



The Western Cape **Investment** and **Trade** Promotion Agency



CITY OF CAPE TOWN | ISIXEKO SASEKAPA | STAD KAAPSTAD

SURVEY OF CONSTRAINTS TO INVESTMENT IN CAPE TOWN

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Abbreviations

| Abbreviations | Definitions |
|---------------|---|
| Asgisa | Accelerated and Shared Growth Initiative – South Africa |
| BBBEE | Broad-based Black Economic Empowerment |
| CFC | Cape Film Commission |
| CITI | Cape Information Technology Initiative |
| COCT | City of Cape Town (local government) |
| CTBTi | Cape Town boat-building Initiative |
| CTCP | Cape Town Central City Partnership |
| CTRU | Cape Town Routes Unlimited |
| DOL | Department of Labour |
| DTI | Department of Trade and Industry |
| FDI | Foreign Direct Investment |
| FEDHASA | The Federated Hospitality Association of South Africa |
| GDP | Gross Domestic Product |
| GFCF | Gross Fixed Capital Formation |
| ICTs | Information and Telecommunication Technologies |
| KPIs | Key Performance Indicators |
| LED | Local Economic Development |
| LRA | Labour Relations Act |
| MOU | Memorandum of Understanding |
| MIDP | Motor Industry Development Plan |
| MIGA | Multilateral Investment Guarantee Agency |
| NPA | National Ports Authority |
| OECD | Organisation for Economic Co-operation and Development |
| PGWC | Provincial Government of the Western Cape |
| SAOGA- WC | South African Oil and Gas Supply Alliance- Western Cape |
| SMME | Small, Medium and Micro-Enterprise |
| SAA | South African Airways |
| SABC | South African Broadcasting Corporation |
| SABS | South African Bureau of Standards |
| SABBC | South African Boat-building Business Council |
| SAMSA | South African Maritime Safety Authority |
| SAOGA | South African Oil and Gas Alliance |
| SATSA | South African Tourism Service Association |
| SPV | Special Purpose Vehicle |
| THETA | Tourism Hospitality and Education Training Authority |
| Wesgro | Western Cape Investment and Trade Promotion Agency |
| WTTC | World Travel and Tourism Council |

Selected Definitions

Local Business Environment

The Local Business Environment refers to those factors within a locality that either favour or inhibit enterprise development

Red Tape

Red tape stands for rules and regulations and administrative procedures that impose unnecessary costs on business and/or government, or are not effective in achieving their policy goal, and therefore produce suboptimal and undesired social outcomes. Red tape exists in both the public and private sectors and arises as a result of rules and regulations, administrative procedures, and the nature of other government - business interactions.

Regulations

Regulations are rules and standards imposed by public authorities to control or influence human behaviour.

Local regulations can be defined as rules and standards imposed and managed by municipalities to control the function and operation of business within an area of jurisdiction and can be economic or social, financial and non-financial

- Economic regulation is designed to alter ways in which markets work
- Social regulation is intended to protect public interest such as health, safety, the environment, public order and social cohesion

Regulations have both costs and benefits which must be balanced. Regulations can also impact differently on different sizes of business.

Investment

Any use of resources intended to increase future production output or income.

Foreign Direct Investment

Various definitions exist including:

- “transaction-based” definition of capital movements: FDI is described as the form of investment for the purpose of establishing lasting economic relations and which gives the possibility of exercising an effective influence on its management.
- “enterprise-based” definition of investment: The establishment or acquisition of a business enterprise, as well as a share that provides the investor control over an enterprise.

"Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. This does not include capital movements that are mere financial transactions for speculative purposes, commercial contracts for the sale of goods or services, credits granted to a State, or loans that are not directly related to an investment" (OECD: 1996)

EXECUTIVE SUMMARY

Introduction

Internationally, and as part of the **Accelerated and Shared Growth Initiative of South Africa (Asgisa)**, the promotion of domestic and foreign direct investment is recognized as being crucial to economic growth, job creation, and poverty reduction. South Africa's level of economic growth has recently increased to the 4-5% level with Asgisa targeting a 6% growth rate between 2006-2014 in order to halve poverty and unemployment levels.

In order to accelerate economic growth, job creation, and poverty reduction, Cape Town will need to address investment constraints to both foreign direct investment as well as domestic investment from existing firms. Cape Town is increasingly competing against a wide range of global investment destinations for investment in a number of growth sectors such as tourism, manufacturing, and other services such as business process outsourcing, film, and information and communication technologies.

Therefore, the City of Cape Town requested Wesgro, the Provincial Trade and Investment Promotion Agency, to conduct research aimed at identifying priority constraints to investment in Cape Town. The focus is on the identification of local level constraints which can be directly or indirectly influenced by the City of Cape Town local government and/ or Wesgro.

This research includes the following main sections:

1. Summary of Existing Research on South African Investment Constraints

This section gives a brief overview of the key findings relevant to investment constraints from a range of international and national level surveys and research, with a focus on national level investment constraints, to contextualise Cape Town's local level investment constraints.

2. Survey Cape Town Investment Constraints

This section presents the key findings from the Cape Town Investment Constraints Survey of 102 businesses in Cape Town's 10 growth sectors. Investment constraints pertaining to Cape Town's business environment as well as Municipal-level investment issues are presented. This includes specific sections on past and future business trends by sector, crime, HIV/Aids, and Broad-Based Black Economic Empowerment. In addition, constraints to foreign direct investment are discussed (based primarily on inputs received from Wesgro).

3. Sector-Specific Investment Constraints and Possible Actions

This section presents findings on sector-specific constraints to investment in the tourism, film, information and communications technology, oil and gas, business process outsourcing and boat-building sectors, together with possible actions to address these constraints.

Based on the findings in each section, the report's concluding chapter prioritises Cape Town's main investment constraints. Recommendations are then made to address these investment constraints based both on the consultant's knowledge of existing local level initiatives, suggestions received from the Cape Town survey respondents, as well as some initial inputs from COCT Town officials and Wesgro management. It is recommended that the COCT develop additional responses to effectively address the identified priority investment constraints.

It must be stressed that the Cape Town Investment Constraints Survey was limited to companies in the COCT's ten priority growth sectors and that these sectors comprise approximately 20% of all formal businesses in Cape Town. Other important sectors which have not been surveyed include Financial Services, Retail and Wholesale, and Transport. As a result, caution should be exercised in assuming that the constraints identified in the survey would be the same, or prioritized similarly, for the entire Cape Town formal economy.

Existing Research on National Investment Constraints

A summary of the main investment constraints identified in various existing surveys is contained in the following table.

Summary of Main Investment Constraints Identified in Existing Surveys

| Survey | Main South African Investment Constraints |
|--|--|
| <p>2006 World Bank: Doing Business Global Survey</p> <p>World Bank (2006): Doing Business: Global Comparison of Business Regulations (http://www.doingbusiness.org/).</p> | <ol style="list-style-type: none"> 1. Cumbersome logistics 2. Poor infrastructure 3. Abundant red tape 4. Shortage of skilled workers 5. HIV Aids 6. Lack of capital 7. Labour productivity 8. Crime 9. Exchange rate volatility |
| <p>2006 Grant Thornton, International Business Owner's Survey</p> <p>Grant Thornton (2006): <i>International Business Owners Survey</i>.</p> | <p>Regulation and red tape is the greatest constraint to expansion of business in S.A.</p> |
| <p>2006 SADC Business Climate Survey</p> <p>World Bank and South African Department of Trade and Industry (2005): South Africa: An Assessment of the Investment Climate.</p> | <p>Main challenges:</p> <ol style="list-style-type: none"> 1. Exchange rate fluctuations 2. Crime, theft, and corruption 3. Economic and regulatory policy uncertainty 4. Customs regulations, procedures, and bureaucracy 5. Access to and cost of finance |
| <p>2005 SA Investment Climate Survey</p> <p>Southern African Development Community and GTZ (2006): <i>Business Climate Survey Summary of Results for the SADC Region</i>.</p> | <p>Firm's biggest concerns:</p> <ol style="list-style-type: none"> 1. Worker skills 2. Macro-economic instability 3. Labour Regulations 4. Crime 5. Tax Rates |
| <p>2006, Bureau of Market Research: Growth Constraints Survey</p> <p>Bureau of Economic Research (2006): SA Economic Growth Constraints: Results from a BER Survey.</p> | <p>Factors inhibiting business growth:</p> <ol style="list-style-type: none"> 1. Labour regulations 2. Electricity supply 3. Official red tape 4. Policy support 5. Municipal services 6. Highly skilled labour |
| <p>2005 Counting the Cost of Red Tape</p> <p>Small Business Project (June 2005): Counting the Cost of Red Tape for Business in South Africa.</p> | <p>Factors inhibiting business growth:</p> <ol style="list-style-type: none"> 1. Weakness in economy/ demand 2. State interface/ regulations 3. Labour Problems 4. Capital cost/ access 5. Skills constraints <p>Factors inhibiting employment growth:</p> <ol style="list-style-type: none"> 1. Lack of confidence in economy 2. Labour laws/ government regulations in general 3. High labour costs 4. Lack of skills in labour market 5. Productivity, reliability, and quality of work |

Survey of Cape Town Investment Constraints

The main constraints identified in the Cape Town Investment Constraints survey probably impact on the majority of the +-60,000 formal businesses in Cape Town and the prospects for their future sustainability, competitiveness, investment, and growth. The following table summarises those constraints which were found to have a severe negative to debilitating impact on the firms responding to the survey. These are ordered according to the largest number of responses that identified the particular constrain as having a severe negative to debilitating impact on the firm

INVESTMENT CONSTRAINTS HAVING A SEVERE NEGATIVE TO DEBILITATING IMPACT ON BUSINESS OPERATIONS BY PROPORTION OF RESPONSES:

| Constraint | % of responses identifying constraints as having a severe negative to debilitating impact on business operations. |
|---------------------------------|--|
| Crime in general | 72% |
| Electricity in general | 71% |
| Telecommunications | 65% |
| Public Transport | 60% |
| Telecommunications costs | 54% |
| Electricity supply | 45% |
| Skills and education of workers | 45% |
| Education system in general | 42% |
| Telecommunications availability | 39% |

Measures to deal with crime are costing businesses 0.5%-7.*% of annual turnover in Cape Town, compared to the national average of 1.1%.

Additional investment constraints have been identified as follows:

SUMMARY OF INVESTMENT CONSTRAINTS : 5 BIGGEST OBSTACLES TO STARTING AND OPERATING A BUSINESS AND WEAKNESSES OF THE BUSINESS ENVIRONMENT

| | Priority Constraints from Investment Constraints Survey (in order from most severe constraint) |
|--|---|
| 5 Main Obstacles to Starting a Business | <ol style="list-style-type: none"> 1. Red tape (local government) 2. Labour regulations (starting a businesses) 3. Red tape (national government) 4. Telecommunications cost 5. Electricity reliability |
| 5 Main Obstacles to Operating a Business | <ol style="list-style-type: none"> 1. Violent crime 2. Inadequate roads 3. Property crime 4. Electricity reliability 5. Telecommunications cost |
| 5 Main Weaknesses of the Business Environment | <ol style="list-style-type: none"> 1. Lack of skilled workers 2. Poor safety 3. Lack of public transport 4. Reliability of electricity 5. Parking problems/ availability |
| Priority Municipal processes seen as having unfavourable/ unreasonable impact on business | <ul style="list-style-type: none"> • Time to respond to queries • Time to approve building plans • Time to approve re-zonings • Building regulations • Filming and linked environmental regulations • Signage regulations |

Sector-specific constraints for the five sectors can be summarized as follows in terms of those constraints impacting on both existing firms as well as potential new foreign investors:

SUMMARY OF SECTOR-SPECIFIC INVESTMENT CONSTRAINTS ON DOMESTIC AND FOREIGN INVESTMENT AND INVESTMENT FACILITATION

| Existing Firms/ Investor's Constraints | New Potential Foreign Investor's Constraints |
|---|---|
| <ul style="list-style-type: none"> • Crime, Safety and Policing • Social Issues • Public Transport • Skills development • Labour legislation and productivity • COCT regulatory constraints • COCT lengthy land purchase processes | <ul style="list-style-type: none"> • High telecommunications costs • Crime, Safety, and Policing • National regulations regarding air access, foreign exchange controls, import duties, and labour legislation • Inadequate port facilities • COCT development facilitation and service delivery processes |

In addition, the following foreign investment facilitation constraints have been identified by Wesgro management:

- Lack of supportive COCT culture and alignment with Wesgro processes regarding development facilitation processes to facilitate investment and land development
- Lack of clear COCT processes to consider new innovative service delivery processes and technologies
- Lack of clear COCT processes to address investor retention/ aftercare service delivery and infrastructure constraints
- Lengthy COCT land purchase processes (esp. in Atlantis) and building plan approvals
- Inability of COCT to engage with Wesgro and foreign service providers in energy, water, and waste service delivery

Finally, regarding topical issues such as BBBEE and HIV/ Aids, the survey found that:

20% of firms believe that HIV Aids has negatively impacted on the business. Of these 20%:

- 68% believe HIV Aids has lowered productivity.
- 68% believe HIV Aids has increased labour turnover.
- 89% believe HIV Aids has increased absenteeism.
- 68% believe HIV Aids has increased company medical costs.
- 25% believe HIV Aids has adversely impacted on fixed investment.

Regarding BBBEE:

- 22% of the businesses surveyed had entered into a joint venture with a BEE partner.
- Just under 50% of businesses believe enhancing black ownership is important for their business, and around 10% are unsure
- Just under 20% felt information on BBBEE was not readily available to their business and 25% felt that this information was not easy to understand
- 60% of businesses were not aware of any government support schemes available to businesses wanting to improve their BBBEE status
- 62% of businesses felt that foreign investors should be doing more to promote BBBEE.
- Respondents (both businesses with some % of foreign ownership as well as businesses with no black ownership) showed a high level of uncertainty with respect to both the historical impact as well as the expected future impact of BBBEE on their business. This was partly related to the timing of the survey which took place just before the final BBBEE Codes were approved by cabinet.

With regards to the constraints facing businesses in improving their BBBEE profiles, the three main constraints identified are:

- 47% listed availability of skilled black staff
- 22% listed lack of experienced or entrepreneurial BEE partners
- 13% listed finding finance for BEE partners to buy into business

Conclusion and Recommendations

The various investment constraints have been divided into two categories:

- a) Constraints which the COCT has direct control over addressing (i.e. which only require COCT action to address)
- b) Constraints which the COCT has indirect influence over addressing (i.e. which require actions by both the COCT as well as other organizations)

The following table contains recommendations to address investment constraints which are primarily within the sphere of control of the COCT and which require the COCT consideration:

RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPE TOWN SPHERE OF CONTROL:

| Investment Constraints Within COCT Sphere of Control | Recommendation |
|---|---|
| <ul style="list-style-type: none"> • COCT culture and systems not supportive of investment promotion, including infrastructure constraints and access to land | <ul style="list-style-type: none"> • Develop Services Charter which specifies clear time-frames within which service will be delivered and decisions will be made, for example for land purchases, building plan approval etc. • Refine management performance system aligned to Services Charter • Develop spatial map of existing and expected economic infrastructure constraints and medium term requirements. |
| <ul style="list-style-type: none"> • COCT regulatory impacts, particularly for the Film Sector regarding environmental regulations and Film Office billing problems (due to SAP), as well as the construction sector regarding building plan approval time-frames; | <ul style="list-style-type: none"> • Initiate Regulatory Framework Review and Red Tape Reduction Process with the private sector to identify specific problem areas or business processes and develop solutions • Develop Services Charter which specifies clear time-frames within which service will be delivered and decisions will be made, for example for land purchases, building plan approval etc. • Explore e-government solutions to business processes to reduce bureaucratic burdens |
| <ul style="list-style-type: none"> • Development facilitation of strategic investment projects including co-ordination of development process, provision of incentives, and aligned investor after care and development facilitation processes between Wesgro and COCT | <ul style="list-style-type: none"> • Wesgro and the COCT need to enter into a Service Level Agreement specifying agreed processes and service delivery performance standards to address service delivery constraints faced by investors • COCT to design Investment Development Facilitation Unit with appropriate delegations and level of authority and expertise to coordinate and fast track COCT processes, and act as COCT's investor point of entry to one stop shop to facilitate both major expansions of domestic business as well as new foreign investments • Refine management performance system incl. KPIs to reflect fast-tracking of investment process • Approve draft COCT investment incentives policy and implement and monitor for one year pilot period and review and refine there-after. |

The top priority recommendations which require immediate implementation are as follows:

- Initiate Regulatory Framework Review process (this is currently underway);
- Develop Wesgro-COCT Service Level Agreement regarding investment facilitation processes;
- COCT to design Investment Development Facilitation Unit and refine relevant investment facilitation business processes;
- COCT to approve and implement Financial Incentives Policy

The following table contains recommendations to address investment constraints which the COCT can only indirectly influence through inter-governmental relations, lobbying, leadership, and partnerships:

RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPE TOWN'S INDIRECT SPHERE OF INFLUENCE

| Investment Constraints Within COCT's Indirect Sphere of Influence | Recommendation |
|---|--|
| <ul style="list-style-type: none"> • Electricity reliability and cost | <ul style="list-style-type: none"> • Facilitate electricity infrastructure projects with Province • Strengthen coordinated communication strategy in place between Eskom, Wesgro, COCT, and PGWC to address investor/ business risk concerns/ perceptions |
| <ul style="list-style-type: none"> • Public transport efficiency, coverage, reliability, and safety | <ul style="list-style-type: none"> • Establish Metro Public Transport Authority (currently under consideration) to address coordination and investment and safety issues including key issues re links to airport and 24 hour public transport. • Enhance policing of taxis and bus priority lanes • Improve the quality and safety of public transport interchanges • Increase residential densities along public transport routes • Improve the rail service including safety (with PGWC) • Rationalise bus routes (with PGWC) • Introduce 24 hour public transport (with PGWC) |
| <ul style="list-style-type: none"> • Social issues especially the quality of education and health care service provision result in unproductive labour force and severely constrains economic transformation and participation of HDIs | <ul style="list-style-type: none"> • Provincial education and health promotion strategies to contribute towards enhanced labour market productivity. |
| <ul style="list-style-type: none"> • Telecommunications costs and broad-band availability. | <ul style="list-style-type: none"> • COCT should implement a Metropolitan Telecommunications Network which provides the public with cheap access to the internet and broad-band. |
| <ul style="list-style-type: none"> • Lack of adequately educated, trained, and experienced skilled workers; | <ul style="list-style-type: none"> • Regional sector development organizations to facilitate skills development strategies with COCT and PGWC support and relevant SETAs and Department of Labour and Higher Education Institutions. |

RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPE TOWN'S INDIRECT SPHERE OF INFLUENCE (CONT.)

| Investment Constraints Within COCT's Indirect Sphere of Influence | Recommendation |
|--|--|
| <ul style="list-style-type: none"> • Crime (particularly property and violent crimes) | <ul style="list-style-type: none"> • Establish Tourism Crime Forum to coordinate tourism crime strategy • Strengthen business against crime initiatives such as CCTV cameras in crime hot spots • Strengthen Municipal Court System and Metro Police effectiveness |
| <ul style="list-style-type: none"> • Perceptions regarding the impact and implementation of BBEEE | <ul style="list-style-type: none"> • PGWC, COCT, Wesgro, CTRU and Sector Development Organisations to develop clear position regarding FDI and BBEEE • Above role-players to develop clear guidelines and support resources to assist companies to promote BBEEE. |
| <ul style="list-style-type: none"> • Limited air access and direct flights for tourism (North America) as well as freight (e.g. West Africa) | <ul style="list-style-type: none"> • CTRU, Wesgro, Sector Organisations to conduct research to clarify current status quo and inform lobbying process with national government and airlines |
| <ul style="list-style-type: none"> • Inadequate Port facilities for the tourism, oil and gas, and boat-building sectors. | <ul style="list-style-type: none"> • COCT MOU and City NPA Steering Committees to be strengthened to ensure economic development constraints are presented to appropriate structures, including the Mayor, • COCT to lobby NPA to ensure alignment between economic/industry development goals and NPA plans for the port. |
| <p>Effective resourcing of investment promotion strategy to:</p> <ul style="list-style-type: none"> • Effectively address key constraints/ lobbying strategies, • Adequately package investment opportunities • Effectively target appropriate individual investors • Effectively implement an investor after-care program • Develop an investment and funding strategy for tourism product development across the Province | <ul style="list-style-type: none"> • PGWC and COCT to engage with Wesgro to identify critical investment promotion blockages and constraints to inform resource allocations. |

The top priority recommendations which require immediate implementation are as follows:

- Improve public transport system through a range of strategies including establishment of the Metropolitan Public Transport Authority
- Co-ordinate City crime prevention strategy including enhancing existing initiatives such as Business Against Crime, Metropolitan Police, and Municipal Courts
- Metropolitan Telecommunications Network to offer public access to broadband
- Cape Town Air access strategy to enhance direct flight access for both freight and passengers to key trade and tourism markets esp. North America and West Africa.
- Strengthened high level interaction between the COCT and NPA regarding future port development and options to meet the economy's and key sector needs
- Effective resourcing and refinement of the Provincial Investment Strategy.

The following additional observations are key to the above recommendations:

1. It is recommended that the COCT develop additional responses to effectively address the identified priority investment constraints.

The key overarching recommendation is that the COCT needs to become more responsive to business needs. The feedback received from the survey respondents has shown that high levels of dissatisfaction exist with certain services and that this is resulting in a range of unnecessary business costs and inefficiencies which in turn impact on reduced competitiveness, business growth, employment growth, and ultimately poverty reduction. The COCT therefore needs to review and refine its various customer relationship management, customer service, and business processes with a view to becoming more responsive to business needs.

2. Many of the investment constraints require sophisticated and well informed lobbying processes which in turn require close strategic interaction at the highest political level between Wesgro the COCT, Provincial Government, Regional Sector Development Organisations, Para-statal, and national Departments. The Province and COCT need to review whether existing inter-governmental structures are effectively facilitating this interaction or not.
3. Many of the investment constraints are largely the product of institutional development issues (e.g. COCT Culture, sub-optimal alignment between Wesgro and COCT processes) and depend on energetic leadership which recognizes the magnitude and importance of the problem and ensures that management solutions are implemented. Political leadership could contribute towards the success of addressing these issues. Communication of the research results with the COCT's Mayor and key politicians is an important way forward process.
4. The COCT and Wesgro have the opportunity to refine their external communication strategies in a coordinated manner to build on the understanding of investment constraints and build business and investor confidence by demonstrating initiatives are underway and successes are being achieved to minimize certain investment constraints. Wesgro and the COCT should also extract investment survey feedback which rates certain investment climate issues positively in Cape Town and communicate these to potential investors as such messages will carry weight (i.e. the views of existing businesses) and help to reduce risk perceptions.

Two key initiatives require explicit focus: Telecommunications and Metro Telecoms Network; Public Transport and 2010. Explicit communication strategy coordination mechanisms need to be put in place with key role-players for the following cross-cutting issues: Crime; Public Transport; and Electricity. In addition, specific communication strategies need to be developed at communities to address key economic development challenges, for example:

- Raise the understanding of the broader social and economic contributions of key sectors (e.g. especially tourism and film)
 - Raise the understanding of career opportunities and skills requirements in growth niches to inform study and career choices at school level.
5. The COCT and Wesgro need to put in place mechanisms which recognize and reward the business, financial and social contributions which business (domestic and foreign) make to the COCT. One way to do this is through an Annual Awards Function, such as an Annual Mayor's Investor Award. The design of Mayor's Investor Award should recognise the broader economic and social contribution of growing businesses in Cape Town and could include strategic corporate sponsor/ partner and categories could include:
 - Fast growing BEE company (job growth)
 - Most socially responsible foreign invest(ment) etc.

1 Introduction and background

1.1 Introduction and Report Purpose

The COCT has requested Wesgro to identify constraints to investment in Cape Town's business environment in order to inform actions aimed at accelerating investment and job creation. Wesgro is the Provincial Trade and Investment Promotion Agency, funded by the COCT and Western Cape Provincial Government and tasked with facilitating the Western Cape's investment and trade promotion.

Internationally, and as part of the **Accelerated and Shared Growth Initiative of South Africa (Asgisa)**, the promotion of domestic and foreign direct investment is recognized as being crucial to economic growth and poverty reduction. South Africa's level of economic growth has recently increased to the 4-5% level with Asgisa targeting a 6% average growth rate of 6% between now and 2014 to halve poverty and unemployment.

At the same time, numerous constraints to investment exist at various levels, from the global to the national to the local. At the national level, Asgisa has identified the following six broad constraints to economic growth in South Africa:

| Constraints to South Africa's economic growth |
|---|
| 1. Volatility and level of the currency; |
| 2. Cost, inefficiencies and capacity shortcomings of the national passenger and freight logistics system; |
| 3. Shortage of suitably skilled labour amplified by the cost effects on labour of apartheid spatial patterns; |
| 4. Barriers to entry, limits to competition and limited new investment opportunities; |
| 5. Regulatory environment and, in particular, the burden on small and medium businesses; and |
| 6. Deficiencies in state organisation, capacity and leadership. |

Whilst many of these constraints are being addressed at a national level, addressing investment constraints at a local level can also make an important contribution towards accelerating investment, economic growth, and poverty reduction.

The purpose of this report is therefore to identify local level constraints to investment in Cape Town's business environment. The focus is on the identification of local level constraints which can be directly or indirectly influenced by the COCT local government and/ or Wesgro. Constraints which can be directly influenced include local service delivery and infrastructure, for example, related to water, transport, and electricity, as well as local by-laws. Constraints which can be indirectly influenced include provincial and national legislation and regulations.

Investment constraints which are internal to a company (for example, company strategy, management skills) cannot be influenced at a city or local level and are therefore not the focus of this research. Other surveys, such as Price Waterhouse Coopers' *Private Company Business Insights Survey 2006*, examine internal company issues which impact on business investment.

1.2 Report Structure

This report contains five sections as follows:

| | |
|------------------|---|
| Section 1 | Introduction and Background This section explains the purpose and focus of the report, provides brief background in the importance of investment, and summarises the research methodology. |
| Section 2 | Summary of Existing Research on South African Investment Constraints This section gives a brief overview of the key findings relevant to investment constraints from a range of international and national level surveys and research, with a focus on national level investment constraints, to contextualise Cape Town's local level investment constraints. |
| Section 3 | Cape Town Investment Constraints This section presents the key findings from the Cape Town Investment Constraints Survey. Investment constraints pertaining to Cape Town's business environment as well Municipal-level investment issues are presented. This includes specific sections on past and future business trends by sector, crime, HIV/Aids, and Broad-Based Black Economic Empowerment. In addition, constraints to foreign direct investment are discussed (based primarily on inputs received from Wesgro). |
| Section 4 | Sector-Specific Investment Constraints and Possible Actions This section presents findings on sector-specific constraints to investment in the tourism, film, information and communications technology, oil and gas, business process outsourcing and boat-building sectors, together with possible actions to address these constraints. |
| Section 5 | Conclusion This section prioritises Cape Town's investment constraints and makes recommendations to address these constraints. |

1.3 What is Investment and Why is Investment and the Local Business Environment Important?

What is Investment?

Investment covers a wide range of activities that involve the allocation of resources between competing demands in order to maximise the returns on that investment. Investment allows firms to expand through:

- Increased production
- Reduced costs
- Productivity improvements
- Innovation and new product/ service development

Investment is therefore about choices. Factors which constrain those choices, or reduce the rate of return, or which complicate or delay the investment process, in a particular locality can result in lost investments, reduced job creation, or actual job losses.

Investment can be undertaken by government, or the private sector. Private sector investment can be undertaken by domestically owned or foreign owned, or some combination of domestic and foreign-owned businesses. This report focuses on domestic investment as well as foreign direct investment (see the glossary for definitions of FDI).

Why is Investment Important?

Investment takes place at the level of the firm. In dynamic markets firms that don't invest lose market share and their sustainability is compromised. A national and a local business environment which supports investment is therefore critical for sustainable economic development.

A critical ingredient for economic growth and poverty reduction is investment. Research (OECD: 2006) has shown that in countries where economic growth is high, total domestic and foreign investment often exceeds 25% of **gross domestic product** (GDP). In sub-Saharan Africa, gross fixed capital formation has been around 18% for the last two decades (OECD: 2006).

A brief snap shot of global economic trends places the importance of investment in global perspective. Over the past two hundred years, the critical driving force behind reducing poverty in developed countries has been the growth of, and participation in, the economy. Recent research (Sachs: 2005) has shown that economic growth in Africa averaged 0.7% per annum and per capita income increased four times from \$400 to \$1,300. Compared to an economic growth of 1.7% per annum in the United States and a twenty times increase in per capita income from \$1,300 to \$30,000. A 1% difference in economic growth over a long period of time therefore can substantially impact on a nation's income levels.

