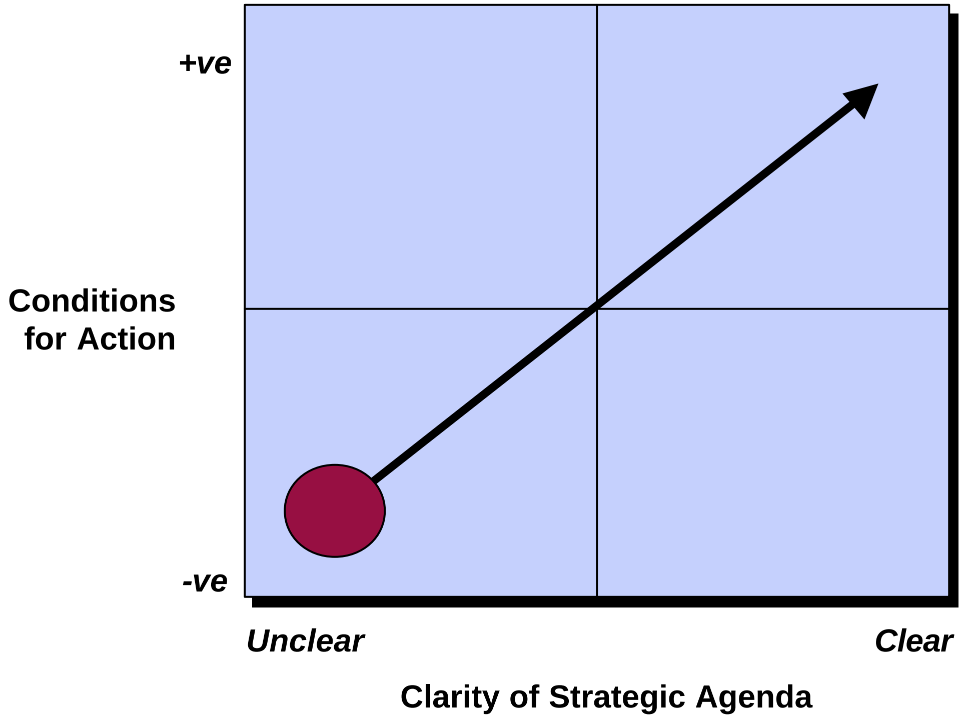
Building the Strategic Agenda

Building the Conditions for Action

Role of Government: Build the Conditions for Action

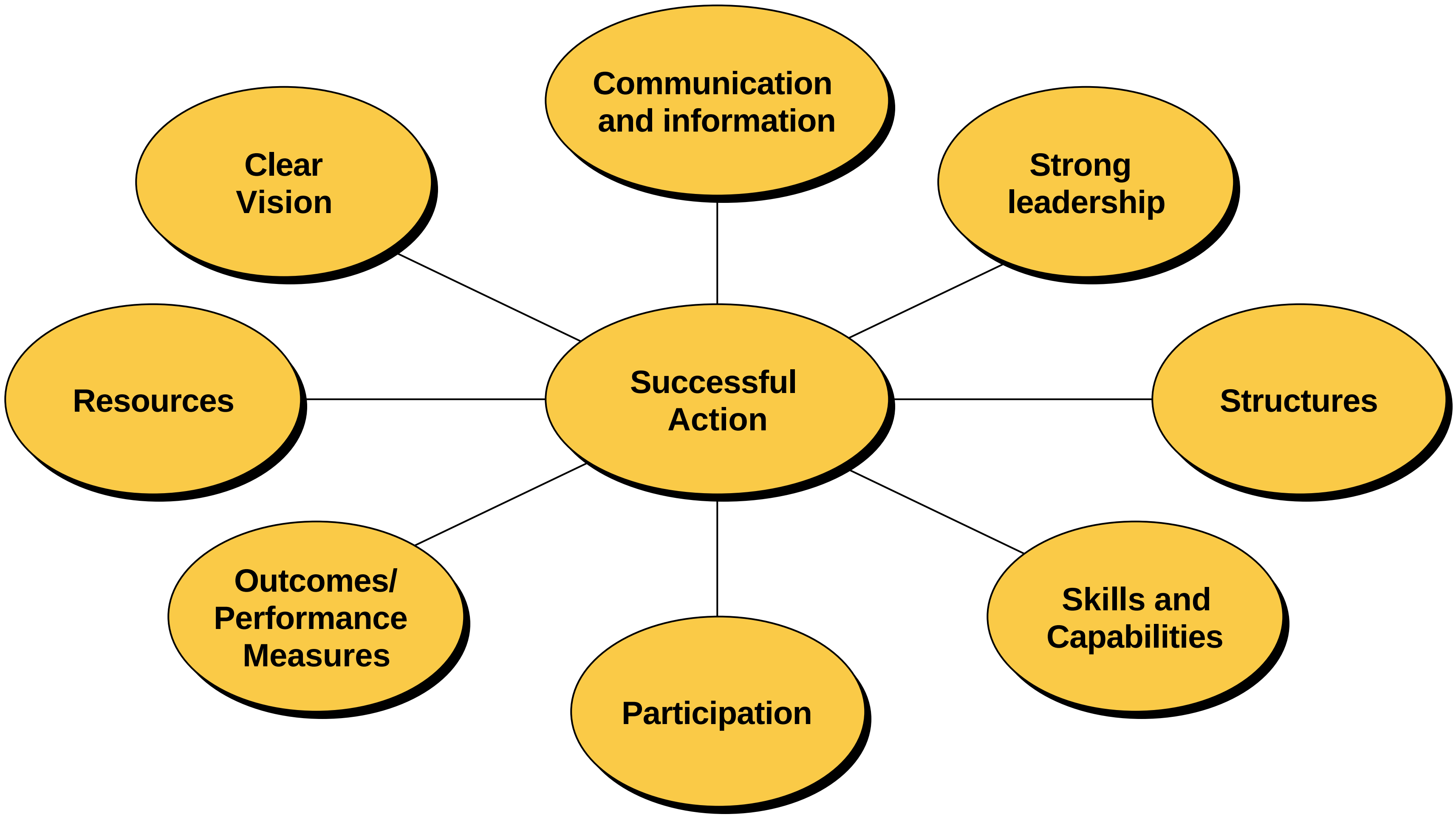
The clarity of the strategic agenda is a necessary but insufficient condition for action. Whatever the strategic directions chosen, there will be challenges in implementation. One of Durban's greatest challenges is building the conditions for successfully implementing the strategy:

- *For example, Durban does not possess all the levers required to implement. In particular, the decision rights for many of these decisions sit outside of the city*



Building the Conditions for Action: The Ingredients

There are several factors which are necessary for successful action:



Building Conditions for Action: Structures

There are two structural obstacles:

- Existing structures which are in the way of implementation
  - Multiple councils has been a major stumbling block in the past. The single Metro is a major step forward for economic strategy
- Absence of structures which can facilitate implementation
  - Within city government
    - Within economic planning
    - Between economic planning and other departments (service delivery in particular)
  - Between city and provincial government
    - Between economic planning departments
    - Between metro and provincial leadership
  - Between government and small business
  - Between government and different sectors
  - Old system not geared to do strategy. Now need to organise to succeed

Building Conditions for Action:
Leadership

Durban needs to shift gear dramatically:

- **From** looking for an *improvement* on current performance
- **To** being a fast-growing city with ambitious vision and determined implementation of change programmes

- This requires determined leadership which will take ownership and drive the implementation of the strategy towards success, no matter the barriers.

- Shifting gear will require leadership from the most senior levels of the key sectors of Durban who can influence change

- Create alignment between players:
  - National, Province and City
  - Agreement on the vision

Building Conditions for Action:

Outcomes Desired

There are three main criteria for choosing which is the best system which will deliver the desired outputs:

Next Steps for Durban

- Finalise Vision (with clear outcomes measures)
- Translate the vision into a mission: The system which will deliver the outcomes, for example:
  - A global centre of excellence in high value added manufacturing and services
    - A hub for small business and entrepreneurs (taking SA to the world)
    - Attracting interest in high value added manufacture and services (bringing the world to SA)
- Understand a number of key issues better in relation to the vision
  - Skills: What is needed and how do we deliver on it? How do we keep skills in Durban?
  - Crime
  - AIDS
  - Redistribution
- Other specific initiatives
  - Role of the port: building demand conditions and how to negotiate with key players
  - Southern industrial basin as the centre of manufacturing and logistics excellence

There is consensus that the critical missing ingredient for success is the conditions for action

This will require leadership by the mayor, participation with the senior leadership of the city (political, labour, business) and broad agreement around a clear vision

Project Related to Sectors

8 Key Sectors Requiring Initiation

- Chemicals and plastics
- Motor, components
- Food and beverages
- Wood, paper, printing
- Clothing and textiles
- Tourism
- Transport and logistics
- Machinery (elec. and non-elec)

Key Questions for Each Sector Study

- Global condition and opportunity in the industry?
- Potential for downstream / value added / specialised inputs
- Where turnaround is required, what strategy will win, and what competitive strategy for other industries?
- Potential to grow SMMEs in what ports of value chain?
- SA market potential: position for growth; competitors
- Clustering requirements
  - Geographic; especially linked to port and logistics advantages
  - Other clustering opportunities

Other Projects for Consideration

- Market analysis and how to grow tourism?
- How to develop downstream products in chemicals?
- How to build on transport and logistics advantages to compete?
- Approaches for building demand conditions?
- How to link global opportunities to key sectors?
- Better understanding of finance / business sector?
- Quality of life; how is it integrated, how does it get built and how does it affect skills?