Regarding foreign direct investment, South Africa and Cape Town have arguably not attracted their full potential share of global foreign direct investment, as illustrated by the following:

- Partly due to foreign investor perceptions of high political and economic risk, Africa has only been able to attract about 4% of private global capital flows despite having the highest rates of return in the world (Mills: 2004)
- South Africa is regarded by the **United Nations Conference for Trade and Development (UNCTAD)** as an "underperformer" in terms of actual FDI attracted relative to investment competitiveness and opportunities

Nevertheless, foreign direct investment in South Africa has averaged between R5-7 billion over the past two years (Economist Global Intelligence Unit). Wesgro has been involved in R4.786 billion of foreign direct and domestic investment in 2005/06.

South Africa is expected to tap into a growing proportion of global foreign direct investment as important investor risks are reduced and certainty increased. The ability to enhance South Africa's cost competitiveness, as well as effectively facilitate the investment process for foreign investors, will impact on the amount of foreign direct investment attracted to Cape Town in the future.

Over and above new foreign direct investment, there is growing recognition that the majority of new investment comes from existing investors. For example, in developed countries, 75% of investment is made by existing investors through new expansions, new functions, and new suppliers (IBM, International Plan Location: 2003). As a result, investor aftercare and business retention strategies to maximise investment by existing companies are increasingly being implemented. Wesgro is currently implementing such a service.

Local Economic Development, the Local Business Environment, and Red Tape

Local Economic Development activities are increasingly supported by local and provincial governments in South Africa. As the importance of private sector investment has become increasingly recognised, the importance of ensuring a Local Business Climate which is supportive of investment is in place has also grown.

Sometimes the effects of legal, political and institutional frameworks, implemented at a local level impacts negatively on the business climate. LED initiatives aimed at, for example, small business support, will only show very limited impact if they are designed within a local business environment that is not conducive to investment.

Key factors which impact on the Local Business Environment include:

- Bulk Infrastructure availability, quality and capacity for water, electricity, waste and refuse;
- Basic Services availability, cost, quality and reliability such as water, electricity, and public transport;
- Social services such as health and education;
- Local government taxes and financial policies;
- Local government rules, regulations, and procedures;
- Mechanisms for public and private interaction; and
- Local environmental quality.

It must be stressed that it is often not possible to identify if an investment constraint is primarily local, provincial, or national in nature as the three spheres of government are often responsible for various aspects related to a constraint, for example crime or infrastructure. This research therefore focuses on identifying constraints which are primarily local in nature. **Figure 1** contains a range of factors in the business environment which local government has a direct impact on. At the same time, constraints which require action from all three spheres of government are also identified.

FIGURE 1: FACTORS IN THE BUSINESS ENVIRONMENT IMPACTED BY LOCAL GOVERNMENT

| Service Delivery | | | Governance | | |
|------------------------------|---------------------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
| Infrastructure & environment | Social services | Business services | Policy, laws & regulations | Administration & procedures | Govt-Business inter-face |
| Roads | Residential quality | Bus. development services | Taxes & levies | Management structures | Dialogue |
| Electricity/ Energy | Educ. training & research | Financial service | Planning/ zoning | Decision making | Partnership |
| Water & sewerage | Health | | Environmental | Reporting procedures | Participation |
| Built & natural environments | Recreation & culture | | Sector regulations | Skills & capacities | Service inter-face |
| Property/land | | | Health | | Communication & information |
| ICTs | | | Trading | | Procurement |

Source: GTZ presentation on Red Tape (2006)

The term Red Tape has emerged as one of the main Local Business Climate issues and this will be further discussed in Section Two which analyses the existing investment constraints surveys in South Africa. Red tape comprises local rules, regulations and procedures, and government – private interfaces or interactions. Rules etc. are labelled as Red Tape when they produce unnecessary costs for doing business.

A number of national and local initiatives have recognised the importance of the regulatory environment at a local level and its impact on constraining investment, including the following:

- The President's office and ASGISA have prioritised municipal effectiveness and efficiency due impacts on accelerating growth;
- The National Department of Provincial and Local Government is rolling out a Municipal Red Tape programme in selected areas;
- The COCT's Business Support Policy (2003) acknowledges the importance of a supportive legal and regulatory environment that encourages the establishment and graduation of small businesses; and
- The COCT has initiated a Regulatory Framework Review process (starting in 2007) to enhance the enabling business environment.

One of the reasons why government's attention has turned towards the regulatory environment is that Red Tape has been identified as having a particularly negative effect on job creation, the level of unemployment, and small business formation and survival. The World Bank's global Doing Business Survey has found that , where regulations are costly and burdensome, businesses often operate in the informal economy—and remain small, creating few jobs. In South Africa, burdensome regulations have probably resulted in lower than desired job creation as well as fewer new black entrants into the economy.

The provision of a local business environment, which is supportive of small business establishment and survival, is therefore a government priority. However, many start-ups do not survive more than 5 years, and fewer still develop into high-growth firms In the Western Cape, rate of SMME formation is very low and the rate of SMME failure is very high (University of Cape Town: 2006). Red Tape is seen to be one of the contributing factors to this situation. Certain regulations have disproportional impacts, especially Labour regulations and Tax regulations, on small businesses due to the costs of compliance (cost per worker) being higher. The administrative burden and time costs are most costly (as opposed to the direct monetary costs).

This research report therefore goes into Red Tape issues in Cape Town in some detail as one of the local business environment and investment constraint issues.

1.4 Research Methodology

The terms of reference for this report include the identification of “the top ten obstacles constraining investment in Cape Town.” Furthermore, the term of reference state that the report should be divided into two main sections:

- Part A: A synopsis of the key findings of the national, provincial and municipal-based studies on constraints to investment; and
- Part B: The results of a survey of investors in the Cape Metropolitan Area concerning the investment environment with a focus on the municipal environment and services.

The research process followed a very tight three month time period as specified in the project brief (September-November 2006) which covered the following phases:

1. Analysis of existing investment constraints research
2. Design of survey sample and questionnaire (including request for comments on draft questionnaire from Wesgro and the COCT)
3. Recruitment and training of field-workers
4. Pilot survey
5. Revision of questionnaire
6. Scheduling of appointments with high level decision-makers
7. Completion of appointments
8. Data coding (for open ended questions)
9. Data analysis
10. Report-writing.

Based on a review of existing investment climate and other business surveys, as well as the existing investment literature in South Africa, a 31 page questionnaire was designed, piloted, and refined¹. This questionnaire was also work shopped with Wesgro, COCT, sector specialist, and other business representatives where further input was requested.

The interview took approximately 60-65 minutes to complete, and senior management representatives were interviewed. The survey was able to collect a wide range of perceptions regarding the business environment and specifically the role local government plays in providing and/or constraining business growth. The survey was able to gather categorical data ranking the performance of local government, very precise measurements of factors impacting on business including employment growth and spending on security infrastructure and qualitative data on amongst other issues, future infrastructure development, issues local government needs to raise with strategic para-statals and the preferred role of Wesgro.

Fieldwork on the project commenced on 25 September 2006 and the final interview included in the analysis was under taken on 7 November 2006. There was a large degree of resistance and reluctance of businesses to schedule appointments for interviews.

In addition to the survey of Cape Town businesses, three additional qualitative research components were carried out to provide more detailed information:

- a) Sector specific investment constraints in six sectors (see **Section 4**);

To identify sector-specific constraints, a number of detailed interviews with companies as well as Western Cape sector development organization CEOs in the following six sectors were undertaken:

- Tourism
- Film
- Information and Communication Technologies
- Business Process Outsourcing
- Oil and Gas
- Boat-building

- b) A national perspective on the relative investment attractiveness of Cape Town compared to the other major metropolitan cities (see **Section 3**).

To identify national investment perspectives, interviews with a number of companies in the tourism, film, and construction sectors were undertaken using an additional questionnaire attached as Annexure A (b). Companies with a national presence (at least offices in the main metropolitan cities including Cape Town) were interviewed.

- c) The identification of foreign direct investment facilitation constraints (see **Section 3**).

A discussion with Wesgro management involved in the facilitation of foreign direct investment took place in order to identify factors which were either holding back investments, or resulting in lost investments.

The section below provides more detail on the sampling approach for the primary data collection component of this study.

Sample Allocation

Wesgro identified that the project budget allowed for a total of a maximum of 150 interviews. Thus a quota sample was decided on by Wesgro.

¹ Copies of the questionnaire can be requested from Wolpe Development Strategies.

At the outset, Cape Town's current 10 priority growth sectors (as identified by the COCT) were identified for inclusion into the sample design namely: Textiles and Clothing; Tourism; Information and Communication Technology; Boatbuilding; Film/video/TV Production; Oil and Gas; Metal Manufacturing and Engineering; Agri-Processing; Call Centres and Business Process Outsourcing; and Arts and Crafts. Hence a target of 15 businesses per priority sector was set. This target was revised downwards with Wesgro for certain sectors towards the completion of the survey as it was agreed to include a component that was not part of the original project terms of reference, namely the qualitative in depth interviews for the six sectors.

In addition to the 10 priority growth sectors, the sample was designed to obtain an even spread of companies across the following additional sample criteria:

- Employment and turnover size distribution between small, medium and large
- Age range between new, medium and old firms
- Geographic spread across the COCT including old and new industrial and commercial areas
- Exporter status
- Mix of domestic and foreign ownership
- BEE status (ownership profile)

The Regional Service Commission (RSC) Levy database² (containing over 50,000 formal businesses) was used to design the sample. Although the database contains flaws it is the most comprehensive list of Cape Town businesses available

The total number of companies in the 10 Cape Town growth sectors represent 19.2% of total companies contained in the RSC Levy database (therefore roughly 19-20% of the number of formal companies in Cape Town). This means that the survey is by no means representative of all business views across the entire Cape Town economy. Important sectors such as retail and wholesale and financial services are not covered in the survey as they are not part of the COCT's top ten growth sectors.

The final realised sample indicated in **Table 1** below outlines the final sample of interviews included in the analysis. A total of 102 interviews were completed. Over 700 companies were telephonically contacted to participate in the survey. The low response rate can be attributed to the busy end of year when the survey was conducted, the short amount of time available to the research team within which to set up appointments with busy high level respondents, as well as the survey fatigue experienced by companies in Cape Town. Efforts made to enhance the response rate included distribution of a letter of support signed by the Mayor of Cape Town.

TABLE 1: CAPE TOWN PRIORITY SECTORS: TOTAL COMPANIES IN RSCY LEVY DATABASE AND
TOTAL NUMBER INTERVIEWED

| Cape Town Growth Sector | Total in Levy database | Total Interviewed |
|--|------------------------|-------------------|
| Textiles and Clothing | 868 | 11 |
| Tourism | 3,468 | 9 |
| Information and Communication Technology | 1,701 | 7 |
| Boatbuilding | 157 | 5 |
| Film, Video and TV Production | 718 | 10 |
| Oil and Gas Service Industry | 134 | 5 |
| Metal Manufacturing and Engineering | 1,401 | 9 |
| Agri-Processing | 833 | 8 |

² Due to unknown response rate bias for such an undertaking and the high level of refusals substitutions were used as necessary in an attempt to attain the targets. During the fieldwork process, the RSC Levy data base was supplemented by lists from the Cape Town Chamber of Commerce, the West Coast Chapter of the Chamber of Commerce, project managers at Wesgro and various sector bodies.

| | | |
|---|---------------|------------|
| Call Centres and Business Process Outsourcing (including business support services) | 721 | 4 |
| Arts and Craft | 0 | 6 |
| Construction/Property Management | n/a | 5 |
| Transport/logistics | n/a | 9 |
| Other | n/a | 13 |
| Total | 10,001 | 102 |

Additional interviews, particularly in the Construction/Property Management and Transport/Logistics clusters were included in the sample given their exposure to local level investment constraints. The 'other' category of interviews is made up of waste processing; chemical production; fertiliser production; and production of skin care products. (it may be that this is due to errors in the RSC Levy database or the diversification of the core business since enlistment in the RSC Levy database).

1.5 Conclusion

The identification of investment constraints at a local level is receiving increasing attention within South Africa. It is increasingly recognized that local level investment constraints play an important role in limiting investment, job creation and economic growth.

Section two summarises the existing South African research on investment constraints. This analysis is used to inform the Cape Town Investment Constraints Survey which focuses in more detail than existing research on local level constraints.

2 Summary of Existing Research on South African Investment Constraints

2.1 Introduction

Section 2 summarises the key findings regarding priority constraints to investment as identified in the following research:

- 2006 World Bank: Doing Business Global Survey
- 2006 Grant Thornton, International Business Owner's Survey
- 2006 Southern Africa Investment Climate Survey
- 2005 SA Investment Climate Survey
- 2006 Bureau of Market Research: Growth Constraints Survey
- 2006 DTI Review of Administrative Barriers: Land Development
- 2005 AFReC, Impact of Municipal Regulations on SMMEs
- 2005 Rankin, The regulatory environment and SMMEs: Evidence from South African firm level data
- 2005 Counting the Cost of Red Tape

The purpose of reviewing the existing research is two-fold:

1. To identify known investment constraints (primarily national level constraints)
2. To inform the design of the Cape Town Investment Constraints survey instrument

A comparison of the survey methodologies of each of the above reports is beyond the scope of this project. Needless to say, caution must be exercised when comparing the results of any of these surveys as different sampling and survey methodologies have been used and the surveys have taken place at different points in time.

In addition, an analysis of South Africa's investment constraints within a global context is also beyond the scope of this report, although brief references to this are made. South Africa's global rankings with respect to certain investment constraints which impact on the cost of doing business and investment profitability is particularly important with respect to foreign direct investment constraints.

None of these surveys targeted either existing or potential foreign investors. The only survey that contained data from these target groups was conducted by MIGA and its findings are summarized in Section 3.6.

Table 2 contains a summary of the main investment constraints identified in various existing surveys. The remainder of Section 2 details the various survey findings of each of these main investment constraints. This report does not attempt to evaluate or add additional analysis to these findings.

TABLE 2: SUMMARY OF MAIN INVESTMENT CONSTRAINTS IDENTIFIED IN EXISTING SURVEYS

| Survey | Main South African Investment Constraints |
|--|--|
| <p>2006 World Bank: Doing Business Global Survey</p> <p>World Bank (2006): Doing Business: Global Comparison of Business Regulations (http://www.doingbusiness.org/).</p> | <ol style="list-style-type: none"> 1. Cumbersome logistics 2. Poor infrastructure 3. Abundant red tape 4. Shortage of skilled workers 5. HIV Aids 6. Lack of capital 7. Labour productivity 8. Crime 9. Exchange rate volatility |
| <p>2006 Grant Thornton, International Business Owner's Survey</p> <p>Grant Thornton (2006): <i>International Business Owners Survey</i>.</p> | <p>Regulation and red tape is the greatest constraint to expansion of business in S.A.</p> |
| <p>2006 SADC Business Climate Survey</p> <p>World Bank and South African Department of Trade and Industry (2005): South Africa: An Assessment of the Investment Climate.</p> | <p>Main challenges:</p> <ol style="list-style-type: none"> 1. Exchange rate fluctuations 2. Crime, theft, and corruption 3. Economic and regulatory policy uncertainty 4. Customs regulations, procedures, and bureaucracy 5. Access to and cost of finance |
| <p>2005 SA Investment Climate Survey</p> <p>Southern African Development Community and GTZ (2006): <i>Business Climate Survey Summary of Results for the SADC Region</i>.</p> | <p>Firm's biggest concerns:</p> <ol style="list-style-type: none"> 1. Worker skills 2. Macro-economic instability 3. Labour Regulations 4. Crime 5. Tax Rates |
| <p>2006, Bureau of Market Research: Growth Constraints Survey</p> <p>Bureau of Economic Research (2006): SA Economic Growth Constraints: Results from a BER Survey.</p> | <p>Factors inhibiting business growth:</p> <ol style="list-style-type: none"> 1. Labour regulations 2. Electricity supply 3. Official red tape 4. Policy support 5. Municipal services 6. Highly skilled labour |
| <p>2005 Counting the Cost of Red Tape</p> <p>Small Business Project (June 2005): Counting the Cost of Red Tape for Business in South Africa.</p> | <p>Factors inhibiting business growth:</p> <ol style="list-style-type: none"> 1. Weakness in economy/ demand 2. State interface/ regulations 3. Labour Problems 4. Capital cost/ access 5. Skills constraints <p>Factors inhibiting employment growth:</p> <ol style="list-style-type: none"> 1. Lack of confidence in economy 2. Labour laws/ government regulations in general 3. High labour costs 4. Lack of skills in labour market 5. Productivity, reliability, and quality of work |

Based on the identification of main constraints above, the findings of existing surveys regarding the following investment constraints are discussed in section 2.2. These constraints are not ranked in any particular order but reflect the main constraints identified in the existing research:

- a) Labour Force Skills
- b) Labour Regulations
- c) Official Red Tape
- d) Crime
- e) HIV/ Aids
- f) Trade Promotion (infrastructure, customs procedures, exchange rate)
- g) Cost of Financing
- h) Municipal Services
- i) Electricity
- j) Telecommunications
- k) Transportation

2.2 Discussion of Investment Constraints from Existing Surveys

Labour Force Skills:

The *South Africa Investment Climate Survey* (2005) found that labour force skills was the number one constraint to business growth in South Africa. The Grant Thornton International Business Owner Survey 2006 found that the lack of skills is felt most by business in Durban(46%) but Port Elizabeth and East London and Gauteng are just behind at 45%. At 36%, skills shortages do not hinder business as significantly in Cape Town.

The BER Survey found that highly skilled labour was the sixth most important business growth obstacle. Regarding skilled labour, firms in the services sector ranked this as the 9th growth constraint, while firms in the construction sector ranked this as the third most important growth obstacles.

Labour Regulations:

The South Africa Investment Climate Survey (2005) found that labour regulations were the fourth most significant constraint to business growth. The Bureau of Economic Research Survey (2006) found that labour regulations were the number one constraint to business growth. In the BER survey, 45% of respondents found labour regulations to have a serious or debilitating constraining influence on their business activity.

In addition, the BER Survey identified sectoral differences in the ranking of labour regulations as a growth constraint. Comparing the ranking of growth constraints by firms in the services and construction sectors, for example, the survey found that labour regulations are the number one constraint for construction firms (and third constraint for service sector firms) and electricity supply is the main constraint for service sector firms.

Table 3 ranks South Africa against various labour market indicators. South Africa ranks poorly for the difficulty of hiring and firing workers. This is presumably related to the timeous procedures involved.

TABLE 3: DOING BUSINESS GLOBAL RANKINGS FOR EMPLOYING WORKERS³

| Region or Economy | Difficulty of Hiring Index | Rigidity of Hours Index | Difficulty of Firing Index | Rigidity of Employment Index | Hiring cost (% of salary) | Firing costs (weeks of wages) |
|----------------------------|----------------------------|-------------------------|----------------------------|------------------------------|---------------------------|-------------------------------|
| East Asia & Pacific | 23.7 | 25.2 | 19.6 | 23.0 | 9.4 | 41.7 |
| Europe & Central Asia | 34.2 | 50.7 | 37.1 | 40.8 | 26.7 | 26.2 |
| Latin America & Caribbean | 34.0 | 34.8 | 26.5 | 31.7 | 12.5 | 59.0 |
| Middle East & North Africa | 29.7 | 44.7 | 32.9 | 35.8 | 15.6 | 56.9 |
| OECD | 27.0 | 45.2 | 27.4 | 33.3 | 21.4 | 31.3 |
| South Asia | 41.8 | 25.0 | 37.5 | 34.8 | 6.8 | 71.5 |
| Sub-Saharan Africa | 44.3 | 52.0 | 44.9 | 47.1 | 12.7 | 71.2 |
| South Africa | 44 | 40 | 40 | 41 | 2.4 | 24.0 |

Source: World Bank (2006): Doing Business: Global Comparison of Business Regulations (<http://www.doingbusiness.org/>).

Rankin's (2005) review of the existing investment constraints research regarding the impact of regulatory issues on SMMEs found that:

- Firms with predominantly unskilled labour forces are more likely to find labour regulations a constraint
- The negative consequences of the labour regulations fall primarily on the unskilled in smaller firms (in terms of reduced propensity to hire unskilled workers)
- 70% of firms believe that the Labour Acts have had no effect on employment level

Official Red Tape:

Red tape stands for rules and regulations and administrative procedures that impose unnecessary costs on business and/or government, or are not effective in achieving their policy goal, and therefore produces sub-optimal and undesired social outcomes. Red tape exists in both the public and private sectors and arises as a result of rules and regulations, administrative procedures, and the nature of other government - business interactions.

³ Table 2 contains the following indicators (Higher values in the table indicate more rigid regulations)

- difficulty of hiring a new worker (Difficulty of Hiring Index),
- restrictions on expanding or contracting the number of working hours (Rigidity of Hours Index),
- difficulty and expense of dismissing a redundant worker (Difficulty of Firing),
- an average of the three indices (Rigidity of Employment Index), and
- cost of a redundant worker, expressed in weeks of wages (Firing Costs).

The various surveys identify red tape issues in different ways and therefore comparisons are difficult. Red tape exists in a wide range of areas and often involves complex linkages between the three spheres of government. These linkages are generally not detailed in these surveys. For example, the South Africa Investment Climate identifies the following growth constraints which are all examples of specific red tape issues:

- Labour Regulations (3rd growth constraint)
- Trade Regulations (7th growth constraint)
- Tax administration (12th growth constraint)
- Legal System (15th growth constraint)
- Business Licensing (18th growth constraint)

The Counting the Cost of Red Tape survey identified the following regulations as being the most time consuming (in order from most time consuming to least):

1. VAT
2. Labour Laws
3. SARS tax administration
4. UIF
5. PAYE
6. SETAs/ training
7. RSC Levies (now abolished)
8. Municipal regulations and charges

With respect to Municipal Red Tape, the Counting the Cost of Red Tape report found that municipal regulations were ranked 9th out of 14 most time consuming, troublesome and costly regulations.

Rankin's (2005) review of the existing investment constraints research found local authority procedures to be the most cumbersome of the three spheres of government. Rankin also found that staff in smaller firms spend proportionally more time dealing with regulations than those in larger firms.

The *Review of the Impact of Municipal Regulations on SMMEs* identified land-use policies, licensing application processes, procurement and supply chain management processes, and municipal taxes and financial management policies (especially Property Rates, Levies and User Charges -including tariffs or water, sanitation, refuse removal and electricity-; Debt Collection) as being particularly problematic municipal red tape issues for SMMEs.

With respect to business licenses and permits, the SA Investment Climate found business licenses to be the 18th ranked obstacle to business growth. Rankin's (2005) review of the existing investment constraints research found that:

- Many firms don't regard these as obstacles in doing business in S.A.
- Increasing efficiency of the granting of business licenses and permits should benefit existing firms
- 18% of businesses believe that the number of permits required to start and operate a business was excessive

The *Review of the Impact of Municipal Regulations on SMMEs* report identified a number of municipal actions which can improve SMME survival and growth:

1. Maintenance is key to prevent disruptions and service breakdown.
2. Cleanliness and security
3. Customer care and prompt handling of complaints
4. Correct billing of accounts and providing incentives for prompt payment.
5. Deposits required should be lowered for small business
6. Unbundling of contracts to involve SMMEs
7. Shorter payment cycles since SMMEs have limited access to credit

The Grant Thornton International Business Owner Survey 2006 found that Red Tape was the biggest global constraint to business expansion. From a regional perspective, the survey

found that owners in Port Elizabeth and East London(55%) consider red tape as the greatest constraint, compared to 49% of business owners in Durban, 45% in Cape Town and 42% in Gauteng.

The BER survey found official red tape to be the third most significant obstacles to business growth. Services and construction firms found official red tape to be the second most significant obstacles to business growth. The BER survey also found Red tape to be a particular constraint to small companies. Geographically, survey found that the Western Cape is ranked as the 3rd worst province for red tape.

Crime:

The Southern Africa Investment Climate Survey identified issues that impact on cross border trade. Crime/ theft/ corruption was identified as the second most important business constraint. The South Africa Investment Climate Survey (2005) found that crime was the fourth most important constraint to business growth. In addition, the survey found that:

- Property crimes have been increasing, while violent crimes have reduced, over the past decade (citing a 2003 study)
- Firms report direct losses to crime amounting to 1.1% of sales/ turnover. This is higher than many middle income countries such as China, Brazil, Poland and Russia.
- Security costs account for 66.6% of the cost of crime- the remainder being caused by direct losses.
- Crime is more prevalent in retail and wholesale trade than manufacturing firms.
- Large firms tend to face higher losses from crime than smaller firms

A recent Financial Mail feature (Honey: November 24: 2006) on crime (citing various data sources from the World Bank, DTI, Business Against Crime etc.) found the following:

- 10.4% of the national budget goes to criminal justice with the state spending about R900/ person which is twice as much as the international average
- Businesses in South Africa spend an annual average of 1.1% of annual turnover on crime related expenditure. This percentage differed by sector
- The costs of crime in the consumer goods sector is R4.1 billion
- 26% of South Africans say they won't start their own businesses because of violent crime
- Crime may account for 30% of all business failures in South Africa

The latter two findings are critically relevant to identifying constraints to investment. Namely, crime has a major deterrent effect on new business establishment, as well as on influencing business closures.

HIV Aids:

The Grant Thornton International Business Owner Survey 2006 found that 35% of business owners think that HIV/AIDS will be a serious constraint to growth in next 5 years. 97% of businesses report that HIV/AIDS will negatively impact growth. Cape Town based businesses view HIV/Aids as less of a concern than businesses in Durban and Gauteng.

The South Africa Investment Climate Survey (2005) found the following:

- HIV/AIDS undermines economic development. Concerns exist about the medium-term impact of the epidemic
- Firms are concerned about the impact of the epidemic although only 6% report a strong impact on labour productivity while 4% show a significant negative influence on profits
- Absenteeism is the most visible effect of HIV/ Aids, with 25% of firms reporting a 5% increase in absenteeism
- 45% of businesses believe HIV/AIDS will have a strong impact on investment, productivity, market size and profitability

Trade Promotion: Exchange Rates, Customs Procedures and Logistics Infrastructure:

The Southern Africa Investment Climate Survey includes the identification of issues which impact on cross border trade. The number one constraint to cross border trade and investment was fluctuations in exchange rates.

In addition to exchange rate fluctuations, another set of factors which impacts on a country's foreign direct investment attractiveness is the ease and cost of exporting to foreign markets.

The Southern Africa Investment Climate Survey identified customs regulations, procedures, and bureaucracy as the fourth most important business constraint. The World Bank Doing Business Survey finds that importation time-frames are more heavily influenced by procedures and documentation, than infrastructure issues.

On average, the 2 stages that require "hard infrastructure"—ports and inland transport—account for only a quarter of the time in the import process. The preparation of pre-arrival documents accounts for more than half the time.

Table 4 shows trade facilitation time and cost rankings for the world's main regions and for South Africa. South Africa's main weaknesses relate to the time taken to complete import and export procedures. This performance can ultimately reduce South Africa's investment attractiveness as a destination, for example, servicing the Southern African market.

TABLE 4: TRADING ACROSS BORDERS: GLOBAL COMPARISON OF TIME AND COST FACTORS

| Region or Economy | Documents for export (number) | Time for export (days) | Cost to export (US\$ per container) | Documents for import (number) | Time for import (days) | Cost to import (US\$ per container) |
|----------------------------|-------------------------------|------------------------|-------------------------------------|-------------------------------|------------------------|-------------------------------------|
| East Asia & Pacific | 6.9 | 23.9 | 884.8 | 9.3 | 25.9 | 1,037.1 |
| Europe & Central Asia | 7.4 | 29.2 | 1,450.2 | 10.0 | 37.1 | 1,589.3 |
| Latin America & Caribbean | 7.3 | 22.2 | 1,067.5 | 9.5 | 27.9 | 1,225.5 |
| Middle East & North Africa | 7.1 | 27.1 | 923.9 | 10.3 | 35.4 | 1,182.8 |
| OECD | 4.8 | 10.5 | 811.0 | 5.9 | 12.2 | 882.6 |
| South Asia | 8.1 | 34.4 | 1,236.0 | 12.5 | 41.5 | 1,494.9 |
| Sub-Saharan Africa | 8.2 | 40.0 | 1,561.1 | 12.2 | 51.5 | 1,946.9 |
| South Africa | 5 | 31 | 850 | 9 | 34 | 850 |

Source: World Bank (2006): Doing Business: Global Comparison of Business Regulations (<http://www.doingbusiness.org/>).

The BER survey found that port infrastructure was not a serious problem. Port facilities for imports was ranked 15th and port facilities for exports 17th. These rankings would be stronger if responses from firms not using port facilities were to be excluded. 29% of manufacturers found port facilities to be a serious to debilitating problem compared to 16% for retailers, 8% for construction and 7% for services based firms.

The BER survey also found that 22% of small firms, compared to 15-17% of large firms found this factor to be serious to debilitating.

Cost of Financing:

The South Africa Investment Climate Survey 2005) found that the Cost of Financing was ranked as the eight most significant constraint to business growth. The survey highlighted the following issues:

- Less than 20% of businesses rate the cost of financing as a severe obstacle
- Firms are paying lower interest rates for loans than counterparts in China; Kenya; Senegal and Poland. South African firms use fewer overdraft facilities than those in these countries
- South African firms rely heavily on retained earnings to finance both investment and working capital. There is little need for external sources of financial investment
- Many businesses have never applied for a loan

Transportation:

The South Africa Investment Climate Survey 2005) found that Transportation was ranked as the thirteenth most significant constraint to business growth. The BER survey found "road transport deficiency" to be the 12th most significant constraint to economic growth. "Rail transport deficiency" was seen to be the 16th most significant constraint to economic growth. Importantly, the BER survey stated that the ranking of these constraints would be much higher if survey responses from firms that do not use road or rail freight transport are excluded. As can be expected, manufacturing firms experience the most significant problems with road and rail freight transport.

Electricity Supply:

The South Africa Investment Climate Survey 2005) found that Electricity was ranked as the fourteenth most significant constraint to business growth. In the BER survey, this factor was ranked as the second most important constraint to economic growth. 42% of respondents found electricity supply to have a serious or debilitating constraining influence on their business activity. Electricity supply was ranked as the number one constraint to economic growth in the Western Cape as a result of the recent 2006 electricity black-outs.

Tele-communications:

The South Africa Investment Climate Survey 2005) found that Telecommunications was ranked as the seventeenth most significant constraint to business growth. The BER survey found "communication costs" to be the seventh most significant constraint to economic growth, with 27% of respondents reporting serious or debilitating problems. This was closely followed by "monopoly pricing" in 8th place.

Municipal Services:

The BER Survey ranked Municipal Services as the 5th main obstacle to business growth. 29% of firms reported this factor to be a serious to debilitating constraint to economic growth .

The survey also identified sectoral differences in the ranking of growth obstacles. For example, the construction sector ranked municipal services as the 4th main constraint , as compared to services which ranked these 7th. 39% of construction firms reported this factor to be a serious to debilitating constraint to economic growth. The construction sector has a strong interface with municipalities due to the nature of the property development process.

The BER survey found that the Western Cape reported the least serious constraints compared to other provinces with 23% of firms reporting this as a serious to debilitating factor, compared to 28% in the Eastern Cape and 40% in the smaller provinces.

BEE:

The only survey of domestic firms that found BEE to be a growth constraint was the Counting the Cost of Red Tape report. This found that “BEE/ affirmative action” was the 8th most important constraint to increased employment.

2.3 Conclusion

A number of recent (2005-2006) surveys have identified a wide range of constraints to economic growth, employment growth, and investment in South Africa. Whilst the detailed findings of each of these surveys differ, there appears to be a certain amount of consensus as to the main constraints which can be summarized as follows:

- Regulatory constraints
- Labour shortages (skilled and highly skilled)
- Infrastructure and logistics (electricity, telecommunications, road and rail, and port)⁴.
- State organization, capacity and leadership including municipal services
- Exchange rate volatility
- Other cost factors such as crime, HIV/ AIDS, cost of finance, and tax rates.

Importantly, none of these surveys involved a detailed identification of local level constraints. The need to conduct a Cape Town Investment Constraints survey which focuses on local level constraints in some detail was therefore clearly identified. **Section 3** contains the findings of this survey.

⁴ It is interesting to note that neither public transport nor air transport is highlighted in any of the surveys, although these are found to be critically important issues for certain sectors in Cape Town as discussed in more detail in Section Four.

3 Cape Town Investment Constraints Survey Analysis and Findings

3.1 Introduction

The Cape Town Investment Constraints Survey of 102 firms in Cape Town's priority growth sectors was conducted towards the end of 2006 in order to identify local level constraints to investment. The 102 companies were evenly spread across these sectors, as well as by turnover and employment size, geographic distribution, ownership (domestic vs. foreign, white vs. black), and exporter status.

In addition, a discussion with Wesgro management regarding constraints to investment facilitation took place to identify constraints experienced by foreign investors.

Section Three contains the following sections:

- a) Past and Future Business Trends and Investment Activities (**Section 3.2**)
- b) Perceptions of Investment constraints in terms of:
 - i. Biggest obstacles to (**Section 3.31**)
 - a. Doing business in Cape Town;
 - b. Starting a business in cape town
 - ii. Main business location weaknesses that currently limit future business growth (**Section 3.3.2**)
 - iii. Constraints to business activity in terms of (**Section 3.3.3**)
 - a. Public infrastructure
 - b. Transport Infrastructure
 - c. Public services
 - d. Quality of life
 - iv. Impacts that crime, HIV/Aids, and BEE have on business operations (**Section 3.4**).
 - v. Local government issues related to (**Section 3.5**):
 - a. Departmental efficiency
 - b. Impacts of local government processes and regulations
- c) Foreign Investment Constraints and Wesgro (**section 3.6**)

3.2 Past and Future Business Trends and Investment Activities

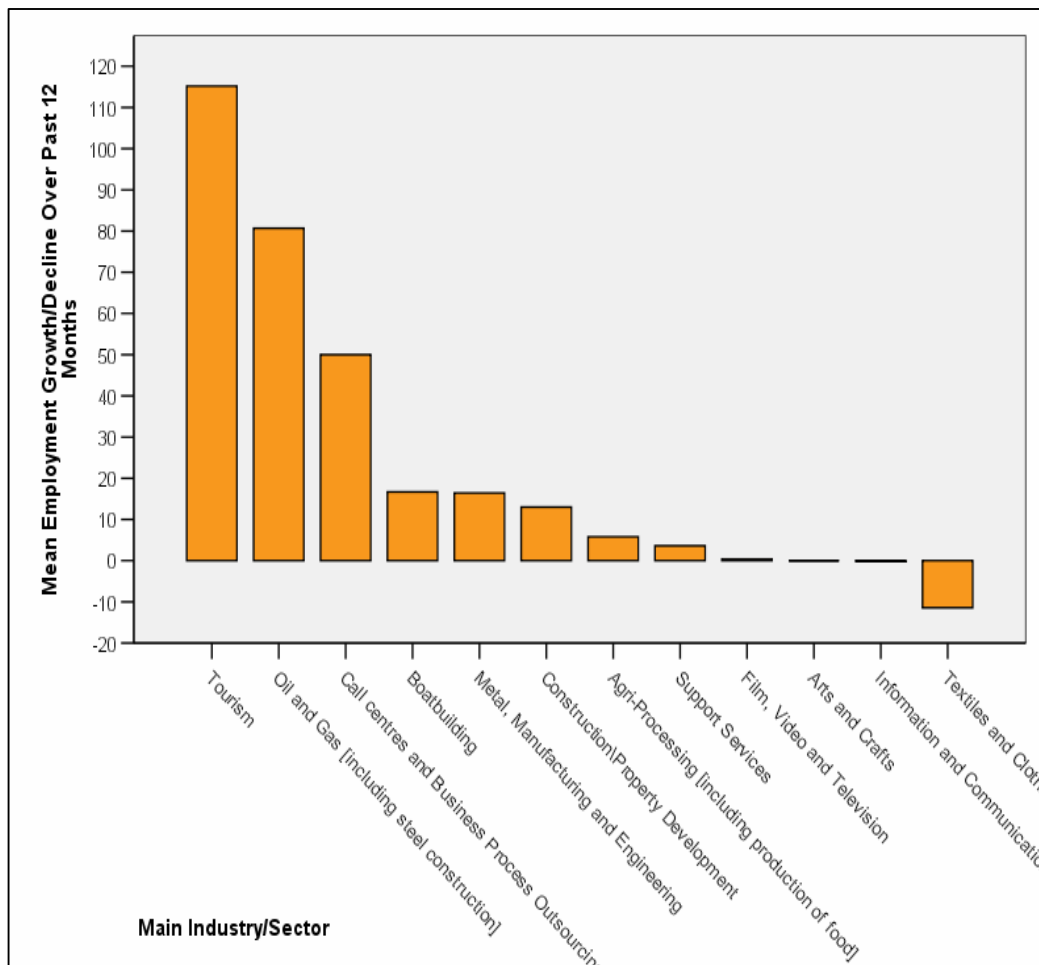
Information on business trends and investment activities was collected in order to identify **actual past business trends and investment activities** as well as **expected future business trends** in order to supplement the data on investment constraint **perceptions**.

3.2.1 Past Business Trends and Investment Activities

Regarding past employment trends (see **Figure 2** below) , the main findings are:

- The three sectors with the highest average employment growth over the past year per business are: tourism (average annual net growth in employees of 115), business process out sourcing (average annual net growth in employees of 80), and business process out sourcing (average annual net growth in employees of 50)
- The slowest employment growing sectors over the past year are: film, ICT, and craft (average annual net growth in employees of 0)
- Textiles and clothing employment declined by an average of 12 employees

FIGURE 2: AVERAGE EMPLOYMENT CHANGE PAST 12 MONTH PER FIRM BY SECTOR

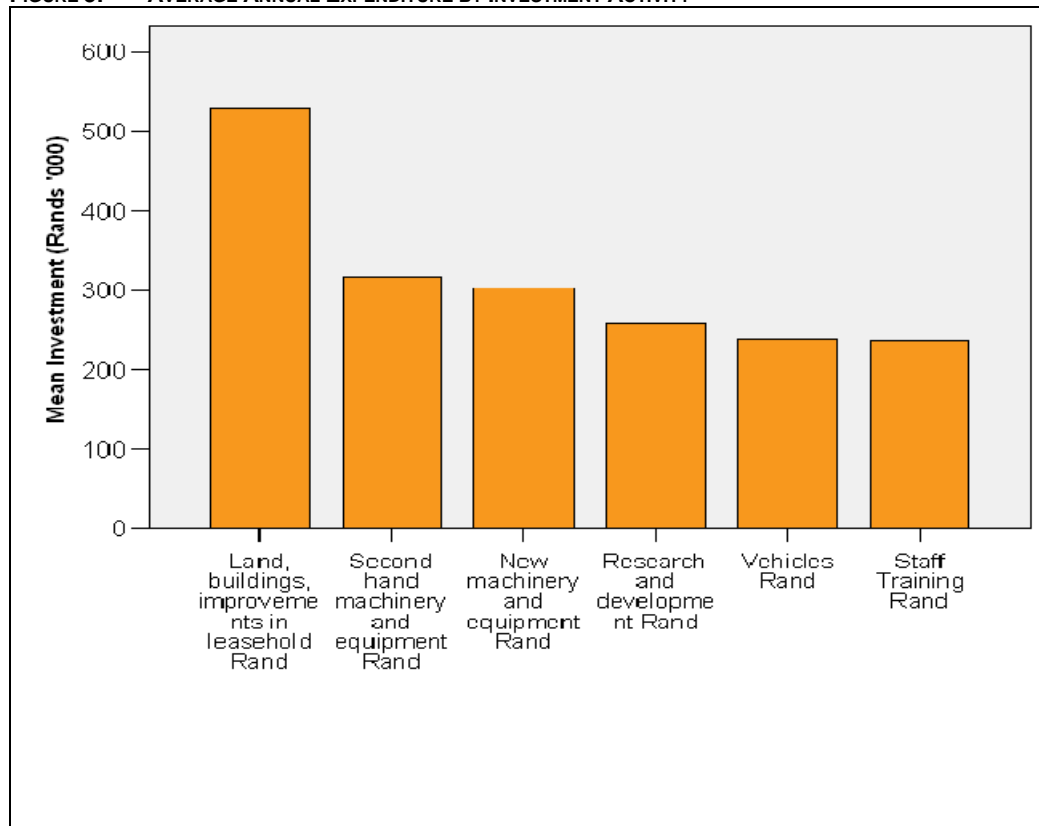


Regarding past investment patterns (see **Figure 4**):

- The five most common investment activities are:
 - Developed a new product line or service (72% of companies)
 - Upgraded an existing product line or service
 - Introduced new technology that has substantially changed the way that the main product is produced
 - An increase in the company workforce of greater than 10%
- The five least common investment related activities are:
 - Agreed a new joint venture with foreign partner
 - Quality accreditation (ISO 9000)
 - Closed at least one existing plant or outlet or business premises
 - Brought in-house a major activity that was previously outsourced
 - Change of main bank (involving a movement of funds as opposed to an investment activity) (10% of companies)

Regarding the annual amounts spent on certain investment activities (see **Figure 3**) the largest average expenditure item is in land, buildings and property improvements at around R520,000 p.a.

FIGURE 3: AVERAGE ANNUAL EXPENDITURE BY INVESTMENT ACTIVITY



In addition to past investment activities, firms were asked to identify which services or licenses they had applied for in the past 24 months (see **Figure 5**). The five most common applications are:

- Telephone connection
- Electrical connection/ expansion
- Construction/ building permit
- Import license
- Re-zoning

Business were then asked to estimate how long in days it had taken to receive the service from date of application (including weekends) (see **Figure 6**). The 5 longest processes are⁵:

- Re-zoning: 329 days
- Other land purchase 319 days
- Local government land purchase 262 days
- Other local government approval/ decision: 259 days
- Construction/ building permit: 231 days

While national benchmarks do not exist for the above processes, it is clear that land development processes are subject to significant delays in Cape Town. Given that time is money, such delays are likely to impact negatively on Cape Town's investment attractiveness and performance.

⁵ Caution must be exercised in interpreting these time-frames as many factors influence these, including: whether or not correct information has been supplied by the customer; certain processes also require provincial and national government information or decisions; certain processes involve public comment processes which can result in delays etc.

FIGURE 4: AVERAGE ANNUAL EXPENDITURE BY INVESTMENT ACTIVITY

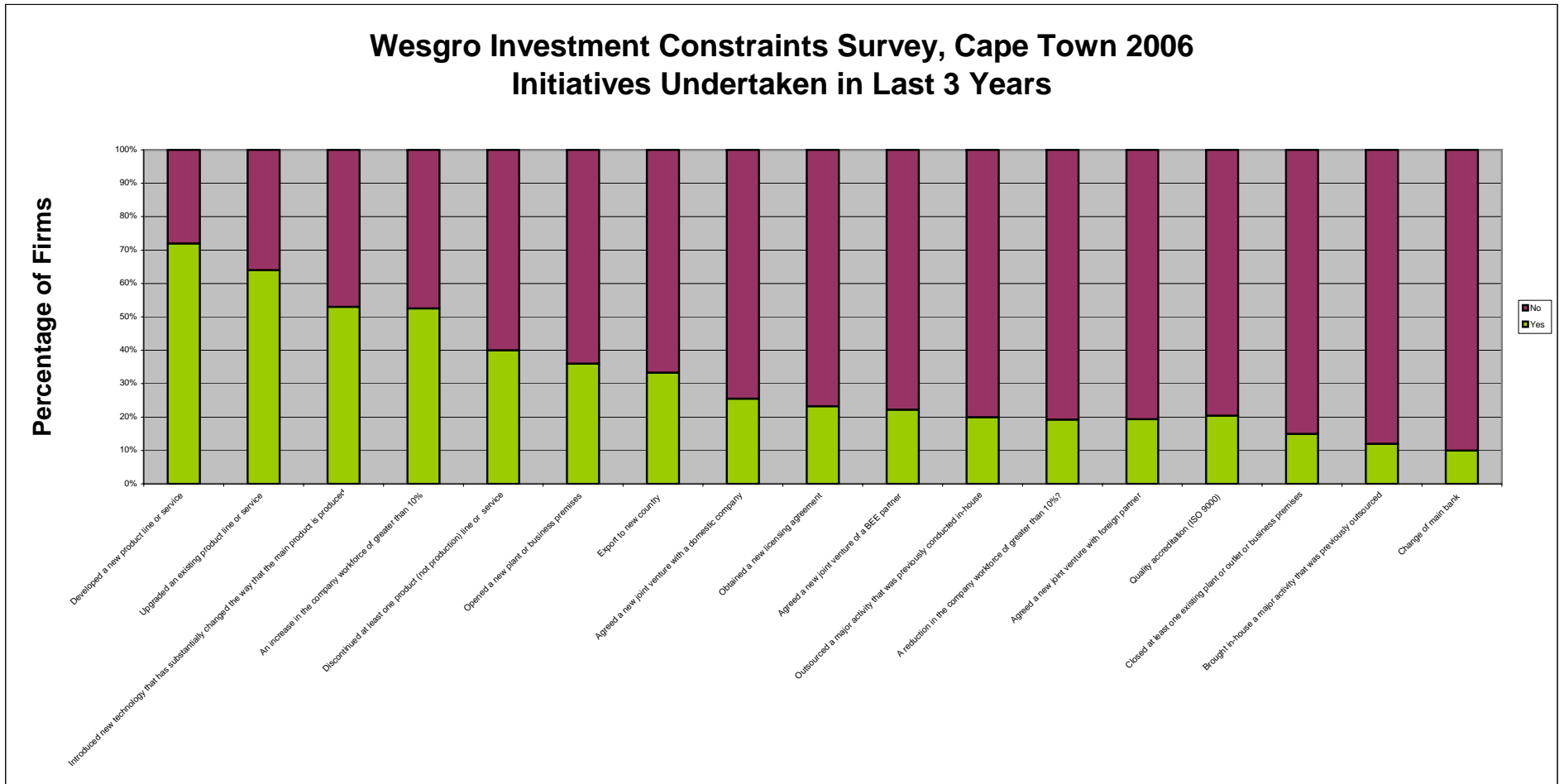


FIGURE 5: NUMBER OF BUSINESSES APPLYING FOR PUBLIC SERVICES

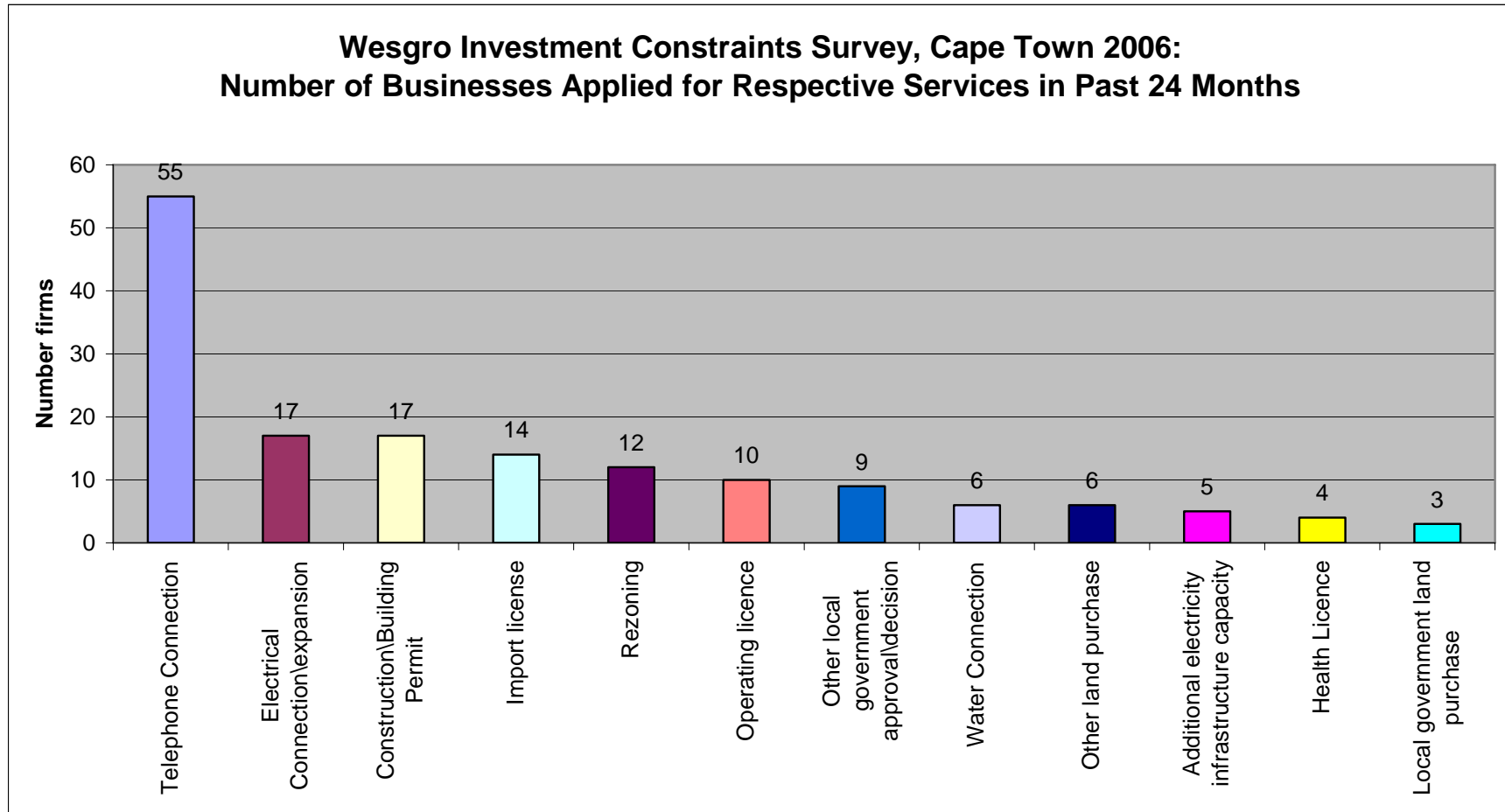
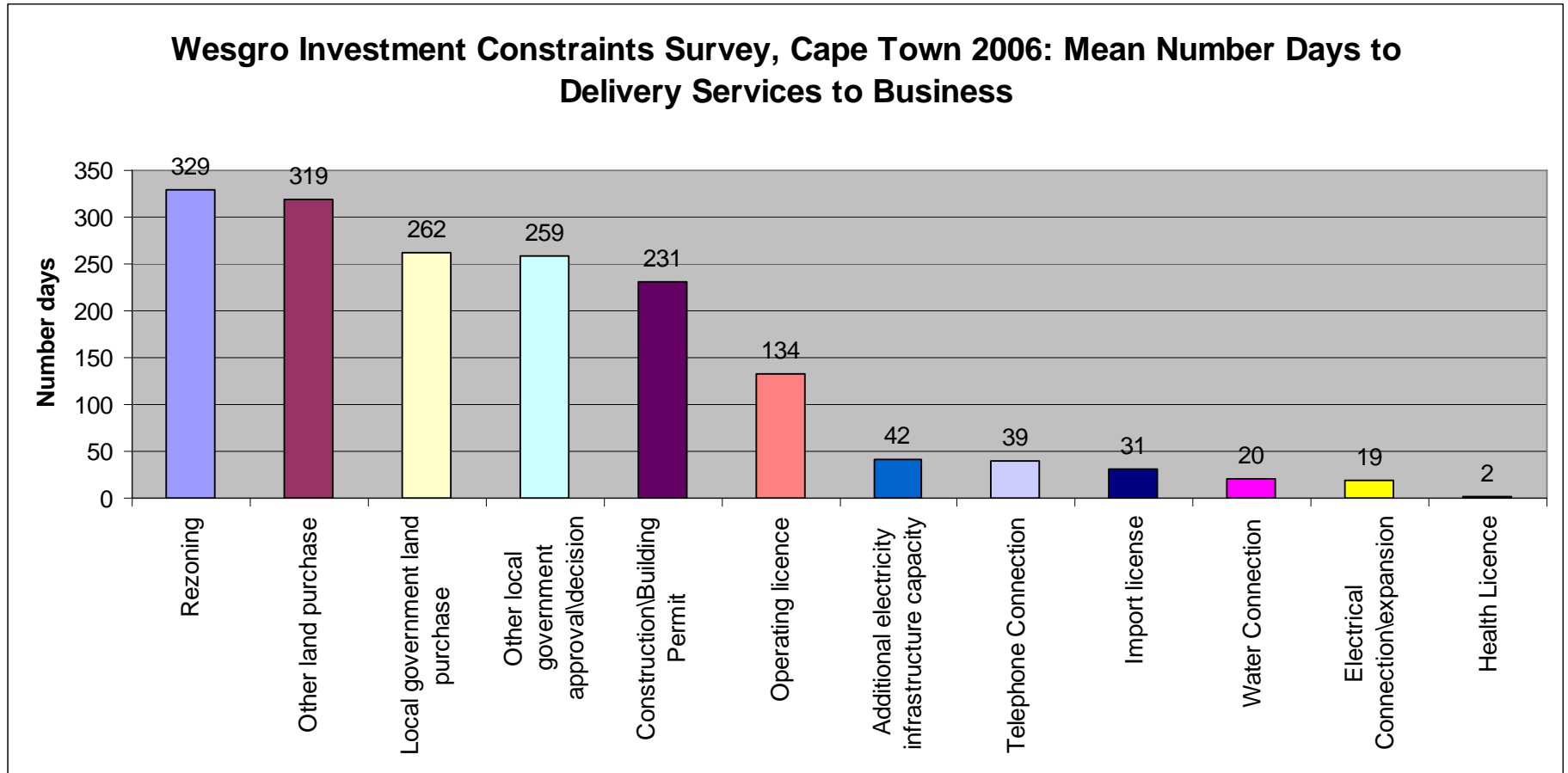


FIGURE 6 : AVERAGE NUMBER OF DAYS FOR DELIVERY OF SELECTED PUBLIC SERVICES



3.2.2 Future Business Trends and Investment Activities

Regarding **future business trends**, business perceptions regarding future business prospects in Cape Town were solicited. Such perceptions provide a useful back-drop when considering investment constrain issues. If perceptions are overwhelmingly optimistic then it is possible that perceived investment constraints are not of sufficient magnitude to undermine overall business prospects.

Only five sectors included responses from firms that were pessimistic about their future in Cape Town, with textiles and clothing and the film sector (2 businesses each), and metal manufacturing, agri-processing, and business process outsourcing (1 business each). Firms in all other sectors were optimistic about the future of their business in Cape Town.

Businesses were then asked if they had clear plans to hire more workers in Cape Town in the next 12 months. The ICT sector was the only sector with all business planning on expanding employment.

In addition, perceptions regarding future employment change were tested. The ICT sector was the only sector in which all businesses planned to increase employment over the next 12 months. The percentage of firms in the remaining sectors planning on increasing employment was as follows (in order from highest % planning to employ more):

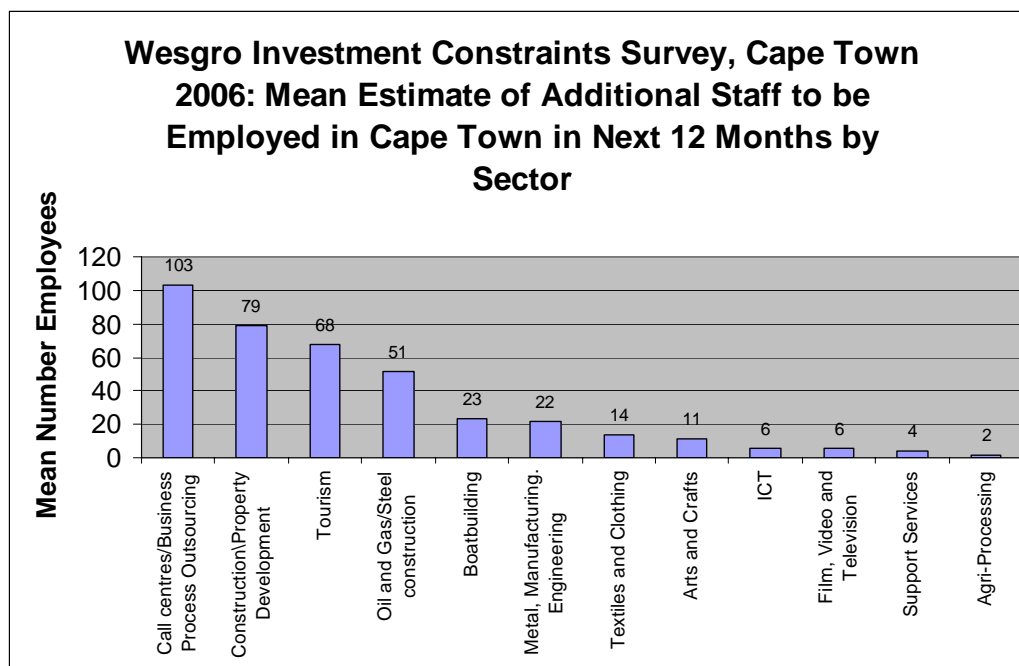
- Oil and Gas and Construction: 80%
- Business process outsourcing: 75%
- Tourism: 63%
- Boat-building and arts and crafts: 60%
- Metal and engineering: 55%
- Film: 50%
- Support services (legal, finance): 44%
- Textiles and clothing: 36%
- Agri-processing: 29%

Firm-level estimates of the estimated growth in employees over the next 12 months provide a useful indication of future sector prospects (see **Figure 7**). The four largest projected sectors by average employment growth are as follows:

- Business process outsourcing (projected average increase of 105 employees)
- Construction (projected average increase of 78 employees)
- Tourism (projected average increase of 70 employees)
- Oil and Gas (projected average increase of 50 employees)

From the above it is clear that the most dynamic growth sectors are oil and gas, construction, business process outsourcing, and tourism. Investment constraints which impact primarily on these sectors (see Section 4) may therefore have a disproportionately greater impact on future job creation prospects in Cape Town.

FIGURE 7: AVERAGE EXPECTED INCREASE IN EMPLOYMENT OVER NEXT 12 MONTHS BY SECTOR



3.3 Investment Constraints

In order to develop a detailed understanding of local level issues impacting on business growth and investment constraints, firm perceptions of a number of inter-related issues were probed, including the following:

- The three biggest obstacles to:
 - a) doing business in Cape Town;
 - b) starting a business in cape town
- The top 3 weaknesses of the firm's business location that currently limit future business growth
- Ratings of the seriousness of a range of possible constraints to the firm's business activity
- Ratings of the overall quality and efficiency of a range of public services
- Ratings of a range of factors relating to local government, infrastructure and services, and quality of life issues in terms of how they impact on the firm
- Ratings of the impacts that crime, HIV/Aids, and BEE are having on the firm.

3.3.1 Obstacles to Starting and Operating a Business

Obstacles to both starting and operating a business impact on investment in different ways. Obstacles to starting a business may result in investment funds not being channeled towards productive purposes which benefit job creation. Such obstacles can also stifle entrepreneurship as new ventures may fail to get off the ground. Obstacles to running a business may result in reduced investment in expanding existing businesses. Firms were asked to first identify broad obstacles and then to identify specific obstacles within these broad categories.

Regarding broad obstacles to starting a business, the five main broad **obstacles** are (in order from most frequently mentioned obstacle):

1. Lack of business support services
2. Obtaining land and buildings
3. Crime

4. Government regulations for starting a new business
5. Bureaucratic burden

Additional obstacles included (in order from most frequently mentioned):

- Service delivery reliability
- Inadequate quality of infrastructure
- Utility service prices
- Missing infrastructure

Regarding detailed obstacles to starting a business, the **main obstacles** are (in order from most frequently mentioned obstacle)

1. Red tape (local government)
2. Labour regulations (starting a businesses)
3. Red tape (national government)
4. Telecommunications cost
5. Electricity reliability

Additional obstacles included (in order from most frequently mentioned):

- Crime against property
- Building regulations
- Inadequate roads
- Telecommunications reliability
- Violent crime

Regarding broad obstacles to operating a business, the five main broad **obstacles** are (in order from most frequently mentioned obstacle):

1. Corruption/ crime
2. Inadequate quality of infrastructure
3. Utility service prices
4. Utility service reliability
5. Lack of business support services

Regarding detailed obstacles to **operating a business**, the main **obstacles** are (in order from most frequently mentioned obstacle)::

1. Violent crime
2. Inadequate roads
3. Property crime
4. Electricity reliability
5. Telecommunications cost

Based on the above, it would appear that Red Tape issues are more of a constraint for new business establishment than existing business operations. It is important to note however that it is note, however, that it is not always easy to separate red tape which emanates from a local, provincial or national level. Municipal infrastructure, services, and crime issues appear to be important constraints to both establishing and operating businesses.

Analysis of the survey data reveals that firms in different sectors sometimes identify different dominant constraints.

Table 5 summarises the main sector-specific differences with respect to obstacles to starting a business:

TABLE 5: MAJOR CONSTRAINTS BY SECTOR TO STARTING A BUSINESS

| Cape Town Priority Sector | Major constraints |
|---|---|
| Textiles and Clothing | <ul style="list-style-type: none"> Lack of government support services Utility service prices |
| Tourism | <ul style="list-style-type: none"> Government regulations for starting a business Bureaucratic burden Service delivery reliability |
| Information and Communication Technology | <ul style="list-style-type: none"> Inadequate quality of infrastructure Crime / corruption |
| Boatbuilding | <ul style="list-style-type: none"> Obtaining land and buildings Bureaucratic burden |
| Film, Video and Television | <ul style="list-style-type: none"> Crime / corruption |
| Oil and Gas (including steel construction) | <ul style="list-style-type: none"> Crime / corruption |
| Metal, Manufacturing and Engineering | <ul style="list-style-type: none"> Obtaining land and buildings |
| Agri-Processing (including production of food) | <ul style="list-style-type: none"> Government regulations for starting a business Bureaucratic burden |
| Call centre's and business process outsourcing | <ul style="list-style-type: none"> Government regulations for starting a business Bureaucratic burden |
| Arts and Crafts | <ul style="list-style-type: none"> Crime / corruption |
| Construction/Property Development | <ul style="list-style-type: none"> Obtaining land and buildings Service delivery reliability |
| Support services (legal, financial, management) | <ul style="list-style-type: none"> Government regulations for expanding a business |

Table 6 summarises the main sector-specific differences have been identified with respect to obstacles to **operating a business**:

TABLE 6: MAJOR CONSTRAINTS BY SECTOR TO OPERATING A BUSINESS

| Cape Town Priority Sector | Major constraints |
|--|--|
| Textiles and Clothing | <ul style="list-style-type: none"> Utility prices Service delivery reliability |
| Tourism | <ul style="list-style-type: none"> Utility prices Crime / corruption |
| Information and Communication Technology | <ul style="list-style-type: none"> Inadequate quality of infrastructure Crime / corruption |
| Boatbuilding | <ul style="list-style-type: none"> No single main constraint- all equal |
| Film, Video and Television | <ul style="list-style-type: none"> Crime Inadequate quality of infrastructure |
| Oil and Gas (including steel construction) | <ul style="list-style-type: none"> Inadequate quality of infrastructure |
| Metal, Manufacturing and Engineering | <ul style="list-style-type: none"> Inadequate quality of infrastructure |
| Agri-Processing (including production of food) | <ul style="list-style-type: none"> Inadequate quality of infrastructure |
| Call centre's and business process outsourcing | <ul style="list-style-type: none"> Inadequate quality of infrastructure Crime / corruption Missing infrastructure |
| Arts and Crafts | <ul style="list-style-type: none"> Crime / corruption |
| Construction/Property Development | <ul style="list-style-type: none"> Government regulations for expanding a business Crime / corruption |

| | |
|--|--|
| Support services (legal, financial, management) | <ul style="list-style-type: none">• Government regulations for expanding a business• Inadequate quality of infrastructure |
|--|--|

3.3.2 Business Location Weaknesses

Firms were asked to name the top three weaknesses of their business location (i.e. where the business operates) that currently limit future business growth. This question was designed to identify local level constraints particular to certain business areas within Cape Town.

The top ten business location weaknesses identified are (in order from most frequently mentioned business location weakness) (see **Figure 8**):

1. Lack of skilled workers
2. Poor safety
3. Lack of public transport
4. Utilities, Reliability [Electricity]
5. Parking
6. Size of premises
7. Cost of premises
8. Transport congestion
9. Utilities, Cost [Telecommunications]
10. Transport costs

When comparing the identification of business location weaknesses by companies in terms of domestic or foreign ownership, companies with 100% foreign ownership identified the reliability of electricity supply as the biggest weakness, whereas companies with no foreign ownership identified the lack of skilled workers and poor safety as their two main business environment weaknesses. This is an indication of the seriousness of this issue in terms of its impact on foreign investor perceptions.

Due to the small sample size, it is not possible to place too much confidence in identifying different business environment weaknesses according to the geographic location of the business. However, a summary table has been provided in Annexure C and which shows the number of times businesses identified each business environment weakness according to their geographic location.

3.3.3 Additional Constraints to Business Activity

Business were asked to identify the seriousness of a range of possible constraints on business activity relating to public services, transport, and quality of life issues in terms of the impact on their business (with some overlap between these broad categories).

The three most **debilitating public infrastructure/ services issues** identified were (see **Figure 9**):

1. Electricity (71% said this had had a serious to debilitating impact on their business)
2. Telecommunications (65% said this had had a serious to debilitating impact on their business)
3. Skills and education of workers (45% said this had had a serious to debilitating impact on their business)

Regarding **transport infrastructure and services**, the three most negative impacts were (see **Figure 11**):

1. Public transport for workers (60% said this had had a serious to debilitating impact on their business)
2. Road freight transport/ congestion (36% said this had had a serious to debilitating impact on their business)

3. Rail freight transport (18% said this had had a serious to debilitating impact on their business)

Regarding **public services**, the three most negative impacts were (see **Figure 10**):

1. Electricity supply (45% said this had had a serious to debilitating impact on their business)
2. Police protection (36% said this had had a serious to debilitating impact on their business)
3. Telecommunications availability (39% said this had had a serious to debilitating impact on their business)

Regarding **quality of life issues**, the three most negative impacts were (see **Figure 12**):

1. Crime (72% said this had had a serious to debilitating impact on their business)
2. Telecommunications costs (54% said this had had a serious to debilitating impact on their business)
3. Education system (42% said this had had a serious to debilitating impact on their business)

FIGURE 8: WEAKNESS OF BUSINESS LOCATION

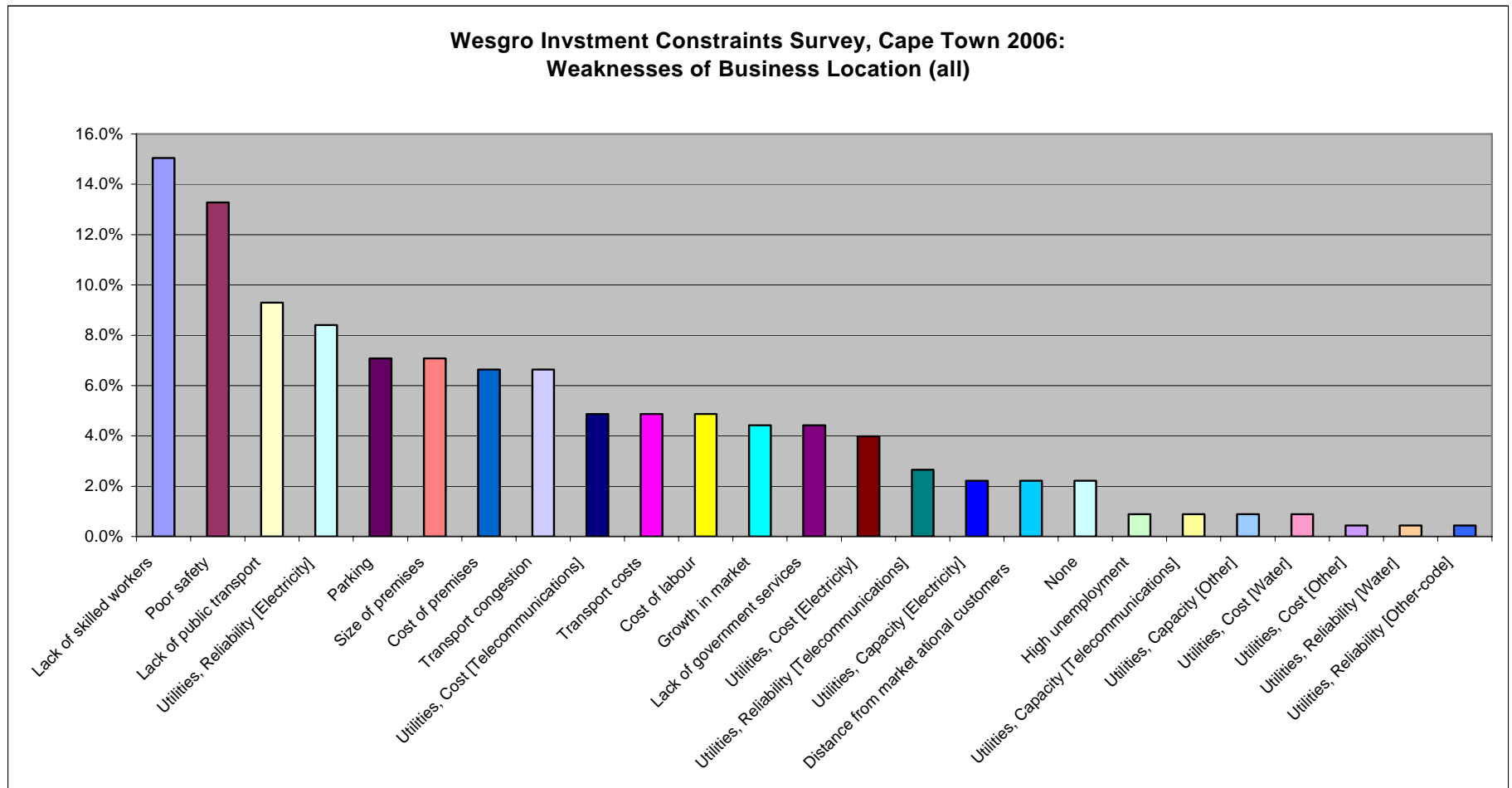


FIGURE 9: SERVICE DELIVERY CONSTRAINTS ON BUSINESS ACTIVITY

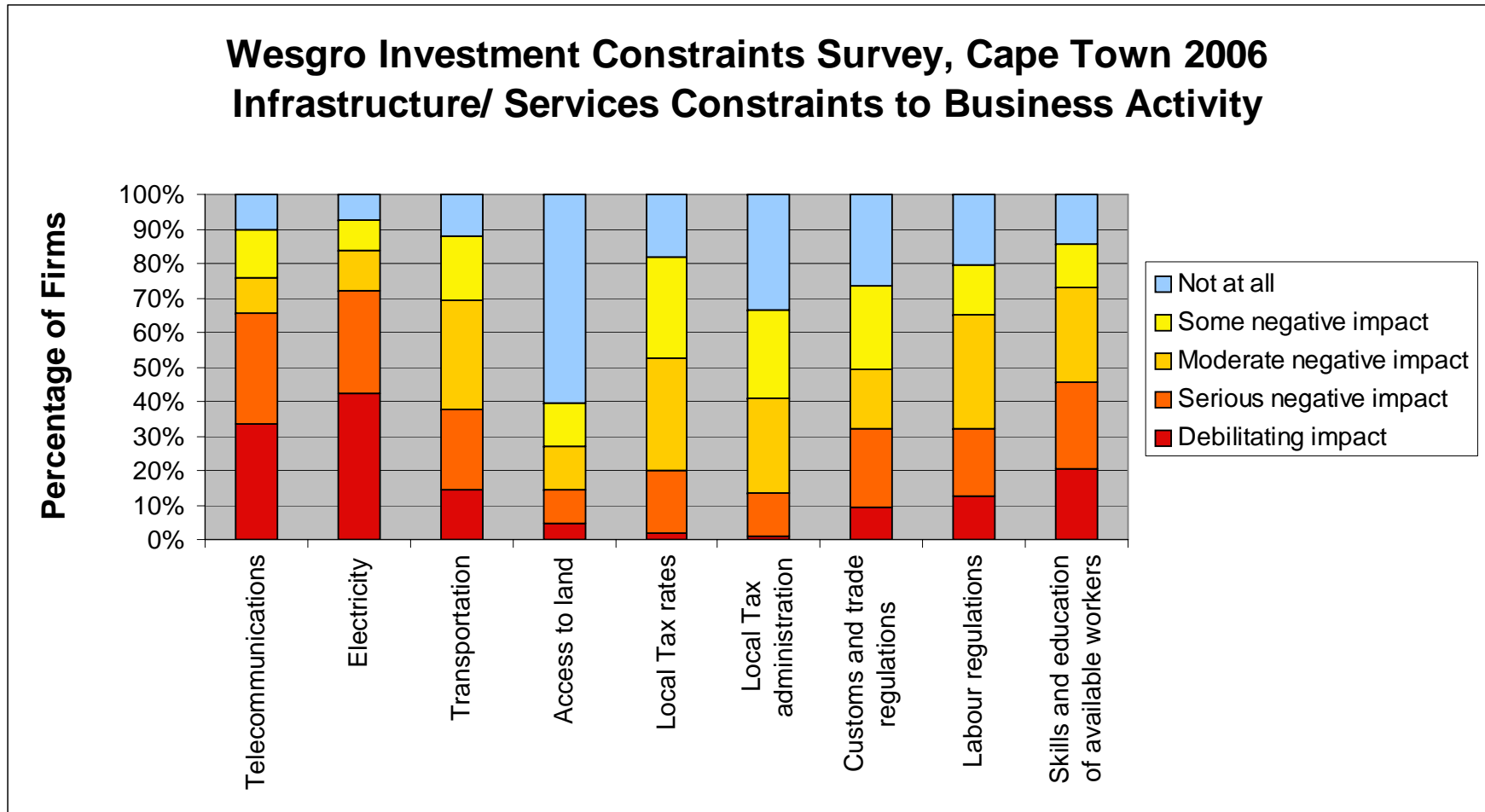


FIGURE 10: PUBLIC SERVICE CONSTRAINTS ON BUSINESS ACTIVITY

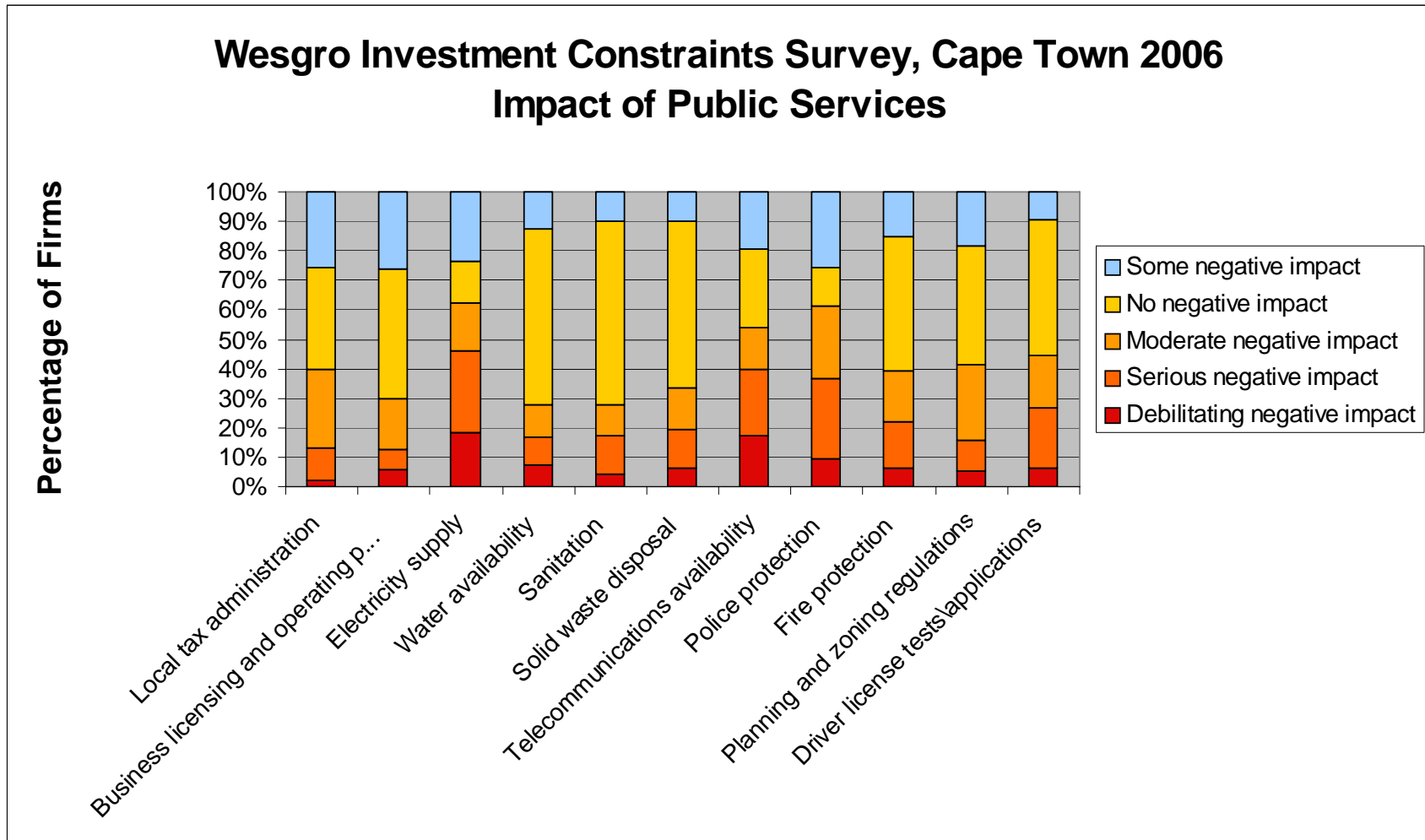


FIGURE 11: TRANSPORT CONSTRAINTS ON BUSINESS ACTIVITY

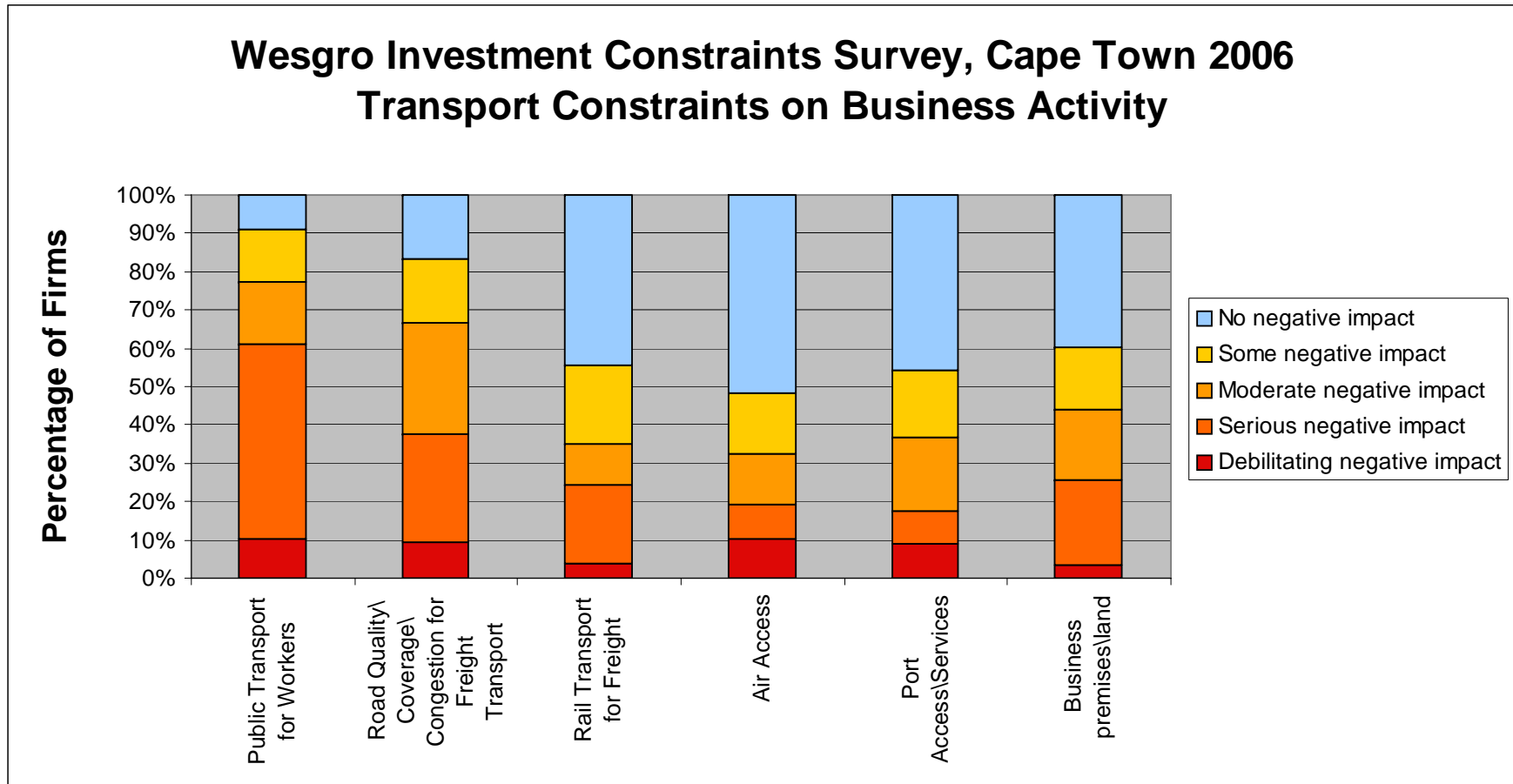
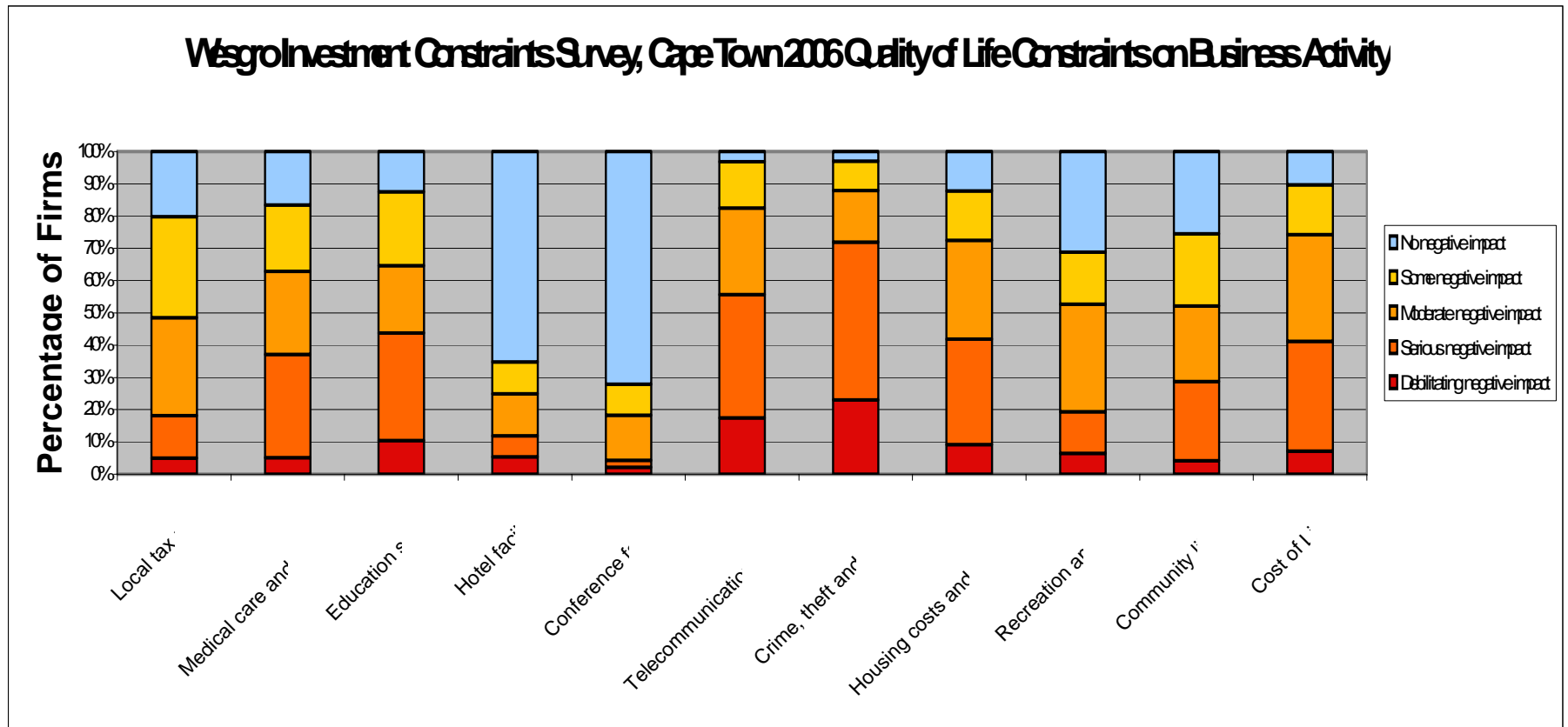


FIGURE 12: QUALITY OF LIFE CONSTRAINTS ON BUSINESS ACTIVITY



3.4 Other Topical Investment Issues: Crime, HIV/Aids and Broad Based Black Economic Empowerment.

Given the importance attached to crime, HIV/AIDS, and BBBEE, a number of more detailed questions were asked to understand the impact of these issues on business operations.

3.4.1 Crime

The main findings in Cape Town are:

- Businesses spend between 0.5% to 7.8% of annual turnover on crime related expenditure depending on the sector:
 - The construction sector spends the highest proportion of annual turnover (possibly due to the need to protect construction sites re equipment and materials)
- Expenditure on crime measures differ significantly according to geographic location (see Figure 13):
 - The highest proportional expenditure is undertaken by businesses in Atlantis at 12% of annual turnover, compared to 5% in Khayelitsha, 3.8% in the CBD, and between 2.5% and 0.6% in other areas.
- The main categories of crime impacting on business are:
 - Theft of property
 - Robbery
 - Theft of motor vehicle
- Other crime categories impact on business via their impact on the labour force in terms of murder, assault, and sexual assault.
- About 17% of businesses report 0% of crime incidents to the police which impact on their business while 58.62% of businesses report 100% of crimes which impact on their businesses. 19.55% of business report 1-50% of crimes impacting on their business.
- Reportedly, 77.5% of those crimes which are reported are not brought to court.

It is clear that there is under-reporting of crime incidents in part because of low expectations of such incidents being resolved in terms of perpetrators receiving convictions. When incidents are reported it is probably linked to insurance claims.

3.4.2 HIV/AIDS

Key findings are as follows:

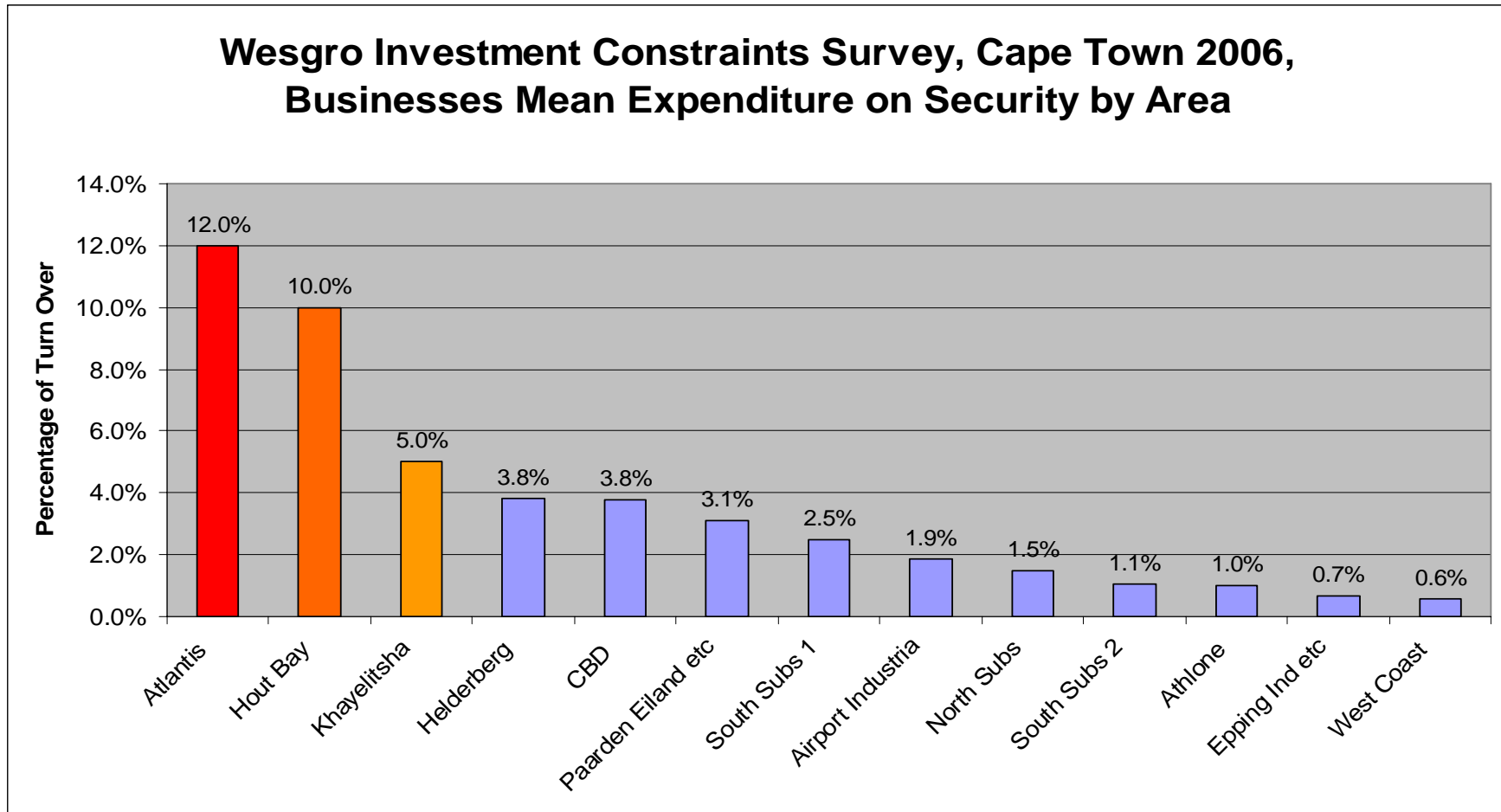
- 20% of firms believe that HIV Aids has negatively impacted on the business
- Of these 20%:
 - 68% believe HIV Aids has lowered productivity.
 - 68% believe HIV Aids has increased labour turnover.
 - 89% believe HIV Aids has increased absenteeism.
 - 68% believe HIV Aids has increased company medical costs.
 - 25% believe HIV Aids has adversely impacted on fixed investment.

Sectoral differences regarding the impact of HIV/ Aids can be identified but need to be treated with caution as the respondent's awareness of the prevalence of HIV Aids amongst their work force may not necessarily be adequately informed. **Table 7** shows the percentage of respondent's by sector that believed HIV/Aids has negatively impacted on their company:

TABLE 7: MAJOR CONSTRAINTS BY SECTOR TO OPERATING A BUSINESS

| Sector | % Respondents Believe HIV/Aids Has Negative Impact on Firm |
|--|---|
| Information and Communication Technology | 0.00% |
| Metal, Manufacturing and Engineering | 0.00% |
| Call centres and Business Process Outsourcing | 0.00% |
| Arts and Crafts | 0.00% |
| Film, Video and Television | 11.11% |
| Support Services | 11.11% |
| Textiles and Clothing | 18.18% |
| Construction\Property Development | 20.00% |
| Agri-Processing [including production of food] | 42.86% |
| Tourism | 44.44% |
| Oil and Gas [including steel construction] | 50.00% |
| Boatbuilding | 60.00% |

FIGURE 13: AVERAGE ANNUAL EXPENDITURE AS PROPORTION OF TURNOVER BY GEOGRAPHIC AREA



3.4.3 Broad Based Black Economic Empowerment (BBBEE)

The promotion of BBBEE is a government priority, however, its impacts on investment patterns and constraints are not necessarily well understood. These impacts are constantly evolving. It is important to note that at the time that the survey was conducted, the government had not released the final BBBEE codes (Released in December 2006) and that there was therefore a certain lack of clarity regarding the final BBBEE charter proposals and hence of the impact of BBBEE. The application of BBBEE to foreign investors and multi-nationals was also not clear at the time of writing. This lack of certainty and clarity is reported to be a major risk factor and concern for foreign investors and may be limiting foreign investment.

The main findings of the survey are as follows:

- 22% of the businesses surveyed had entered into a joint venture with a BEE partner.
- Just under 50% of businesses believe enhancing black ownership is important for their business, and around 10% are unsure
- Just under 20% felt information on BBBEE was not readily available to their business and 25% felt that this information was not easy to understand
- 60% of businesses were not aware of any government support schemes available to businesses wanting to improve their BBBEE status
- 62% of businesses felt that foreign investors should be doing more to promote BBBEE.

When asked what type of information on BBBEE is required, the following needs were stated:

- Simplified versions of the BBBEE codes of practice
- Simplified booklets or manuals explaining the issues in laymen's terms particularly accreditation and compliance issues
- Availability of funding to BBBEE compliant companies

With regards to the actual impact of BBBEE on businesses which have some percentage black ownership:

- 40% said it had made no impact;
- 31% were not sure what impact it would have;
- 11% said it had made a slight increase in turnover;
- 5-6% said it has increased costs or reduced profits;
- 2-4% said it had increased profile and/or resulted in a large increase in turnover.

With regards to the expected impact of improving the BBBEE profile of businesses that currently have no black ownership:

- 27% expected no impact
- 25% are unsure what impact will materialize;
- 22% expect a slight increase in turnover;
- 11% expect a large increase in turnover;
- 7% expect increase costs.

With regards to the actual impact of BBBEE of firms that currently have 100% foreign ownership and have addressed aspects of their BBBEE profile (a total of 14 firms):

- 57% have not experienced any impact on business performance
- 29% were unsure what impact this had had on business performance
- 14% experienced a slight increase in turnover as a result of BBBEE;

With regards to the expected impact of improving the BBBEE profile of firms that currently have 100% foreign ownership and no BEE ownership (total of 7 firms):

- 29% expected no impact on business performance
- 29% expect a slight increase in turnover;
- 29% expect a large increase in turnover;
- 13% expect increase costs.

Interestingly, 66% of firms believe that foreign investors should do more to promote BBBEE.

With regards to the constraints facing businesses in improving their BBBEE profiles, the three main constraints are:

- 47% listed availability of skilled black staff
- 22% listed lack of experienced or entrepreneurial BEE partners
- 13% listed finding finance for BEE partners to buy into business

3.5 Local Government (LG) and Enabling Local Business Environment

Given the emphasis on identifying local level constraints which can be influenced by local government, firm perceptions regarding the following issues were solicited:

- a) Helpfulness of local government towards the business
- b) Local government efficiency in delivering services as well as services delivered by specific departments and the impact of these services on the business
- c) Impacts on firms of the application of local government rules, regulations, and municipal by-laws
- d) Management time spent dealing with local government requirements/dealings
- e) Local government actions that could best support business growth
- f) City-wide infrastructure investments that would have the most beneficial impact on growing business in the short (6 months) and long term (5 years)
- g) Proposals for the most important transport infrastructure investments that would have the most beneficial impact on growing the Cape Town economy in the next 5 years

Regarding perceptions of the helpfulness of local government:

- 25% of respondents find LG to be very to mildly helpful
- 40% of respondents find LG to be neutral
- 12.5% of respondents find LG to be mildly unhelpful
- 21.88% of respondents find LG to be very unhelpful

Regarding perceptions of local government efficiency in delivering services as well as services delivered by specific departments and the impact of these departments on the business:

- Business rated the overall quality and efficiency of the following four worst services as bad to very bad (see **Figure 14**):
 - Housing 40%
 - Roads: 36/%
 - Electricity 35%
 - Health 34%
- The three departments perceived to have the most negative impact on businesses are (see **Figure 15**):
 - Police
 - Electricity
 - Roads
- The Mayor's Office received the most beneficial ranking from respondents.
- Municipal performance was rated as very unfavourable to unfavourable for the following processes (see **Figure 16**):
 - Time to respond to queries: 45%
 - Time to approve building plans: 31%
 - Time to approve re-zonings: 20%
 - Attitude of officials towards your business: 18%
 - Time to issue rates clearance certificates: 18%
 - Building regulations: 18%

An average of 10% of senior management time or 18 hours/ month was spent dealing with local government requirements.

FIGURE 14: BUSINESS EVALUATION OF LOCAL GOVERNMENT SERVICES/DEPARTMENTS

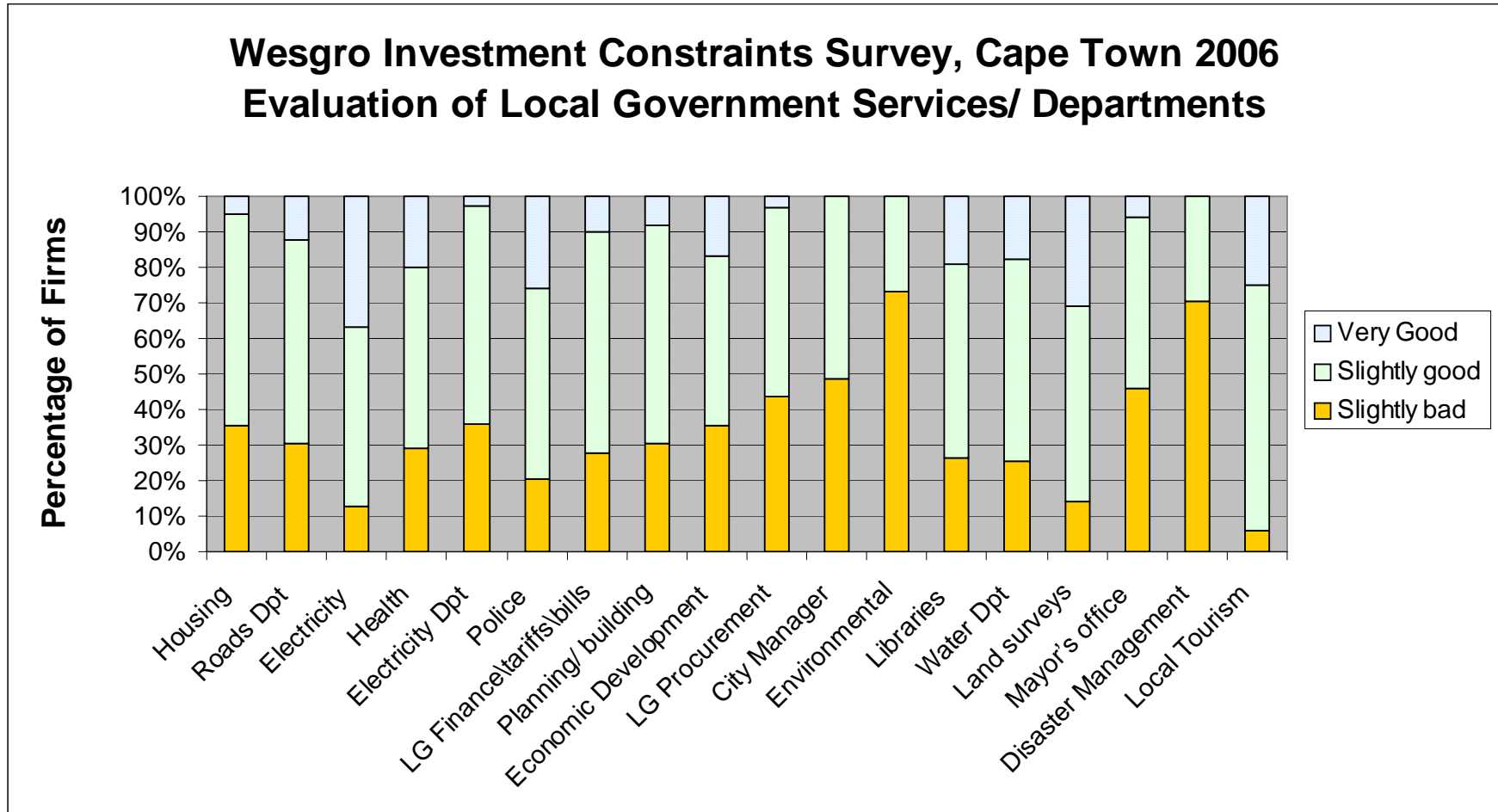


FIGURE 15: RANKED SCORE OF LOCAL GOVERNMENT DEPARTMENTS RE: IMPACT ON BUSINESS OVER PAST THREE YEARS

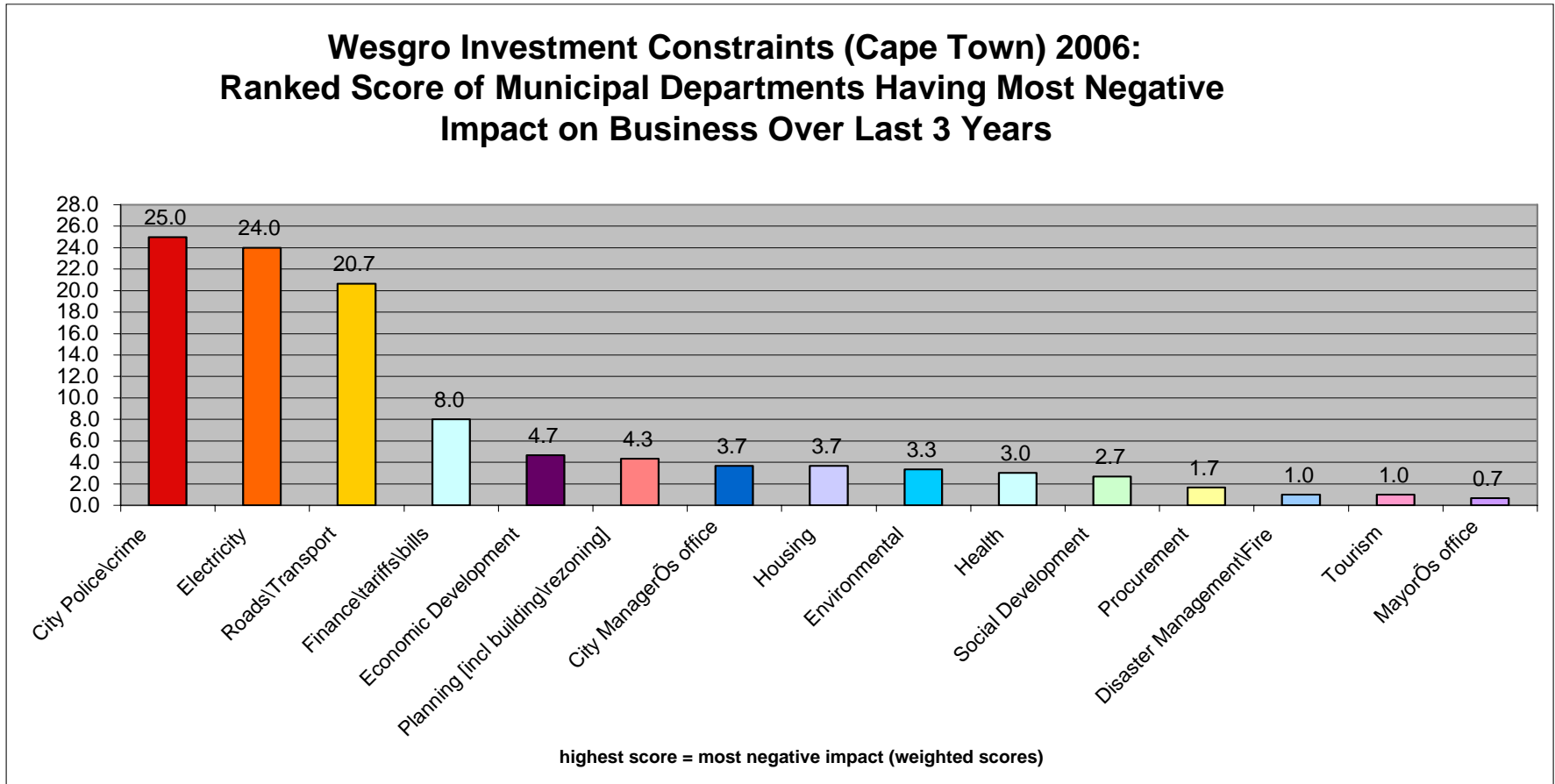
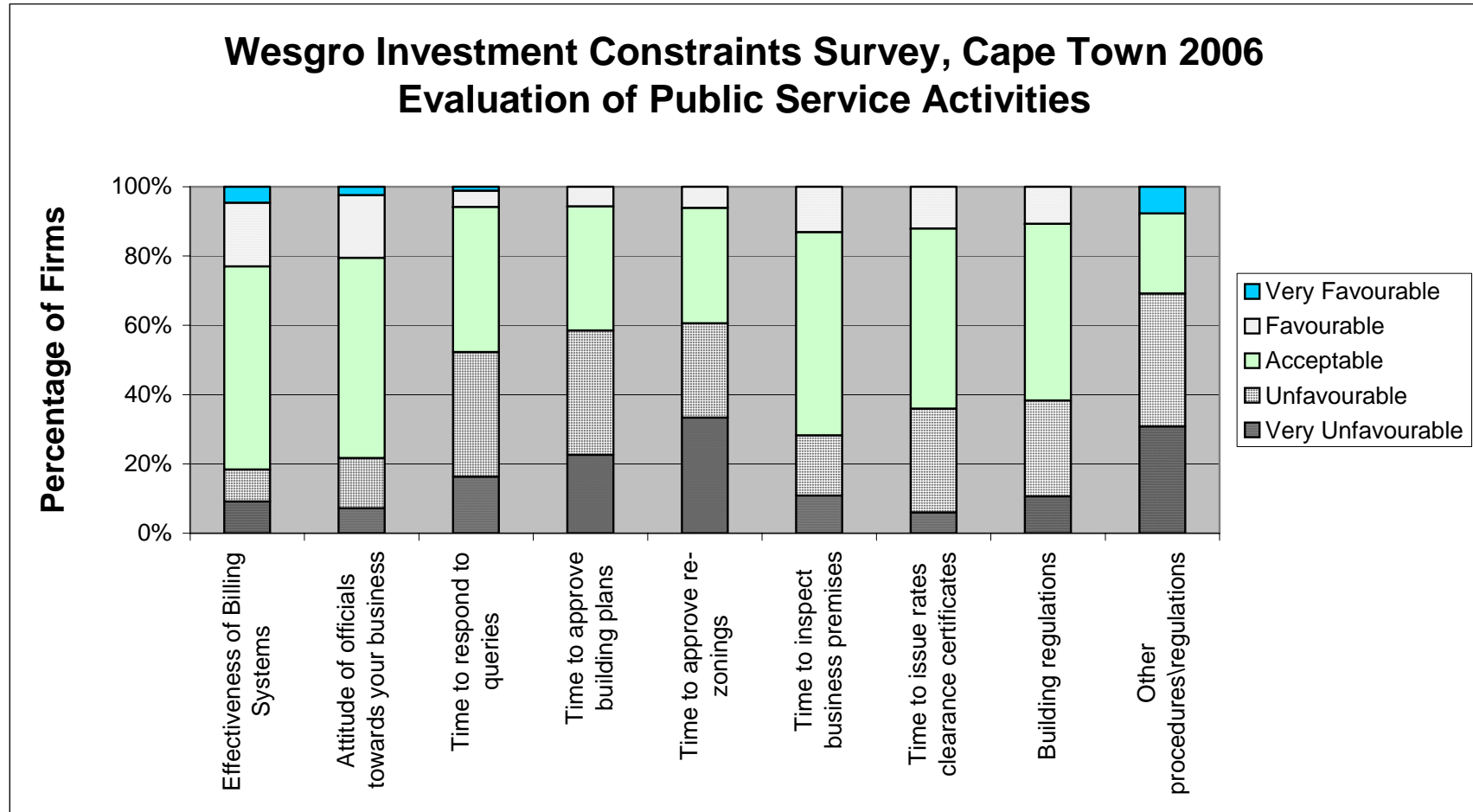


FIGURE 16: IMPACT OF LOCAL GOVERNMENT PROCESSES ON BUSINESS



Perceptions of the impact of the application of local government rules, regulations, and municipal by-laws were as follows:

Business rated impact of following five worst municipal processes as having a serious negative to debilitating impact (see **Figure 17**):

- Local Corruption: 27%
- Local Service costs too high: 21%
- Overlapping and contradictory regulations: 16%
- No clear local regulations some areas: 16%
- Use of municipal power in unfair competition: 15%

When asked whether local government interpretation and application of rules affecting the business was consistent and predictable:

- 30% disagreed and 30% agreed
- 10% fully disagreed

The three most frequently cited by-laws seen as having a negative business impact are:

- Film location: 18.75% of mentions
- Levies: 18.75% of mentions
- Signage: 25% of mentions

Only two by-laws were seen as unreasonable

- Film location
- Environmental

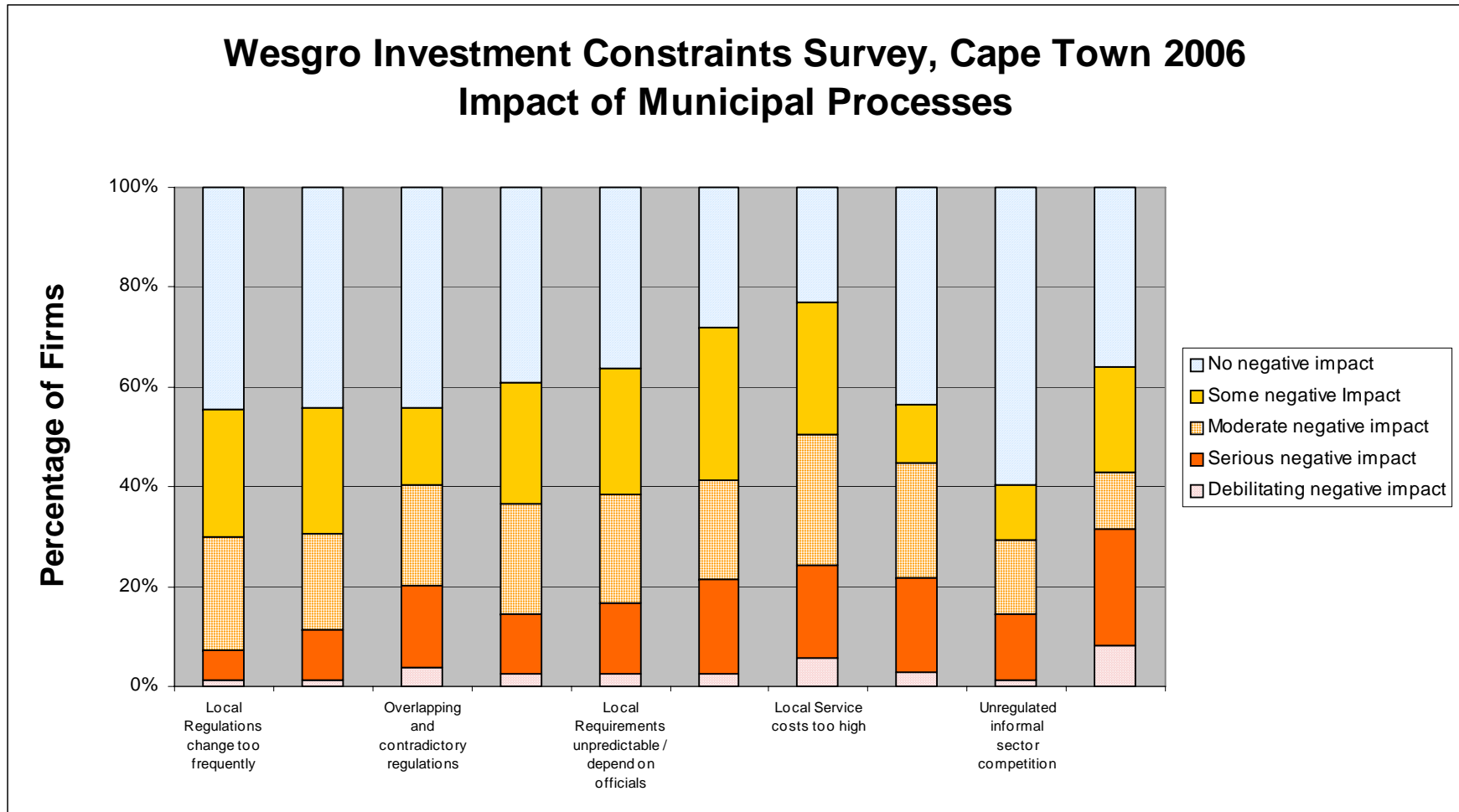
The specific problems as reported verbatim (to retain the original intent) by business with by-laws are as follows (see Table 8):

TABLE 8: MAIN NEGATIVE IMPACTS OF CAPE TOWN BY-LAWS AS REPORTED BY BUSINESS⁶

| By-Law | The main negative impact of this by-law as reported by business |
|-----------------|--|
| Building | <ul style="list-style-type: none"> • PROCESS HOLDS UP PROGRESS IN WORK • TIME CONSUMING & CANT COMPLY THEREFORE POSSIBILITY OF CLOSURE |
| Environment | <ul style="list-style-type: none"> • INTERPRETATION OF COCT CLASHES WITH WATER & ENVIRONMENT |
| Zoning | <ul style="list-style-type: none"> • BUILDING PERMIT FOR EXPANSION IS TOO TIME CONSUMING & EXPENSIVE. |
| Levies | <ul style="list-style-type: none"> • HIGH COSTS OF CAPITAL, KILLING NEW BUSINESS INVESTMENT • MAKES FARM INTERNATIONALLY UNCOMPETITIVE • MUST PAY RATES 10 MONTHS IN ADVANCE, EXTRA COSTS |
| Outdoor signage | <ul style="list-style-type: none"> • BUSINESS POTENTIAL IS LIMITED • RESTRAINS GROWTH IN THIS SECTOR AS YOU LOST ADVERTISING AROUND |
| Film location | <ul style="list-style-type: none"> • 48HR WAITING PERIOD – ESPECIALLY WITHIN PHOTO INDUSTRY. WHY? IF WEATHER IS BAD, NEED TO CHANGE LOCATION THEREFORE HAVE TO WAIT TO RESHOOT. IMPACTS ON FLEXIBILITY/MOBILITY & DYNAMISM • AFFECTS COMPETITIVENESS OF COCT FOR FILM PRODUCTION • DOUBLE BOOKINGS BY MUNICIPALITY THEREFORE TWO PRODUCTION COMPANIES CANNOT WORK ON THE SAME LOCATION SO .SO ONE COMPANY MUST MOVE & THE COMPANY THAT MOVES MUST WAIT 48HOURS TO GET NEW PERMISSION TO RESHOOT FOR ANOTHER DAY. • LOSS OF CUSTOMERS THEREFORE LOSS OF TURNOVER • PATRONS TO HOTEL,LOST CLIENTS,LOST REVENUES |

⁶ The actual responses received from respondents is included verbatim in order to avoid any possible loss of meaning resulting from translation.

FIGURE 17: PERCEIVED IMPACT OF MUNICIPAL PROCESSES ON BUSINESS OPERATIONS



Given the perceived problems that firms experienced with local government processes and regulations, firms were asked what they thought local government could do to provide a supportive local business climate. These responses will inform the report's recommendations contained in Section 5. In total, almost 200 proposals were received from survey respondents.

Table 9 contains a summary of the proposals for local government actions that would best support business growth, as received from respondents:

TABLE 9: PROPOSED LOCAL GOVERNMENT ACTIONS TO SUPPORT BUSINESS GROWTH FROM SURVEY RESPONDENTS:

| Business Proposals for City of Cape Town to Support Business Growth | |
|--|--|
| Intervention Area | Specific Proposal |
| Service Delivery | <ul style="list-style-type: none"> • Train local government staff and foster a working culture • Reduce red tape/ bureaucracy and engage more with national departments to improve their efficiencies • Reduce bureaucratic burden of acquiring correct documentation for land development • Ensure no future electricity black-outs/ enhance reliability • Lower costs of electricity and water • Appoint more technically skilled staff within town planning and engineering fields • Improve public transport safety, efficiency, and accessibility • Account queries must be solved quicker • Make telecommunications cheaper • Alleviate need to stand in queues (e.g. e-government and internet technology) • Improve efficiency of government grant funding • Improve housing for previously disadvantaged • Improve health care for community |
| Safety/ Crime | <ul style="list-style-type: none"> • Address crime and improve safety • Increase visibility of policing especially in high traffic tourist areas • Expand Metro Policy Initiatives |
| Environmental management | <ul style="list-style-type: none"> • Promote energy saving solutions and projects in business areas |
| BBEEE and Small Business | <ul style="list-style-type: none"> • COCT or Wesgro to act as an intermediary between investors and entrepreneur • More support to black professional firms • Improve availability of finance • Enhance access to simplified BBEEE guides • Enhance access to business advice on new markets • Provide cheaper land/ business premises • Help with marketing of small businesses and assist with marketing costs • Curb unfair foreign competition |

TABLE 9: PROPOSED LOCAL GOVERNMENT ACTIONS TO SUPPORT BUSINESS GROWTH FROM
SURVEY RESPONDENTS (CONT.):

| Business Proposals for City of Cape Town to Support Business Growth | | |
|--|----------------------|---|
| Intervention Area | | Specific Proposal |
| Regulations | Rezoning | <ul style="list-style-type: none"> • Speed up re-zoning process for business premises • |
| | Environmental | <ul style="list-style-type: none"> • Improve environmental department consistency and improve decision-making time-frames |
| | Finances | <ul style="list-style-type: none"> • Design a service fee structure which is friendly to business start-ups and their cash flow needs • Defer taxes on new businesses until operating properly/ or first three years • Lower rates and taxes for Constantia wine farms • Lower transfer costs on property transactions |
| | Procurement | <ul style="list-style-type: none"> • Relax tender requirements for small businesses • Relax BBEEE requirements for small businesses • Improve efficiency and transparency of the tendering process • Ring-fence smaller contracts for small business |
| Infrastructure and Spatial Development | | <ul style="list-style-type: none"> • Make everyone aware of the COCT's development plan • Reduce congestion • Improve road infrastructure • Improve the functionality of port and its efficiency/ reduced congestion • Make CBD more accessible for commuters • Improve job creation through labour intensive infrastructure delivery • Ensure airports are managed better to address baggage thefts and long queues including passport control • Introduce passenger rail service between Cape Town and Atlantis |
| Sector support | Tourism | <ul style="list-style-type: none"> • Engage tourism businesses on accommodation prices for local tourists • Develop community awareness of the importance of tourism |
| | Boat-building | <ul style="list-style-type: none"> • Assistance with abnormal loads delivery and with launching and docking of yachts |
| | Film | <ul style="list-style-type: none"> • Lift local restrictions on shooting in Cape Town • assist with local and international marketing of film industry • Improve efficiency of Cape Town Film Office • Reduce film industry related costs in Cape Town • Promote industry through incentives |
| Investment promotion | | <ul style="list-style-type: none"> • Need incentives to start operating in Cape Town as it is difficult to compete with Johannesburg • Improve COCT's interaction with Wesgro |

Understandably, many of these proposals involve requests to reduce service delivery costs and these may not be feasible.

Given the importance of infrastructure towards providing an enabling business environment for economic growth and investment, respondents were asked to provide:

- a) Proposals for short-term (6 months) city-wide infrastructure improvements that would have the most impact on growing their business (see **Table 10**)

- b) Proposals for long-term (5 years) city-wide infrastructure improvements that would have the most impact on growing their business (see Table 11)
- c) Proposals for the three most important transport infrastructure issues, actions, investments, or projects that could most impact on growing Cape Town's economy in the next 5 years (see Table 12)

TABLE 9: PROPOSALS FOR SHORT-TERM (6 MONTHS) CITY-WIDE INFRASTRUCTURE IMPROVEMENTS THAT WOULD MOST IMPACT ON GROWING BUSINESSES

| Short term infrastructure improvements to grow businesses | |
|---|--|
| Intervention Area | Specific Proposal |
| Telecommunications | <ul style="list-style-type: none"> • Reduce telecommunications costs • Increase affordability of broad-band |
| Transport | <ul style="list-style-type: none"> • Improve parking in CBD • Improve safety and security on public transport • Improved roads • Improved air-craft handling capability at airport • Improve access to CBD and reduce congestion • Improve passenger and freight rail service • Invest in more cranes at port |

TABLE 10: PROPOSALS FOR LONG TERM (5 YEARS) CITY-WIDE INFRASTRUCTURE IMPROVEMENTS THAT WOULD MOST IMPACT ON GROWING BUSINESSES

| Long term infrastructure improvements to grow businesses | |
|--|---|
| Intervention Area | Specific Proposal |
| Safety/ crime | <ul style="list-style-type: none"> • Improve safety |
| Port | <ul style="list-style-type: none"> • Improved/ expanded container terminal |
| Transport | <ul style="list-style-type: none"> • Improved public transport including safety • Upgrade airport • Upgrade road infrastructure • Upgrade rail system |
| Infrastructure | <ul style="list-style-type: none"> • Build film studio • Upgrade informal settlements • Upgrade COCT properties • Common energy supply for industrial areas |
| Social infrastructure | <ul style="list-style-type: none"> • Invest in education system • Improve speech and grammar at school level |

In addition to the above proposals, additional longer term proposals are summarized in Table 11.

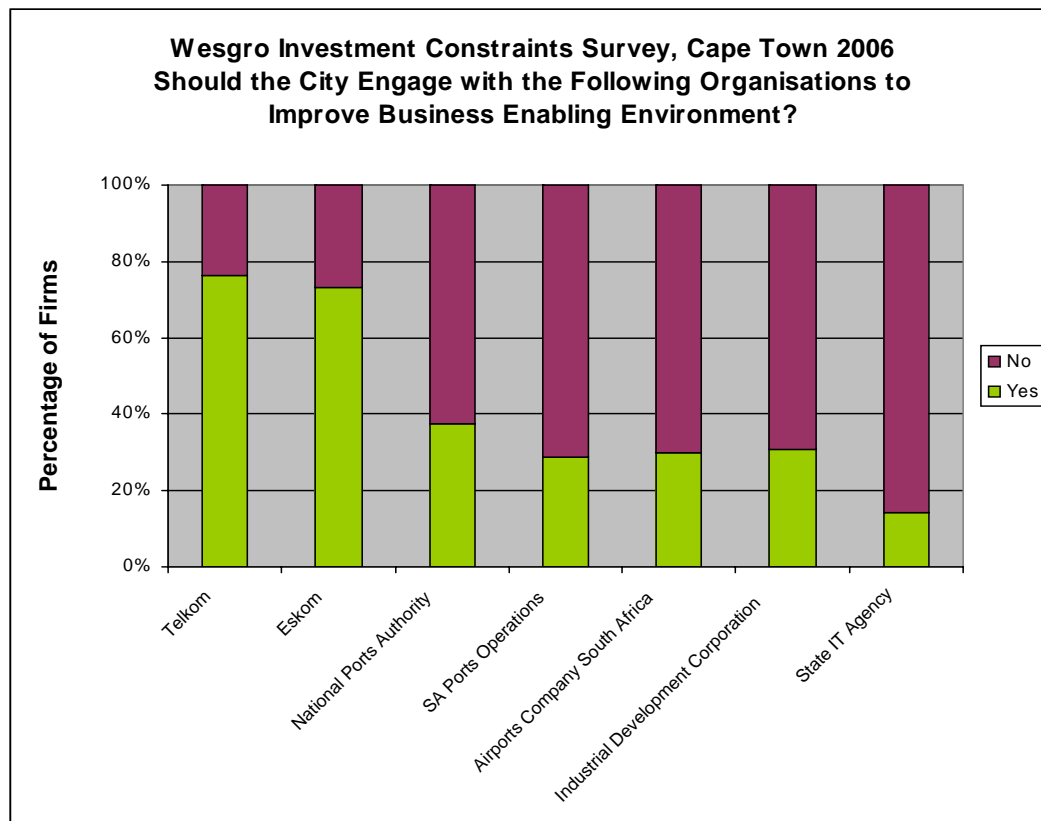
TABLE 11: PROPOSALS FOR TRANSPORT INFRASTRUCTURE IMPROVEMENTS THAT WOULD
 MOST IMPACT ON GROWING THE CAPE TOWN ECONOMIC OVER THE NEXT 5 YEARS

| Priority Transport Infrastructure Improvements to Grow Cape Town Economy | |
|---|--|
| Intervention Area | Specific Proposal |
| Port | <ul style="list-style-type: none"> • Deepening of port • Improved access to port facilities for launching boats • Expand port capacity to deal with more cargo • Improve harbour terminal for cruise liners |
| Transport | <ul style="list-style-type: none"> • Build trains above roads • Improved rail access from northern suburbs • Complete R300 road extension • Rapid mass transit/ train system especially from Cape Town International Airport to CBD • Utilise railway line from Atlantis • Upgrade N1 • Upgrade taxis to busses • Upgrade taxi services to Century City • Provide rail access to Century City • Allow additional international flights direct to Cape Town International Airport • Limit car entry into CBD and make public transport service available • Improve safety and security on the roads including taxi law and order • Investigate second airport to North of City |
| Infrastructure | <ul style="list-style-type: none"> • Upgrade telecommunications infrastructure • Decentralise business activity to reduce congestion |

It is clear that the key local government actions that businesses feel would improve the local business environment for investment relate to various aspects of the transport system. These issues range from issues which are in direct control of the COCT, such as the maintenance of local roads, to issues which require national, provincial, and para-statal investment such as public transport, the port, and the airport. Given the importance of para-statal investment in infrastructure, respondent's views were solicited regarding the need for the COCT to engage with specific para-statals.

Regarding service delivery issues related to para-statals, many businesses felt strongly that the COCT should engage with these para-statals to address service delivery issues. **Figure 18** shows the proportion of respondents that felt the COCT should engage with selected para-statals to improve the local business environment. This proportion range from almost 80% for Telkom to 16% for the State IT Agency. **Annexure C** contains detailed responses from respondents regarding specific issues that need to be addressed by each para-statal.

FIGURE 18: PROPORTION OF RESPONDENTS THAT BELIEVE THE CITY OF CAPE TOWN SHOULD ENGAGE WITH SPECIFIC PARA-STATALS TO IMPROVE THE LOCAL BUSINESS ENVIRONMENT



Section 3 has thus far focused on identifying investment constraints which are primarily relevant to existing domestic and foreign investors. Addressing these constraints will assist in leveraging additional investment from existing investors. However, it is also important to identify and address constraints faced by potential investors in order to improve Cape Town's prospects for attracting external investment. Section 3.6 therefore attempts to identify investment constraints which potential foreign investors are facing.

3.6 Foreign Investment Constraints and Wesgro

The global dispersion of production offers certain opportunities to regions such as the Western Cape which are located within developing countries. South Africa is projected to tap into a growing proportion of **global foreign direct investment** as important investor risks are reduced and certainty increased. The country's International Marketing Council has also begun to brand South Africa as a place of "unlimited opportunities" as the country's performance begins to reflect its ability to deliver on this brand promise.

Partly due to foreign investor perceptions of high political and economic risk, Africa has only been able to attract about 4% of private global capital flows despite having the highest rates of return in the world (Mills 2004). Foreign direct investment in South Africa is estimated to have grown to R 7.5 billion to 2005 and R5.165 billion in 2006.

The following factors have been identified as constraints (in no particular order) in a 2006 Multilateral Investment Guarantee Agency (MIGA) survey of investors who decided not to invest in South Africa (referenced in Foreign Investment Advisory Service and MIGA: June 2006):

- Lack of clarity regarding BBBEE in South Africa and its implications for foreign investors
- Regulatory environment particularly re the natural resources sector
- Energy supply and capacity
- Uncertainties re the future of the MIDP
- Lack or limited scope of current investment incentives
- Mixed messages on FDI value (e.g. recent proposed moratorium on sales of land to foreigners)
- Relatively small market
- Taxes.

Since the above survey was undertaken, government has clarified its BBBEE policy with regards to foreign investors as well as the future of the MIDP program up until 2012.

3.6.1 Wesgro and Investment Facilitation

Foreign direct investment is often a medium to long term process which can take a number of years after beginning with initial investigations of possible investment locations. Figure 19 below is one illustration of various activities involved in the investment promotion process. With site selection activities progressing from a high global level towards a more detailed local level. This process is important as different constraints to foreign investment can emerge at each step in the process. For example, if information on basic cost factors is not easily available, a destination may not even make it onto a short-list. Once a destination has made a short-list, other information constraints or infrastructure constraints may become apparent.

FIGURE 19: FOREIGN INVESTMENT PROMOTION STAGES



Source: IBM/ MIGA

Wesgro, as the Province’s official Trade and Investment Promotion Agency, interacts on a daily basis with a range of foreign investors investigating investment opportunities at various stages in the process. Wesgro provides a range of services designed to facilitate and assist the investment process.

Based on Wesgro management’s experience with facilitating foreign investments into the Western Cape as part of the site visit and investment facilitation stages, **Table 12** summarises a range of local level investment constraints relevant to the COCT and which impact on reduced or lost foreign investment::

TABLE 12: LOCAL-LEVEL CONSTRAINTS TO NEW AND EXPANDED FOREIGN DIRECT INVESTMENT

| Issue | Constraint Description | Recommendations |
|--|--|--|
| <p>COCT culture:</p> <p>Shows a lack of understanding of the economic development importance of investment and results in lengthy processes which lose investments.</p> | <ul style="list-style-type: none"> COCT culture, procedures, policies, and officials often unnecessarily increase the direct and time costs of investment processes resulting in lost job creation opportunities. | <ul style="list-style-type: none"> Regulatory Framework Review process involve inter-departmental Steering Committee COCT performance management system reviewed to include key investment process relevant KPIs Communication strategy designed to raise awareness of the importance of investment, success stories, and constraints |

TABLE 12 LOCAL-LEVEL CONSTRAINTS TO NEW AND EXPANDED FOREIGN DIRECT INVESTMENT (CONT.)

| Issue | Constraint Description | Recommendations |
|---|---|---|
| Relationship between Wesgro and COCT requires better alignment and strategy integration | <ul style="list-style-type: none"> A wide range of COCT related issues are constraining or prohibiting new investment and existing mechanisms between COCT and Wesgro, as well as within COCT do not seem to be designed to adequately address these constraints (see below for examples). | <ul style="list-style-type: none"> COCT needs to discuss constraints with Wesgro and jointly develop and design solutions which meet both COCT and investor needs. |
| Land Access and Development: | <ul style="list-style-type: none"> No land in CBD to develop Purchase of COCT land in Atlantis can take up to two years and COCT procedure on tendering is unclear, lengthy and poorly facilitated. Lack of accessible up to date aerial maps of vacant land. | <ul style="list-style-type: none"> COCT's Property Management Policy needs to be revised to include tender processes which are appropriate for strategically important investments whereby land value is independently valued rapid tender process implemented. COCT must make available accessible information on developable public land. |
| Development Costs | <ul style="list-style-type: none"> Construction prices very high compared to other Provinces (labour and raw materials) Lengthy EIA processes can undermine feasibility of investments COCT's infrastructure policy not always clearly communicated re what infrastructure COCT will or will not contribute towards. COCT's Incentives Policy (draft) not clear if utilities rebates will impact materially on investment feasibility. Ideally incentives should not be blanket but tailored to different types of investments as certain investments are more desirable than others re economic development impacts. | <ul style="list-style-type: none"> COCT needs to implement expedited EIA processes whereby key site have EIA processes in place for specific types of uses in advance of actual development applications COCT Incentive Policy needs to be finalised, monitored, and refined to consider selective provisions for strategic investments. Delegations for senior officials, as well as decision-making processes, regarding decisions on utility prices need to be clarified and streamlined. |

TABLE 12: LOCAL-LEVEL CONSTRAINTS TO NEW AND EXPANDED FOREIGN DIRECT INVESTMENT (CONT.)

| Issue | Constraint Description | Recommendations |
|---|--|---|
| Development Facilitation | <ul style="list-style-type: none"> Wesgro and Investors have no one clear entry point into COCT to clarify investment and development-specific policies, procedures, costs etc. | <ul style="list-style-type: none"> COCT's Development Facilitation Post needs to have sufficient delegated authority |
| Investor Aftercare | <ul style="list-style-type: none"> COCT does not have a coordinated structure or process to address service delivery constraints which impact negatively on strategic foreign or domestic investments. This undermines expansion of existing investments as well as possible testimonial marketing of Cape Town by existing investors. | <ul style="list-style-type: none"> Wesgro and the COCT need to enter into a Service Level Agreement specifying agreed processes and service delivery performance standards to address service delivery constraints faced by investors |
| COCT Energy and Water Service Delivery Strategies and Foreign Service Providers | <ul style="list-style-type: none"> COCT has not defined a process, as well as roles and responsibilities, to consider and evaluate proposals from service providers using new and innovative technologies which may enhance service delivery. Examples include renewable energy and solar energy, as well as de-salinisation technology and water treatment technology to recycle sewage. | <ul style="list-style-type: none"> COCT needs to engage Wesgro to identify how Wesgro can assist to locate investors that can assist in meeting priority COCT service delivery challenges and targets, for example re the Energy Strategy. COCT needs to clarify process to consider expressions of interest to identify innovative technologies which can address service delivery priorities regarding renewable energy (e.g. land-fill gas sites and electricity off-take) and water supply. Policy needs to provide for pilot projects and pre-feasibility studies. |
| Lack of Major Events Strategy to maximise economic development opportunities | <ul style="list-style-type: none"> COCT is losing major events (e.g. Volvo Ocean race) which have major direct and indirect economic development impacts including global destination marketing benefits due to the lack of a major events strategy. | <ul style="list-style-type: none"> COCT needs to develop Major Events Strategy (is in process) which recognises strategic economic impact and importance of major events and clarifies strategic role of COCT in such events. Where such events do exist for example the Cape Town Jazz Festival they should be used as a marketing tool to attract investors. |

| Issue | Constraint Description | Recommendations |
|---|---|---|
| Lack of COCT Long Term Vision and Marketing | <ul style="list-style-type: none"> COCT does not have a long term vision of how it wants the economy to develop regarding priority economic sectors and is not perceived to market itself as a place to do business. | <ul style="list-style-type: none"> COCT needs to develop long term economic development strategy and vision and develop effective marketing strategy in partnership with Wesgro. |
| COCT officials perceived to support investment and infrastructure only in poorer parts of the COCT, | <ul style="list-style-type: none"> Infrastructure required to support manufacturing activity is being neglected undermining competitiveness and growth of COCT's manufacturing sector. | <ul style="list-style-type: none"> COCT infrastructure prioritisation criteria need to include support to enhancing global competitiveness of manufacturing sector. Transport infrastructure criteria can serve as basis for this. |
| Access to the port is poor due to road freight heavy congestion | <ul style="list-style-type: none"> New road access may be required. Scope to optimise rail connections. | <ul style="list-style-type: none"> Clarity required on N1 Corridor project and availability of funding from 3 spheres to enhance access connections. COCT Port MOU and Mechanisms needs to be re-invigorated to address real economic development infrastructure constraints. |
| Building Plan approvals seen to be lengthy process (can take 8 months) compared to competing investment locations | <ul style="list-style-type: none"> Lengthy building plan approval increases investment cost of development in Cape Town and reduces comparative competitiveness | <ul style="list-style-type: none"> Red Tape Reduction process to enhance building plan approval processes to speed up approval process to reach best practice benchmarks. |

The other constraint mentioned is relevant to the Airports Company of South Africa:

| | |
|---------------------------|--|
| VIP Investor Facilitation | There is no preferential or fast-track access at Cape Town International Airport international arrivals to expedite processing of VIP foreign investors. |
|---------------------------|--|

The recommendations contained in Table 12 are based primarily on the consultant's knowledge of key COCT processes and will inform the report's final recommendations in **Section 5**.

In order to inform Wesgro's response to addressing selected investment constraints, survey respondents were asked views on Wesgro and actions to address investment constraints.

3.6.2 Wesgro and Other Investment Promotion Issues

In order to inform Wesgro's investment promotion strategy, a number of survey questions were asked relating to:

- Awareness of Wesgro
- Use and satisfaction with Wesgro services
- Suggestions regarding key issues Wesgro actions should address to enhance investment

Key findings are:

- 77.14% of respondents were aware of Wesgro. This proportion would have been lower before the respondents were interviewed as the survey was introduced as a "Wesgro Survey". There is clearly room to enhance awareness of Wesgro and its role.
- Of those 77.14% that are aware of Wesgro, 63% have used Wesgro's services and 85% of these firms found Wesgro's services to be useful to very useful, with the remaining 15% finding these services to be not useful.
- Key actions as suggested by respondents that Wesgro can take to enhance investment include:
 - Market their services more to local businesses
 - Assist with reducing government red tape problems by linking government and private sector
 - Promote investor confidence through, for example, key events such as the Annual Western Cape Investment Conference
 - Promote opportunities for investment in key infrastructure including tourism;
 - Facilitate feasibility studies for possible investment projects;
 - Facilitate better communication with, and lobby government for action to address key constraints such as:
 - Transportation logistics
 - Crime, and
 - Burden of labour legislation on the agricultural industry.

Wesgro's ability to respond to the identified constraints and take forward the proposed actions will inevitably be influenced by the availability of qualified staff, and access to government decision-makers and financial resources.

3.7 Conclusion

Section 3 has identified a number of local-level constraints to investment from the survey of 102 existing firms in Cape Town's priority growth sectors. In addition, a number of constraints relevant to foreign direct investment facilitation have been identified. Possible actions to address both domestic investment and foreign investment facilitation constraints have been identified.

Most of these constraints and actions apply to the vast majority of firms in Cape Town and addressing them would improve the local business environment in general. In addition to general investment constraints, it is important to identify sector-specific constraints that primarily impact on existing or potential firms in a particular sector. **Section 4** contains the findings of in-depth qualitative discussions held with firms and representatives of 5 such growth sectors.

4 Sector Specific Investment Constraints in Cape Town

4.1 Introduction

Sectors differ significantly in a number of ways, including the following:

- Who their customers are and what infrastructure is critical to serving them
- The nature of global and national investment competition
- Their cost structures
- Relative importance and nature of key input factors that impact on competitiveness
- Product life cycles

As a result, each sector has specific investment constraints that impact only on that sector, or impact in a unique way on that sector and its investment constraints.

In order to obtain a more nuanced understanding of sector-specific investment constraints, in-depth qualitative interviews were conducted with sector experts and businesses in the following five manufacturing and services sectors:

- Tourism (**Section 4.3**)
- Boat-building (**Section 4.4**)
- Oil and Gas (**Section 4.5**)
- Information and Communication Technologies (**Section 4.6**)
- Film (**Section 4.7**)
- Business Process Outsourcing (**Section 4.8**)

Before examining each sector's investment constraints, a brief analysis of Cape Town's perceived investment competitiveness in the tourism, construction, and film sectors is presented in **Section 4.2**. The rationale for this is that Cape Town's investment constraints are also related to its competitiveness relative to other alternative business locations in South Africa. This issue is particularly relevant for foot-loose sectors that do not rely on a particular raw material.

4.2 National Perspective on Cape Town's Competitive Advantage in the Tourism, film, and Construction Sectors

Cape Town is competing both globally and nationally as a business destination for investment. Companies in certain sectors are more mobile than others. In order to begin to develop a deeper understanding of competitive dynamics between the main South African metro cities, a small number of interviews were conducted with businesses in the construction, film, and tourism sectors. The businesses interviewed either had headquarters in Johannesburg and/or had a national presence and were therefore familiar with investment and business dynamics at a national level.

The main findings are contained in **Table 15** as follows:

Survey of Constraints to Investment in Cape Town:
Section Four: Sector Specific Investment Constraints in Cape Town

TABLE 15: NATIONAL INVESTMENT PERSPECTIVE: TOURISM, FILM, CONSTRUCTION SECTORS

| Issue | Film | Tourism | Construction |
|--|---|--|--|
| <p>The location in South Africa seen to be the most attractive investment location (either for new investments or expanding existing investments) and why?</p> <ul style="list-style-type: none"> • Johannesburg/ Pretoria • Cape Town • Durban • Port Elizabeth • East London • Other (specify) | <ul style="list-style-type: none"> • Cape Town has proliferation of private sector industry support infrastructure & labour (Johannesburg is hard to sell to internationals and Durban lacks support service infrastructure/ specialized labour) | <ul style="list-style-type: none"> • Durban as certain companies do not yet have established presence there yet. | <ul style="list-style-type: none"> • Johannesburg has more investment opportunities (“there is 3 times more work in Johannesburg”) and higher economic growth and is commercial hub of South Africa. Most clients have HQs in Johannesburg and it is easier to do business in Johannesburg with less bureaucratic burden. Staff are far less efficient/ expensive in Cape Town. Cape Town has better returns in residential sector. |
| <p>Rating of the investment attractiveness of Cape Town for your company in terms of future potential investment (see below for reasons)</p> | <ul style="list-style-type: none"> • Good due to availability of private sector infrastructure, but depends on whether Durban and other cities adopt a strong competitive approach and waive rates etc. | <ul style="list-style-type: none"> • Very attractive | <ul style="list-style-type: none"> • Do not want to invest in Cape Town. |
| <p>Main perceived positive factors promoting investment in Cape Town</p> | <ul style="list-style-type: none"> • Proliferation of private sector industry support infrastructure & labour | <ul style="list-style-type: none"> • Increased tourism potential in Cape Town. • People see Cape Town as one of the better run cities. | <ul style="list-style-type: none"> • Tourism and 2010 World cup • Future development as a result of coastal location |
| <p>Main perceived negative factors restricting investment in Cape Town</p> | <ul style="list-style-type: none"> • Regulations | <ul style="list-style-type: none"> • Battle to find night spots • Land prices | <ul style="list-style-type: none"> • Addressing safety and security would have huge impact on accelerating investment in Cape Town. • Lack of work ethic/ efficiency of labour increases costs in Cape Town • Constraints in planning approval and service delivery |

It is clear that Cape Town faces ongoing competition in the tourism and film sectors and that competing locations are starting to take measures to increase their relative attractiveness to investors. In the construction sector, red tape / regulatory and labour issues increase costs. Addressing red tape/ regulatory issues could play a role in enhancing Cape Town's relative investment attractiveness.

Sections 4.3-4.7 examine sector-specific investment constraints, as well as possible recommended actions, in more detail. A short overview profile of each sector is also provided

4.3 Tourism

4.3.1 Short Profile: Segments and Statistics⁷

The tourism sector in the Western Cape is cross-sectoral in nature; traditionally it is considered to include private sector operations including accommodation, restaurants, land and sea transport, tour operators and merchandise. This is, however, a relatively narrow definition, as the sector incorporates a multiplicity of upstream and downstream linkages into the community, environment and associated economic sub-sectors which supply and support the tourism sector with a wide range of goods and services.

Economies that benefit most from tourism are those with a range of market driven products, frequent and cost effective air access, safe and secure environments, adequate transport infrastructure, supportive development and marketing policies, and governments committed to tourism development.

The tourism sector is made up of seven key sub-sectors:

- Attractions;
- Accommodation;
- Transport
- Travel Organisers
- Destination Organisers
- Commercial and Industrial
- Support Services

It is important to note that the sub-sectors are inter-connected. This means that if one sub-sector fails to deliver excellent service, it can have a knock-on effect on other sub-sectors. The sub-sectors are also interdependent because they depend on one another in order to function properly

The scope and structure of businesses that are operating within the tourism sector differ significantly and include:

- emerging businesses operating in local markets
- micro-enterprises operating in local markets
- small-to-medium-sized enterprises operating in predominantly local, national or international markets (less than 100 employees)
- large companies with more than 100 employees operating locally, nationally and internationally
- multi-national companies with offices locally, nationally and internationally

Given this diversity, research focused on companies estimated to have more interaction with the COCT and its departments. Included were national and international accommodation providers, in-and-out bound tour operators and a group operating tourist attractions and transport. Some of the companies have experience operating in other African countries. All of the individuals consulted had some knowledge of international best practice with respect to

⁷ * All figures in this report are based on statistics from South African Tourism (SAT)

the tourism industry and one of the interviewees was well versed in what in destination competitiveness.

Annual International Arrivals in the Western Cape

TABLE 16: INTERNATIONAL TOURISM ARRIVALS IN THE WESTERN CAPE:2002-2005

| Year | 2002: | 2003 | 2004 | 2005 |
|------------------------|-----------|-----------|-----------|------------|
| International Arrivals | 1,478,804 | 1,528,649 | 1,535,903 | 1,641,883* |
| Annual Growth | - | 3.37% | 0.47% | 6.9%* |

*Estimate – actual figures not yet available.

Western Cape Performance-Spend

The Western Cape received R8.9 billion in foreign spend in 2004 and is expected to achieve R9.8 billion in 2005 representing a 10% growth.

Western Cape Performance-Domestic Tourism

The Western Cape received 3-million domestic trips in 2005, coming 6th after KZN, Gauteng, North West, E. Cape and Limpopo. Gauteng and North West were the only two provinces that produced more domestic trips than they received. Of the 2.4 million trips produced by the Western Cape, only 0.38-million were to other provinces and 2.03 remained in the province. 68% of all domestic trips to the Western Cape were generated within the province and only 0.97-million of the total 3-million domestic trips to the Western Cape were from other provinces. The Western Cape's domestic tourism, therefore, relies heavily on its residents. The Western Cape received R1.97 billion domestic direct spend and 16.45 million bed nights in 2005. The average length of stay of domestic visitors was 5.1 nights.

Employment has decreased slightly from the high in 2002, but has been gaining steadily since then reaching an estimated 1.06 million jobs in 2005. This number is forecast to grow to some 1,7 million by 2015, which equates to a 4,5% increase per annum. As far as tourism's contribution to GDP is concerned, it reached a high of 9.75% in 2000

Projected Annual Tourism Sector Growth 2006-2015

The **World Travel and Tourism Council (W TTC)** growth projections for South Africa are encouraging and are substantially above the growth forecasts for the global tourism economy. A comparative summary of the forecasted tourism growth in South Africa, Sub-Saharan Africa and the World are shown in **Table 17**:

TABLE 17: PROJECTED ANNUAL TOURISM SECTOR GROWTH 2006-2015

| Measurement | South Africa | Sub-Saharan Africa | World |
|-----------------------------|--------------|--------------------|-------|
| <i>Tourism Demand</i> | 5, 7% | 5, 8% | 4, 6% |
| <i>T&TE GDP*</i> | 5, 7% | 5, 7% | 4, 0% |
| <i>T&TE* Employment</i> | 4, 5% | 2, 9% | 2, 0% |

Source: W TTC Note: * Travel & Tourism Economy

An international and national perspective

Global tourism has been on an upward trend and South Africa and the Western Cape have not been left behind. Globally, international arrivals reached 808 million in 2005, representing a 5.5% growth from 766 million in 2004. South Africa attained 10.3% growth in international arrivals in 2005, surpassing the 5.5% 2005 global growth rate. The Western Cape has been on a similar growth path as depicted by the 2005 growth rates, especially the 6.37% growth rate in international arrivals recorded in the traditionally low tourism season months of the year (May - September).

Cape Town and the Western Cape have the potential to significantly grow visitor numbers, market share and yield from international source markets. Tailored product provision, exciting new product and experience development, product/experience packaging and continued investment in destination marketing, management and infrastructure provision will be critical for the sustainable growth of tourism and delivery of industry transformation imperatives. This becomes especially important as we focus on preparations for the 2010 Soccer World Cup.

4.3.2 Tourism Investment Constraints and Possible Actions

The top three Investment Constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 18**: **Table 19** provides a detailed explanation and recommendations for these and additional tourism investment constraints.

TABLE 18: PRIORITY TOURISM INVESTMENT CONSTRAINTS EXISTING INVESTORS AND NEW FOREIGN INVESTORS

| Existing Business | New Foreign Direct Investment |
|----------------------------|---|
| Crime, Safety and Policing | Crime, Safety and Policing |
| Lack of skilled workers | Lack of Investment and Funding strategy for tourism in the Province |
| Lack of public transport | Telecommunications Infrastructure |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--|
| <p>Crime, safety, policing</p> <p>Crime and safety concerns are the number one constraint mentioned by the interviewees. The interviewees clearly differentiated between operational strategies needed to combat crime and perceptions about crime. All agreed that if widespread perceptions about crime in South Africa and the Western Cape/Cape Town are not addressed, the tourism industry would suffer the consequences in reduced visitation and decreased foreign investment.</p> <p>Interviewees stated that they seldom reported crimes involving tourists to the police. This was because tourists preferred not to press charges as they would then be required to attend court proceedings and as the duration of their stay in the COCT was of a limited nature, future court attendance was not possible.</p> <p>A cost of doing business in Cape Town is the fact that companies need to hire additional security and spend money on security systems. Special provision is also made for female employees in order to ensure their safety – i.e. parking close to the premises, not working at night etc, all contributing to increased costs and reduced productivity. The emotional psyche of residents is affected by concerns over safety and security and this impacts negatively on the business environment.</p> | <p>SAPS Tourism Unit to be re-established to monitor and record crimes against tourists and to use this information to motivate for allocation of resources;</p> <p>Tourism Safety Forum to ensure co-ordinated response/management already set up by PGWC and includes all stakeholders: could be further strengthened to operate effectively all year round.</p> <p>Need to look at the role of technology in tourism safety e.g. surveillance cameras on signal hill, and more visible patrols.</p> <p>Pro-active PR needed to illustrate SAPS success stories. Need more pro-active PR around safety and security gains and exceptional visitor experiences so as to enhance safety perceptions of the destination. Wesgro could write up investment success stories and market them to the world.</p> | <p>SAPS,BAC, PGWC, COCT drivers</p> <p>CTRU,CTT, TMNP, CTP, Wesgro in support</p> <p>CTRU and Wesgro</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--|
| <p>Lack of skilled workers</p> <p>A shortage of skilled workers in the tourism industry is a challenge with skills constraints prevalent across the sector from management staff to front of house staff, to taxi drivers. THETA (Tourism Hospitality and Education Training Authority) is not seen by industry to be doing an effective enough job in addressing skills needs.</p> <p>Current labour regulations were also seen as an impediment to employing more staff. Current labour regulations seen by the industry as an impediment to employing more staff (difficulty of releasing staff if they are not up to scratch; seasonal nature of the industry is not, according to respondents, adequately catered for in labour regulations)</p> | <p>Tourism skills audit to be conducted to analyse tourism specific skills constraints.</p> <p>THETA could consult more widely with industry to review skills need and then to design relevant, comprehensive and inspirational training programmes in consultation with industry. THETA to design relevant, comprehensive and inspirational training programmes that meet the needs of industry. THETA accredited staff should be able to earn more.</p> <p>THETA Could create new programme “Service 2010” that offers free courses for all in service excellence. Could be sponsored.</p> <p>Department of Labour could review Labour legislation including addressing special working conditions of specific sectors.</p> | <p>Cape Town Routes Unlimited (CTRU), THETA, The Federated Hospitality Association of South Africa (FEDHASA) South African Tourism Service Association (SATSA), drivers PGWC, Wesgro in support</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--|
| <p>Tourism Infrastructure Investment and Funding</p> <p>Investment in tourism infrastructure is critical to enhance the Cape Town tourism product and destination. Investments in certain tourism projects, especially in areas outside of urban centres, are considered too risky for banks. The lack of an adequate tourism infrastructure (transport infrastructure, cruise liner terminal, additional runways at CT International etc) is a serious obstacle to tourism development. In particular, the long planning and construction time involved in infrastructure development, as well as the difficulties of funding very costly infrastructure projects, can create critical bottlenecks for growth.</p> | <p>The establishment of an investment and funding strategy for tourism product development is required across the Province. This should identify potentially viable tourism investment projects that could be marketed to investors.</p> <p>Wesgro, in conjunction with CTRU, be tasked to develop an investment and funding strategy for tourism product development across the region. This should identify potential viable tourism investment projects that could be marketed to investors. Consideration should be given to the various options available for financing and privatizing tourism infrastructure projects, such as government outlays, regional financial institutions, involvement of the private sector through build-operate transfer schemes and foreign direct investment. Wesgro/ CTRU position paper is needed on local tourism infrastructure needs and ideas on how to finance. Wesgro needs to look at a labour intensive tourism investment strategy.</p> <p>A possible need exists for the development of tax concessions, incentives and certain rewards if business meets particular policy directives. As an added incentive, the private sector could be encouraged to contribute a certain percentage of their profits to community improvement projects and developing infrastructure in ways that profit not only private sector tourism development but provide for the needs of the larger community, for example the development of a sewage treatment plant serving the needs of the surrounding community and providing clean water. Encouragement should be given to investments by local communities in tourism through the use of low interest loans by government agencies and financial institutions. Public-private partnerships could be used to identify specific zones for tourism-related investments, for example in rural areas, in order to reduce poverty. Wesgro to spearhead this kind of thinking.</p> | <p>Wesgro to drive CTRU, PGWC to support</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|---|---|
| <p>Transport</p> <p>Lack of safe, reliable and efficient public transport is a concern for the tourism industry in two respects. Firstly, staff working shifts find it difficult to get to-and-from work and the onus is on the employee to provide transport. Secondly, visitors are compelled to hire cars which are sometimes (in peak season) in short supply. Some visitors are not confident driving in an unfamiliar city and this may be the reason they do not visit at all. In addition, it is on public transport that visitors often interact with locals enhancing the authenticity of the experience. Respondents felt that there was need for holistic transport plan using a combination of busses, taxis, mass rapid transport, etc.</p> <p>Need for scheduled transport from CT International into the CBD was expressed.</p> | <p>CPT International to CBD transport link is currently being explored and would receive support from tourism industry. Need to ensure that tourism attractions are well served by combination of taxis, buses and regular shuttle services. Tourism transport plan should overlay integrated transport plan for the COCT. Need for sustainable transport such as energy efficient vehicles and creation of cycle lanes throughout COCT.</p> | <p>PGWC, COCT, drivers CTRU, and relevant NGO's in support</p> |
| <p>Air Access</p> <p>The current situation of protecting the national carrier by not awarding slots to airlines who request additional weekly flights, is counter-productive and effects business growth and sustainability.</p> | <p>Ministerial task team to appoint independent aviation analyst to look at putting in place a regulated open skies policy for SA and to review case studies of countries where this has successfully been implemented e.g. Australia, Israel.</p> <p>Need for Research paper on air access constraints into CT and cross sectoral opportunities; close networking with SAA and DOT</p> <p>SAA should consult with local tourism authorities and their members before unilaterally changing air schedules.</p> <p>Direct flights to Cape Town from destinations such as the USA should be introduced.</p> | <p>DOT, CTRU, WCPG, COCT drivers Wesgro to lobby South African Airways (SAA)</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|--|---|
| <p>Telecommunications</p> <p>All interviewed cited the cost of telecommunications (electronic and telephonic) as a factor that reduced their competitiveness. High tariffs and slow speeds impact on the viability and productivity of all businesses in this sector.</p> <p>Internet increasingly seen as a method of doing business in tourism industry. Online travel sales growing rapidly. Broadband capacity and speed a constraint, e.g. CTRU site (www.tourismcapetown) currently hosted in Austria to facilitate speed of access for European based visitors; local product owners complain access to slow for them to update information.</p> | <p>CTRU to make deals with travel distribution companies e.g. Expedia (US), Sabre Holdings, Cendant and Priceline.com who control 97% of the US market and Lastminute, Ebookers, Travelocity, Opodo in Europe to feature CT and WC packages.</p> | <p>CITI, TELKOM, COCT, PGWC drivers</p> <p>FEDHASA SATSA, CTRU in support</p> |
| <p>Electricity</p> <p>Electricity interruptions during the recent power outages had some negative impact on the tourism industry. Most large hotels have generators and they could supply their own power. But smaller businesses in the sector such as guest houses were negatively affected. Staff were unable to work and guests were inconvenienced – meals could not be served in the usual manner and the internet could not be accessed by guests. Most importantly, perceptions of the COCT as a well run, thriving metropolis were negatively affected.</p> | <p>Liaison with tourism industry re status of electricity in the Western Cape is important. Information sharing critical.</p> | <p>Eskom, Fedhasa, SATSA, CTRU, COCT in support</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|---|
| <p>Airports Company/Customs and Immigration Respondents felt that the queues at passport control were unacceptable and put the destination in a negative light. Visitors often waited two hours or more after long flights to pass through emigration. Parking at CT International is still a problem even with added capacity.</p> | <p>Work with Consulates reduce lengthy delays in issuing visas for foreigners and work and residence permits for investors.</p> | <p>WGWC, CTRU to drive, Wesgro in support</p> |
| <p>Tourism Statistics Tourism statistics are not readily available to the industry. Need for good interpretation of stats.</p> | <p>On line tourism statistics should be available to all members of tourism bureaus, including trends, investment opportunities, primary markets, emerging markets etc. Need for critical analysis of such stats.</p> <p>Need for a reliable and comprehensive statistical database to guide decision-makers at various levels of tourism development and investment. Also reliable tourism market data at both the destination level, including marketing strategies.</p> | <p>CTRU primary driver in partnership with SAT Wesgro in support</p> <p>CTRU in cooperation with SA Tourism and other Industry bodies</p> |
| <p>SMME Support Tourism SME support currently diluted as not co-ordinated under one agency. This undermines the sustainability and growth of tourism enterprises. Disparate programmes exist such as Tourism Enterprise Programme, Integrated Tourism Entrepreneurship Support Programme etc..</p> | <p>Tourism SMME support needs to be co-ordinated under one agency working in partnership with COCT, CTRU. Currently too many disparate programmes, PGWC should co-ordinate provision of tourism support services.</p> | <p>PGWC to lead COCT, CTRU to support</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--|
| <p>Port Authorities Potential for a cruise liner industry in Cape Town and the need for a multi-purpose cruise liner terminal exists. Effective dialogue between the relevant authorities is needed.</p> | <p>CTU to initiate research on viability and actions in partnership with the National Ports Authority.</p> | <p>CTRU driver Wesgro, COCT, NPA, PGWC support</p> |
| <p>Social Issues, such as housing and education for employees Housing, Healthcare and Education are issues that affect the productivity of the tourism industry. Inadequate healthcare and housing for staff and quality education for staff children all undermine labour productivity and enterprise competitiveness and service levels.</p> | <p>Liaison with tourism industry as to strategy and how employees can play a role in assisting their staff</p> | <p>COCT, PGWC drivers CTRU, Wesgro support</p> |

TABLE 19: CAPE TOWN TOURISM INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|---|-------------------------|
| <p>Need for Broader Tourism Culture and Investment in Tourism Development</p> <p>There is a need to create a tourism culture where people of Cape Town and the Western Cape understand the value that tourism brings to the economy and the subsequent benefits to each individual. This will enhance visitor experiences and contribute substantially towards growing tourism numbers.</p> | <p>Educate communities about the value and benefits of tourism such that Cape Town and the Western Cape can establish a tourism culture of service and hospitality.</p> | <p>CTRU, PGWC, COCT</p> |

4.4 Boat-building

4.4.1 Short Profile: Segments and Statistics

According to the authoritative publication 'International Boat Industry' South African boat yards are producing 28% of the world's production of catamarans between the sizes of 35 to 55 foot, and 10% of the world's 100 foot plus sailing yachts. Robertson and Caine are currently the third largest builders of catamarans in the world and at their present rate of expansion will probably move to second within the next two years.

The Western Cape boatbuilding sector employs approximately 3200 people directly and another 3500 indirectly and has an estimated export turnover of R1.2 billion for the year 2007 increasing at a rate of 10% per annum compounded.

The Western Cape is the hub of South African Boatbuilding activities, with 75% of all companies – representing 87% of total industry turnover - based here. The vast majority of these businesses are based in Cape Town itself, and make use of the Port of Cape Town for launching and commissioning their boats. **Tables 20-21** summarise the economic contribution and current and projected direct and indirect employment contribution of the sector.

TABLE 20: ECONOMIC VALUE OF BOAT-BUILDING SECTOR IN CAPE TOWN: 2006

| | |
|----------------------------------|----------------|
| Value per annum: | R 1 billion |
| Exports: | R 750 Mil |
| Western Cape Exports | R 600 Mil |
| "Big Boat" Exports: | R 500 Mil |
| Representing | 200 launchings |
| Anticipate 10% compounded growth | 325 by 2010 |
| At estimated value | R 1.3 billion |

TABLE 21: ESTIMATED BOAT-BUILDING SECTOR EMPLOYMENT: 2005/6 AND 2010

| | Estimated 2005/06 | Estimated 2010 |
|----------|-------------------|----------------|
| Direct | 3,500 | 6,500 |
| Indirect | 4,500 | 7,500 |
| Total | 8,000 | 14,000 |

The value is made up of R1.08 billion of finished yachts/power boats and R115 million of equipment sales (masts, sails, etc.).

4.4.2 Boat-building Investment Constraints and Possible Actions

The top three investment constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 22**: **Table 23** provides a detailed explanation and recommendations for these and additional boat-building investment constraints.

**TABLE 22: PRIORITY BOAT-BUILDING INVESTMENT CONSTRAINTS EXISTING INVESTORS AND
NEW FOREIGN INVESTORS**

| Existing Business | New Foreign Direct Investment |
|----------------------------|-------------------------------|
| Skills Development | Labour Relations |
| Launching facility at Port | Import Duties |

TABLE 23: CAPE TOWN BOAT-BUILDING INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--|
| <p>Launching Facility The Royal Cape Yacht Club (RCYC) has the present lease of the Elliot basin, where all the boats are presently being launched. CTBi is in communication with both the RCYC and the National Ports Authority to ensure continued access to that area for manufacturers wishing to launch the boats there and there are discussions around the necessity of CTBi taking over the management of the launching facility. Launching takes place at a fairly even rate throughout the year. In 2007, 4 boats per week, increasing to an estimated 6 boats per week by 2011. On average each boat requires berthing facilities for approximately three weeks, (max 2 weeks for sailboats and max 3-4 weeks for more complex powerboats) prior to departure. This time may be extended with the increased production of power craft due to the problems of securing shipping space on a regular basis thus a larger "waiting or holding" area will be required.</p> <p>This would indicate the requirement of 12 permanent 'marina style' berths in 2007 increasing to 16 berths in 2011. Over and above the required water space, secure hard space is required both for storage and a mast preparation area with a minimum 45 meters length. Simple and easy access is required as the Western Cape industry is now producing vessels in excess of 30m length and in the case of large catamarans 15m width.</p> <p>Discussions with NPA need to be accelerated and the industry has to ensure its interests are looked after in any port plan.</p> | <p>Add pressure to the NPA to ensure the leisure boat building sector is accommodated in the Cape Town harbour</p> | <p>Cape Town Boat-building Initiative (CTBTi), COCT, PGWC</p> |
| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
| <p>Labour Short term contracts are common within the industry and it is difficult to stay in contact with the trained labour force when they move from company to company. The consequence is that there are companies in need of skilled labour and prospective employees unable to find employment. The industry is also becoming more unionised and confusion exists about which union the majority of their work force should belong to, different companies being targeted by a wide variety of unions. It is necessary to develop a coherent industry wide approach to working relationships with unions and also work on a cross sector pay scale. The Boat Building Academy is developing a skills assessment programme which can be rolled out to all the companies, so the pay scale and skills will be on par.</p> | <p>Assist the industry in dealing with key government departments, such as South African Bureau of Standards (SABS), NPA, Department of Labour, South African Maritime Safety Authority (SAMSA)</p> | <p>COCT and PGWC</p> |

TABLE 23: CAPE TOWN BOAT-BUILDING INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|-----------------------|
| <p>Import Duties</p> <p>Numerous products and components used for boat building are imported and industry has been able to negotiate with SARS for the availability of bonded warehouses at boat yards. Unfortunately there are some products which still have a high tax, such as balsa core, which is a necessary component in most yachts manufactured in SA. The industry needs to be involved more directly with import duties and regulations as they are all affected.</p> | <p>Wesgro to assist industry to apply to International Trade Administration to appeal import duties.</p> | <p>Wesgro/ SABBC</p> |
| <p>Skills Development</p> <p>There is a serious skills shortage in the entire industry, and with most of the yards based within the Cape Peninsula, the problem is acute. More needs to be done to be done to provide basic training to include more people in the sector, and projects also need to target skills development within the work place. The Boat Building Academy at False Bay College is working closely with various companies to develop a skills programme that can be adopted by MERSETA but the high cost of training is still an issue for most companies. The Academy does offer a comprehensive course but the cost of tuition still excludes the very market it is aimed at. It is also necessary to consider that other alternatives in tertiary education must be found for those wishing to take it to degree level, such as Naval Architects, Marine Engineers, Surveyors, Yacht Designers.</p> | <p>Assist the industry in releasing funds for skills development. COCT to help in finding funds for BEE start-ups and assist in empowering them with the necessary skills and training they will need to run their own firms.</p> <p>COCT to help in finding funds for BEE start-ups and assist in empowering them with the necessary skills and training they will need to run their own firms</p> | <p>COCT and CTBTi</p> |

4.5 Oil and Gas

4.5.1 Short Profile: Segments and Statistics

The Oil and Gas industry in Cape Town is comprised three main segments:

- Supply and services: generic and specialised
- Repairs and maintenance incl. modifications to floating offshore assets
- Fabrication and construction of new assets

Each of the above three segments has its own specific investment constraints (see **Tables 24-25**).

Statistics on the industry are in the process of being updated through the development of a comprehensive business database by the **South African Oil and Gas Alliance- Western Cape (SAOGA)**, but were not available at the time of writing (see www.offshoreafrica.co.za for updates).

4.5.2 Oil and Gas Investment Constraints and Possible Actions

The South African and Western Cape strategy is to develop our capability to become a supply hub to the West Coast of Africa offshore oil and gas exploration industry. In order to achieve this it will be necessary to attract foreign investment to boost South Africa and Cape Town's supplier capabilities in specialised services where there are numerous gaps to supply.

The top three investment constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 24**. **Table 25** provides a detailed explanation and recommendations for these and additional oil and gas investment constraints.

**TABLE 24: PRIORITY OIL AND GAS INVESTMENT CONSTRAINTS: EXISTING INVESTORS AND
 NEW FOREIGN INVESTORS**

| Existing Business | New Foreign Direct Investment |
|---------------------|---|
| Skills Development | Local Content Regulations in African countries which limit participation from South African companies in the supply and services sub-sector in oil and gas projects. |
| BBBEE | Under-developed air routes and freight and passenger flights between South Africa and West Africa limit attractiveness of Cape Town as an investment location for supply and services sub-sector. |
| Labour productivity | Lack of Port infrastructure in Cape Town limits repairs and maintenance and fabrication sub-sector opportunities |
| | Foreign exchange controls limits new investors in supply and services sub-sector |

TABLE 25: CAPE TOWN OIL AND GAS FOREIGN DIRECT INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|---|--|
| <p>Local Content Regulations:</p> <p>African countries impose local content requirements for their own local companies to supply certain portion of contracts with foreign oil and gas companies. This limits opportunities for South African companies to get involved and therefore represents a constraint to specialised services which lies outside of South Africa. These local content regulations in West African countries prohibit companies from investing and establishing in South Africa and therefore constrain Cape Town’s ability to establish itself as a supply hub for the West Coast of Africa.</p> <p>As one example of local content regulations, Nigerian regulations for front end studies, says 45% of fabrication must be done in Nigeria, increasing to 75% increase by 2010 but the indications are that they are not meeting this target and struggling to get 25% of local content. Nigeria is keen work with South African companies as they can help them but Nigeria prefers companies to establish in Nigeria and employ Nigerians for the transfer of knowledge and employment of locals. It may be possible to put in place reciprocal arrangements whereby South African companies employ Nigerians in South Africa to unlock this constraint.</p> <p>Angola is different as companies are just required to set up a Joint Venture or establish a branch in Angola, but there are no local content regulations there.</p> | <p>The way to unlock this is through government alliances and the challenge here is getting the various national government departments on board (Trade and Industry, Foreign Affairs) as a national government mandate is needed to negotiate. A national government workshop is being planned to set up multi tiered alliance structure which favours local content first and African content second. This should assist to get the African content issue onto the African Union Agenda. The idea would be to first recognise local content aspirations and then link into African alliances to source services.</p> <p>National government must support the concept of alliances and multi-tiered relationships with a focus on partnerships between private sector role-players within the context of promoting two way trade in Africa.</p> <p>South African Companies should also be encouraged to invest in African countries as part of their market penetration strategy.</p> <p>Provincial and COCT government have been slow in assisting and they need to lobby and get national government on board.</p> | <p>South African Oil and Gas Alliance (SAOGA) PGWC COCT DTI and DFA</p> |

TABLE 25: CAPE TOWN OIL AND GAS FOREIGN DIRECT INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|---|
| <p>Service Linkages: air routes Africa</p> <p>Most air traffic between South African and West Africa going north and none south and this results in infrequent and limited route coverage. Two way trade and tourism linkages need to be strengthened to increase volumes and feasibility of better route coverage.</p> <p>If Cape Town is to be developed as a supplier hub for the West Coast of Africa and be used as a platform, then direct air links are critical. These must be responsive, regular, and reliable. These would support an investment strategy in support of Cape Town as platform to service West Africa.</p> <p>USA and European business would far rather use Cape Town as a base to serve Africa, than setting up businesses in the rest of Africa if they had a choice. Direct air links would assist in establishing a regional hub operating out of Cape Town with branches in Africa.</p> | <p>Current CTRU/WESGRO/PGWC initiative is underway to establish direct air links with West Africa. This requires ongoing political support.</p> <p>CTRU to develop clear strategy, together with SA Tourism, to promote two way tourism with West Africa.</p> <p>Wesgro to promote expansion of retail investments in West Africa and should hold workshop with big SA retail chains to present investment opportunities and explore investments in Nigeria and Angola.</p> <p>Unlocking routes depends on host countries de-regulating their air space and unlocking African skies. National government must promote this as part of NEPAD and other forums.</p> <p>If SAA is prepared to run certain routes, a process to secure private charters must be initiated to run combis (freight and passengers) between Cape Town and Luanda.</p> | <p>SAOGA-WC CTRU PGWC COCT SAA Wesgro</p> |
| <p>Exchange Controls:</p> <p>Problems exists regarding taxation of expatriates.</p> <p>Also, If investors invest in SA, a large portion is required to fund working capital requirements. Schlumberger planned to set up a regional hub in Johannesburg but decided not to because of various tax issues.</p> | <p>Representations need to be made to SARS, preferably with Provincial and COCT support, to conduct a review of tax legislation which is constraining investments by oil and gas majors and suppliers in South Africa. Department of Trade and Industry needs to be brought on board.</p> <p>Wesgro to assist and communicate status with investors.</p> | <p>SAOGA-WC PGWC COCT SARS</p> |

TABLE 25: CAPE TOWN OIL AND GAS FOREIGN DIRECT INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--|
| <p>Port Facilities for Maintenance and Modifications and Fabrication and Construction:</p> <p>Infrastructure size is a limit to build structures and a lack of Port Infrastructure is key constraint.</p> <p>Also, NPA tariffs and service levels and capacity is a big problem negatively impacting on cost structures and investment/ business feasibility. For example, One vessel had work of R200 million and NPA turned it away as NPA berthing and other fees amounted to R40 million and another port would cost almost nothing.</p> <p>The COCT has a Memorandum of Understanding (MOU) with the NPA, including a Political and Technical Steering Committee, but this does not seem to be effectively functioning or addressing economic development constraints.</p> <p>SAOGA-WC is trying to elevate to Transnet level as NPA local management does not have sufficient authority to address issues. Transnet strategy to divest in non core businesses and ship repair not considered core business.</p> <p>Transnet needs to make clear decisions on use off and investment in infrastructure as to whether port infrastructure is a profit driven business, or a service business provided by government.</p> | <p>COCT-NPA Leadership and Technical Committee must become functional and COCT should invite all key economic development organizations such as the SAOGA-WC with interests in port infrastructure to make presentations to these Committees and possibly to serve on working groups to address NPA policy and investment decisions which constraint Cape Town's economic development and trade.</p> <p>COCT should support SAOGA- WC initiatives to sign agreement with NPA regarding alignment of strategies. An MOU is needed which aligns NPA with oil and gas offshore standards re safety, delivery, service level agreements etc. The port is not safety compliant. Also NPA marketing strategy needs to be refined. A Joint marketing approach with NPA is required.</p> | <p>SAOGA-WC COCT NPA/ Transnet</p> |

TABLE 25: CAPE TOWN OIL AND GAS FOREIGN DIRECT INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|--|--|
| <p>Skills Development: Major constraint and directly linked to investment. A SAOGA-WC Task Team is finalising a report on skills profile and training needs and institutions core competencies. There is a need to use the FET Colleges as the main training vehicle, but these are under resourced re instructors and equipment and facilities.</p> <p>A need also exist for corporate re-orientation regarding ensuring that South African companies understand the exacting requirements of the offshore oil and gas industry which is standards driven. This entails a big need for up-skilling of existing labourers to bring customer service delivery up to standards.</p> | <p>SAOGA-WC has R30 mill. for oil and gas training at Provincial level Training 350 people. At R25,000 3 years. Artisans, boilermakers, riggers pipe fitters.</p> | <p>MAPSETA PGWC SAOGA-WC Industry</p> |
| <p>Supplier Development: Important to upgrade oil and gas suppliers to international quality standards. The issue is one of financing for ISO accreditation. Cape Mac funding is no longer available, and SEDA took over and only funding for BEE development so leaves a gap where the smaller SMEs can't get ISO accreditation which costs about R80,000.</p> | <p>PGWC and COCT to investigate supplier development fund in partnership with corporates to incentivise ISO accreditation by small companies.</p> | <p>PGWC COCT Corporates</p> |
| <p>BBBEE: It is important to encourage transformation while at the same time not imposing more constraints other than the national scorecard as foreign investment restrictions will lose investment.</p> <p>All decisions re oil and gas are made in the USA and Europe and all that foreign companies want is for the job to be done. It is critical that Wesgro's approach is clear re BBBEE. If Wesgro is trying to attract a company which is to the benefit of the country and region, vs. if a company wants to come to SA, a different approach is required. It is important for Wesgro to demonstrate how BBBEE can add value to their businesses.</p> | <p>Wesgro to communicate a clear approach regarding the promotion of BBBEE to foreign investors as well as the potential benefits of enhancing BBBEE profiles.</p> | <p>Wesgro PGWC</p> |

TABLE 25: CAPE TOWN OIL AND GAS FOREIGN DIRECT INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|---|--|
| <p>Labour: South Africa can't compete against East China unless we look at Labour Act. It is important to look at a dual wage system regarding minimum wages. It is also critical to reach agreements regarding trade union strikes due to the importance of turnaround times. An oil Rig cost \$300 000 a day so the longer it is in port the more money the company loses. Service from port, industry and regulatory impacts on time are key.</p> | <p>Representations need to be made to Department of Labour regarding revisions to labour regulations.</p> | <p>PGWC SAOGA-WC DOL</p> |
| <p>International Marketing of Cape Town as a Supplier Hub Cape Town city needs to be marketed and networked as a role-player in the oil and gas industry.</p> | <p>COCT must join World Energy Cities partnership and Mayor must take custodianship in order to access valuable networks.</p> | <p>COCT Wesgro SAOGA-WC in support</p> |

4.6 Information and Communication Technologies

4.6.1 Short Profile: Segments and Statistics

The Information and Communication Technologies (ICTs) sector covers a wide range of products and services. One definition which is useful is as follows:

The industries that provide goods and services that support the electronic display, processing, storage and transmission of information (PGWC: September 2004).

The main segments of the ICT industry can be identified using the following standard industrial classification codes. Employment estimates from 2000 for Cape Town are also provided in Table 26

TABLE 26: COMPONENTS OF ICT INDUSTRY AND ESTIMATED CAPE TOWN EMPLOYMENT IN
2000:

| Standard Industrial Classification Category (core ICT industries) | Total Employment |
|---|------------------|
| Manufacture of industrial process control equipment | 4 |
| Software reproduction | 14 |
| Renting of office machinery and equipment including computers | 22 |
| Data processing | 26 |
| Pre-recorded CD (except software), tape and record reproduction | 17 |
| Manufacture of electronic valves and other electrical components | |
| Manufacture of instruments and appliances for measuring, checking, testing etc | 290 |
| Maintenance and repair of office, accounting, and computing machinery | 349 |
| Manufacture of television and radio receivers, sound or video recording etc | 109 |
| Data base activities | 123 |
| Manufacture of office, accounting, and computer machinery | 101 |
| Other computer related activities | 1,083 |
| Telecommunications | 556 |
| Manufacture of television and radio transmitters and apparatus for line telephony | 1,400 |
| Hardware consultancy | 933 |
| Software consultancy and supply | 5,811 |
| Wholesale trade in machinery, equipment, and supplies | 3,946 |
| Total | 15,056 |

Figures for 2006 employment do not exist but this is estimated to be at least 30,000 employees.

The 2003 Western Cape ICT Census (Cape IT Initiative: 2003) found that Western Cape firms were distributed as follows:

- ICT services: 29% of firms
- Software activities: 25% of firms
- Hardware: 19% of firms
- Telecommunication services: 12% of firms

- Other: 12%
- Online digital media: 3% of firms

According to CITI's 2003 Census, the primary strength of the Cape Town ICT sector is seen to be the relatively high and specialized labour force skills.

4.6.2 ICT Sector Investment Constraints and Possible Actions

The top three investment constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 27**: **Table 28** provides a detailed explanation and recommendations for these and additional ICT investment constraints.

**TABLE 27: PRIORITY INFORMATION AND COMMUNICATION TECHNOLOGY
 INVESTMENT CONSTRAINTS: EXISTING INVESTORS AND NEW FOREIGN INVESTORS**

| Existing Business | New Foreign Direct Investment |
|--|-------------------------------------|
| Lack of appropriate Venture Capital for small ICT businesses | Telecommunications broad-band costs |
| Conservative Cape Town business culture re understanding of benefits and adoption of new ICTs makes new investment and market entry more difficult for new companies | Skills Development and mis-matches |

TABLE 28: ICT SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--|
| <p>High Telecommunications costs and different government departments having competing priorities:</p> <p>Telecommunications is major problem. The Independent Communications Authority of South Africa (ICASA) and the Department of Communications have not yet been able to increase telecoms costs and reduce prices. Local and provincial government do not seem to have enough clout to ensure effective responses.</p> <p>This makes it difficult to pursue investment promotion when no basics are in place and government representatives are not able to provide answers to questions such as the cost of broadband.</p> <p>Need cheap and reliable telecommunications infrastructure for small business. Access to internet is required. COCT has issued a tender for appointment of an organisation to operate the metropolitan municipal telecommunications network and this represents an opportunity to enhance access to cheaper broad-band access.</p> | <p>Government and Wesgro must have the information that investors require and must strengthen links with industry to understand these requirements.</p> <p>COCT to clarify possibilities for provision of cheaper broad-band access.</p> | <p>CITI Wesgro PGWC COCT Cape Town Central City Partnership (CTCP) in support</p> |
| <p>Lack of enabling environment for entrepreneurship and high failure rate of companies in first 3-4 years. Cape Town ICT sector is dominated by small businesses compared to Johannesburg international companies and these need tender assistance to compete on equal footing.</p> | <p>Tender assistance program designed to support ICT small companies.</p> <p>CITI needs funding for orbit program so people who want to start up own businesses can get advice on the process.</p> | <p>COCT CITI</p> |
| <p>Lack of venture capital seed funding which has requirements matched to the needs and realities of ICT product development processes. ICT takes long time from concept to market. Lots of capital expenditure required.</p> | <p>Provision of reliable VC funding would be useful. No funding for start up businesses.</p> | <p>PGWC</p> |

TABLE 28: ICT SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--|
| <p>Poor linkages between Higher Education R&D and Needs of Industry/ Cluster:</p> <p>The Cape Town ICT Cluster does not operate optimally resulting in supply and demand mismatches where Academia and industry do their own thing Academia is not incentivised to get involved in R&D and academia research benefits only a very small part of the industry. Similar issues apply to linking skills training to evolving needs of the industry.</p> | <p>CITI events to strengthen cluster interactions and linkages, for example CITI sub sector programs like mobile mornings and free open source forum and software developer colloquiums.</p> <p>Need to examine and learn from best practices and visit effective clusters elsewhere and workshop how Western Cape can learn and do things better for example industry –funded research scholarships could be explored.</p> | <p>CITI Industry Higher Education Institutions</p> |
| <p>Skills Gaps</p> <p>ISET Seta research has identified a major drop in enrolment in IT and info systems training as people are not finding jobs and have skills which are not what the industry requires. Scarcity of skills: java, dot.net are key areas.</p> | <p>Links with Indian IT companies strengthened to get scarce skills if needed.</p> <p>First step required is for CITI to do full census of the sector to identify trends: this needs government funding.</p> <p>So investigate skills curriculum to put software developers through this and get skills generating body to develop learnership.</p> | <p>Services SETA Higher and Further Education Institutions</p> |
| <p>Clear targeted foreign direct investment promotion strategy</p> <p>Africa is final frontier and investors from the east and west know that they must partner with local companies to ensure market penetration.</p> <p>Cape Town has a number of investment advantages, such as the lifestyle, and quality of graduates (well rounded technical and interpersonal skills), however a targeted investment promotion strategy which builds awareness of competitive niches is required.</p> | <p>CITI has good Relationship with the College Cape Town which has started the identification of two niche market opportunities for which their has been international interest: software development creative space like mobile gaming, computer animation, and b) forensics software. Cape Town based international companies operating here in these niches must be contacted to encourage further investment and skills transfer.</p> | <p>CITI and Wesgro to develop coordinated and targeted (at certain niches and key companies) ICT investment promotion strategy</p> |

TABLE 28: ICT SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|--|--|--------------------------|
| <p>Business culture, new product adoption, and investments:</p> <p>Cape Town business sector exhibits low levels of adoption of new technology by industry. In Johannesburg retailers adopt technology more easily than in Cape Town as people don't fully understand benefits of technology. So businesses in Cape Town have to do lots more marketing and convincing to adopt technology. So investors must understand they need a bigger marketing budget in the Western Cape. This is mainly because companies are smaller here and local companies stay with known brands. Johannesburg companies more open to try new products. Cape town companies loyal existing relationships Johannesburg will change suppliers more easily re prices. More aggressive culture in Johannesburg.</p> | <p>CITI and industry to conduct campaigns which promote awareness of the benefits of new technologies.</p> | <p>CITI Industry</p> |

4.7 *Film Sector*

4.7.1 Short Profile: Segments and Statistics

In South Africa, the term “film industry” is generally used to describe an umbrella of entertainment / media industry production activities including film, television (drama & documentary), commercials, stills photography and multi-media.

The companies that operate in the region’s film industry conduct a wide range of activities, which include amongst others:

- The production of original material for domestic consumption (mainly television programmes, commercials and corporate videos but including feature film);
- The facilitation of commercials, television, photography and feature film productions that originate overseas and are primarily intended for distribution in the country of origin;
- The provision of equipment and services for film industry productions;
- The provision of financial services to the film industry;
- The distribution and exhibition of films and television programmes;
- Post production operations such as editing, film lab, sound, graphics, etc.
- Animation
- Education and Training

The nature of the entities operating within the sector also varies significantly, including:

- survivalist self-employers / “freelancers”;
- micro-enterprises / small family-owned and run businesses;
- small, emerging or established enterprises
- small-to-medium-sized enterprises operating in predominantly local or international markets.
- Major corporates such as the **South African Broadcasting Corporation (SABC)**.

Some 150 production companies are currently registered with the COCT – the country’s busiest destination - to produce film, television and stills productions in the region. These production companies effectively operate as “agents” or “outsource service providers” of the city, traveling overseas and selling their facilitation services to clients at their own expense, and bringing back work. They also bring work to other destinations, should the Western Cape not be appropriate.

Cape Town production companies are successful due to a number of key interlinked requirements that are necessary if any city or region wants to engage the international film sector, namely:

- Availability of capital
- High-calibre skilled professionals
- Filming facilities & equipment
- Filming locations
- Good communications and transport infrastructure
- Well-developed leisure industry close to the filming site
- Hospitable political and social environment

The Competitive Marketplace

The international clients of the Cape Town production sector are mobile and they are ruthless. Whilst they spend a great deal of money, they are principally driven by costs. This does not mean that they want to spend less money; rather, the motivation for the film sector is to ensure that value translates onto the screen. In order to achieve greater screen value for

lower costs, the industry is increasingly looking to international destinations for its locations. Data from the Director's Guild of America (DGA) released in 2003 shows:

- 24 percent of all DGA-contracted Feature films were shot internationally.
- 33% of drama pilots made under DGA contract for all television outlets (network, basic cable, pay television and syndication) in 2003 were made outside the United States.
- 25% of all DGA television series broadcast on American television in 2003 were made outside the U.S.
- 63% of all forms of television and miniseries filmed under DGA contract in 2003 were shot outside the US.
- Virtually two thirds of all long-form television (movies of the week, movies for television, and miniseries), made for the American market under DGA contracts, were filmed outside the U.S.

There are now more than 300 registered Film Commissions in the world, each promoting their region in order to win a piece of the pie. The Western Cape is therefore facing stiff competition from other destinations such as:

TABLE 29: GLOBAL FILM DESTINATIONS COMPETING WITH THE WESTERN CAPE

| Feature Films | TV Commercials | Stills Photography |
|-------------------------|------------------------------|--------------------|
| Canada | Spain | USA (Miami) |
| UK | Portugal | Cuba |
| Australia / New Zealand | Argentina | Argentina |
| Romania / Bulgaria | Chile | Spain |
| Argentina / Chile | Romania / Bulgaria / Ukraine | |

According to the 2007 of *the Filmmakers' Guide to South Africa*

“Cost-wise, Argentina (although it quotes in US dollars) is about on par with South Africa, New Zealand is considerably more expensive and Chile is about 20-% cheaper. Prague’s changeover to the Euro has made it a costlier destination, while Romania is around 15% cheaper. However Chile and Romania lack resources, experienced crew and infrastructure, and only New Zealand boasts skilled English-speaking crew.”

Where Cape Town stands out from the competition is the sheer number of production companies that choose to make their base here. These companies are Cape Town-loyal and want to keep their businesses here. Given the massive support industry that has built up to assist the sector, it is unlikely that these businesses would simply close their head office base Cape Town and relocate somewhere else. Rather the likelihood is that the business would continue to be based here but increasing amounts of filming (and therefore the benefits) would be taken elsewhere, to places that are more cost-effective or practically film-friendly. In 2005/6, four of the twenty feature films handled by members of the Commercial Producers Association were shot outside South Africa’s borders, 48 of the 774 TV commercials.

It should be noted that some Stills Production companies already run offices in Lisbon, Barcelona and Mallorca, and at least one TV Commercial company runs offices in Romania and Chile. A serious, committed, aggressive approach from Durban or even Johannesburg could have a significant impact, should these producers feel that their needs can be more consistently met elsewhere in the country.

4.7.2 Film Sector Investment Constraints and Possible Actions

The top three investment constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 30: Table 31** provides a detailed explanation and recommendations for these and additional ICT investment constraints.

**TABLE 30: PRIORITY FILM SECTOR INVESTMENT CONSTRAINTS:EXISTING INVESTORS AND
 NEW FOREIGN INVESTORS**

| Existing Business | New Foreign Direct Investment |
|--|--|
| COCT Regulatory constraints which impose unnecessary time constraints and bureaucratic burden on production activities | National department regulations from Dept. of Labour and Home Affairs are either inappropriate poorly managed and/or disrupt business. |
| Public Transport | Crime, safety and policing |
| Social issues | High telecommunications costs |
| | International direct air flights and SAA policies |

TABLE 31: FILM SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--|
| <p>National departmental regulations which are inappropriate to realities of sector or poorly managed</p> <p>Much of the Film Industry’s work is impacted by national agencies and departments – Department of Trade & Industry, Department of Arts & Culture, Industrial Development Corporation, Department of Labour (DOL), Department of Home Affairs (Immigration), Department of Safety & Security, South African Revenue Services have issued legislation / positioning statements / services to the film industry. Many of these programmes have been poorly managed and have the potential to further disrupt business activity in the sector.</p> <p>A prime example of Government introducing legislation that simply does not work is the Department of Labour requirement for permits for Children in the Arts & Cultural industries. In 2004 the Sectoral Determination was issued that said that every child required a permit to be issued in advance. However, in spite of the Cape Town industry working 24-7, including weekends, the Department of Labour office is only open from 8am – 4pm and is closed on Saturdays and Sundays. Worse, each application for each child involves eight pieces of paper and the DoL has only a single fax line. The industry has been told that the DoL will have an additional 100 inspectors on the streets, but has not put in place a second fax line. This is an example of a government process which results in reduced industry competitiveness.</p> | <ul style="list-style-type: none"> • COCT and PGWC must help hold National Agencies / Departments accountable for un-film-friendly policies • Spearhead review of tax issues (cost of import) | <p>COCT PGWC CFC</p> |

TABLE 31: FILM SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|--|---|
| <p>Cape Town Film Permit Office (CTFPO) The city is very advanced in terms of its one-stop-shop for film permits. This means that most production companies do not deal directly with many of the city line departments that might otherwise affect them. It also means that the CTFPO is under additional pressure to harness the energies and efficiencies of departments over which it has no control and little influence. The office must continually explain to line departments that Film is “everybody’s business” and push for greater support and collaboration.</p> <p>Whilst the challenge for the COCT is to develop processes that augment rather than hinder production (<i>and to continually bear this in mind as a key operating principle</i>), a major complaint has been the failure of the film office to work according to the needs of the industry. Although this includes factors such as operating hours and turn-around for permit approvals, the greatest issue is the COCT’s SAP billing system. Currently, when the CTFPO fills in their electronic paperwork, they capture a range of data including job number, location, additional requirements such as road closures, traffic officers etc. Unfortunately, once this information reaches SAP, the SAP system does not include any of this captured information, and the bill issued to the production company simply states the fees charged. When some companies are using hundreds of locations a month, a simple fee cannot of course be accounted for (since the Film Office may not issue pro-forma invoices of their own). This makes financial management for production companies almost impossible, impacting on business stability.</p> | <p>Incentivise Cape-based Production Companies to keep bringing business COCT to help hold National Agencies / Departments accountable for un-film-friendly policies Spearhead review of tax issues (cost of import)</p> <p>Liaise with COCT SAP Department to rectify billing problems.</p> | <p>COCT CTFPO Cape Film Commission (CFC)</p> |
| <p>Telecommunications The universal complaint from the Film Industry was the cost and availability of telecommunications. High Telkom charges impact on the effectiveness of all businesses in this sector. In particular, the growth of the cutting-edge digital / high definition / animation sector - which relies on telecommunications infrastructure to send images around the world cheaply and efficiently – will remain uncompetitive due to the high cost and poor availability of broadband.</p> | <p>Tackle key para-statal e.g. Telkom, Eskom & SAA re. service, availability and cost</p> | <p>COCT;PGWC</p> |

TABLE 31: FILM SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|--|-----------------|
| <p>Public Transport The Film industry attracts educated and relatively affluent personnel. The highly mobile nature of the business (where filming does not take place in one location for long) means that most have their own cars. Therefore the lack of a public transport system is therefore not an immediate threat to doing business.</p> <p>From discussion however, it is clear that any effort to drive transformation, and to produce an indigenous film industry, will be hindered by the lack of a safe, clean, cost-effective public transport service. Filming is a highly mobile business, and a film that shoots in Kommetjie on one day may well shoot in Blouberg on the next day and in Constantia on the day after that. Invariably, filming starts at sun-up and ends at sunset. Without a safe, efficient public transport system running 24-7, historically disadvantaged individuals who do not own their own means of transport cannot break into the industry, since they cannot get to set. (In practical terms, it also counts against them if the producer has to organise their transport for them, since the role of crew in the industry is to eliminate problems, not cause more.)</p> | <p>Safe, reliable transport to allow workers to operate out of business hours</p> | <p>COCT,CFC</p> |
| <p>Electricity Last year's electricity outages did not affect production unduly (most major shoots are powered by generators), it did cut into the ability of companies to participate in the important international quoting process. It is also an absolute deciding factor for those location based businesses such as post production, studios, equipment companies etc.</p> | <p>Tackle key para-statals e.g. Telkom, Eskom & SAA re. service, availability and cost</p> | |

TABLE 31: FILM SECTOR INVESTMENT CONSTRAINTS AND POSSIBLE ACTIONS (CONT.)

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--------------|
| <p>Social Issues Social Issues such as Housing, Healthcare and Education are not issues that affect the key drivers of the film industry. Key decision-making staff paid well enough to find accommodation / schools / medical help to their choosing.</p> <p>However, in contrast, people from historically disadvantaged backgrounds attempting to break into the film industry do require better social welfare and support. Government's social welfare and housing programmes allow these individuals to compete more effectively for the available work.</p> <p>The vast majority of feature films, all of the stills shoots, and 50% of all TV commercial work are sourced from outside the country; issues such as affirmative action and BEE are intellectually interesting to these clients, but they are not important compared to issues such as cost and quality. They do not, as a rule, choose to film in South Africa in order to contribute to our social changes - though many are happy to do so once they have completed the shoot.</p> | | |
| <p>Tax / Import Duties One supplier in this sector was taxed heavily on the import of equipment necessary to start and run a new business that would hire 35 people. This seems contradictory to the desires of the COCT to create jobs.</p> | | |
| <p>Cape Town Film Policy vs. City Environmental Regulations In 2005, the COCT issued a film policy which clearly stated the city's desire to be film friendly, whilst weighing up its other responsibilities towards communities and other stakeholders. However, certain COCT environmental regulations impose unnecessary and unrealistic conditions on filming activity which need to be revised if the full intent of the Film Policy is to be actualized.</p> | <p>COCT to review regulations impacting on Film Sector.</p> | |

4.8 Business Process Outsourcing (BPO)

4.8.1 Sector Profile: Segments and Statistics

Business process outsourcing (BPO) is “the transfer of to a third party of groups of tasks and responsibility for processes, which primarily involve the handling and manipulation of data (taken in its broadest sense to include voice data)” (PGWC: 2005).

The BPO industry comprises those companies that specialise in undertaking responsibility for information intensive business processes on behalf of their clients. BPO operations are intensive users of IT and telecommunications. The range of tasks which are outsourced is broad, but are typically important but non-core tasks such as back-office administration, data capture, and customer contact.

The global trend towards business process outsourcing is well underway and South Africa is starting to implement an aggressive strategy to become a preferred BPO destination of choice and service provider. Currently, however, South Africa is not getting the business volumes it should be winning due to a range of investment constraints.

The 2005 Western Cape BPO Survey found that between 2004-2005 that had been a 40% growth in centres from 120 to 167 in the Western Cape and that total direct employment in the industry was 14,345 employees (Deloitte and Calling the Cape: 2005). According to the PGWC’s recent research on the BPO sector, agent numbers could realistically increase by 20,000 between 2005 and 2008 (PGWC: 2005). Total investment of Calling the Cape reported attracting R506 million in new foreign direct investment in 2005 – up 19% from 2004. This included 17 major new investments and significant expansions (Deloitte and Calling the Cape: 2005).

The PGWC (2005) report on the BPO sector in the Western Cape notes that:

Voice focused services tend to be more complex as the outcomes are far more variable. Cape Town operations excel at providing these services for both local and international clients. Regional experience of the financial services and insurance industries has given the local workforce the skills to be particularly competitive in these market segments, even though in general the Western Cape is not cost competitive with established Tier I BPO service provider countries such as India and the Phillipines.

Cape Town is performing well at a domestic level against Johannesburg, however, internationally competitors such Argentina and the Phillipines are growing far more rapidly. Cape Town has created around 2000 jobs in the BPO sector in the past year or two and has about 2500 people working in the offshore market in Cape Town, however, this is very small compared to the Phillipines which has grown by 150,000 workers in past 4 years.

4.8.2 BPO Investment Constraints and Possible Actions

The top three investment constraints which are likely to have the most impact on promoting investment and growth for new foreign direct investment and existing businesses are summarized in **Table 32**. **Table 33** provides a detailed explanation and recommendations for these and additional BPO investment constraints.

**TABLE 32: PRIORITY BUSINESS PROCESS OUTSOURCING SECTOR INVESTMENT
CONSTRAINTS: EXISTING INVESTORS AND NEW FOREIGN INVESTORS**

| Existing Business | New Foreign Direct Investment |
|---|---|
| Public Transport (including 24 hour services) | High telecommunications costs |
| Social issues | Poor quality of labour skills and productivity (linked to social issues) |
| Crime, safety and policing | Lack of develop tax breaks and holidays |

TABLE 33: BUSINESS PROCESS OUTSOURCING INVESTMENT CONSTRAINTS:

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|---|--|
| <p>High Telecommunications Costs SA is the most expensive country in world for telecommunications. Telkom's best prices are about 6-8 X more expensive than global benchmarks. Outsourcers charge \$15-\$16 per productive hour. Cape Town is \$18-\$19 and 50-60cs of that additional telecoms costs. Neotel going too slowly. Lack of political will to drive lower costs. Could be done through regulation through ICASA but understaffed. Total lack of broad band depriving SA real job opportunities.</p> | <p>Government to stimulate competition and possible intervene by setting up new company to buy connectivity from Telkom and sell to BPO investors</p> | <p>SACCOM DTI Calling the Cape COCT</p> |
| <p>Lack of Tax Incentives SA is probably one of the few countries in the world not offering BPO tax breaks. These typically range from 5-10 years tax holidays. Other provisions which need to be looked at in South Africa including getting rid of VAT and import duties on equipment. Still no national investment incentive.</p> | <p>DTI to develop cash grant incentive and tax holiday incentive.</p> | <p>DTI SACCOM</p> |
| <p>Cost of labour relatively high. Skills levels need to be enhanced starting with basic education so as to reduce the skills training expenditure which companies need to incur to train labour.</p> | <p>Training strategies with relevant SETAs.</p> | |
| <p>Skills: Middle management skills and ability to recruit experienced staff without driving up wage rates is starting to become compromised.</p> | <p>Middle management training program with SETA and industry.</p> | <p>SETAs</p> |

TABLE 33: BUSINESS PROCESS OUTSOURCING INVESTMENT CONSTRAINTS:

| INVESTMENT CONSTRAINT | POSSIBLE ACTIONS | ROLE PLAYERS |
|---|--|---|
| <p>Property constraints: Cost is getting high and there are not lots of properties with large open plan, high ceiling offices. For example, the cost of air con and plumbing is high per m2 in Cape Town where most call centres are 50m2 which is twice the cost of comparable property in the Philippines.</p> | <p>Joint effort between Province and COCT required to set up BPO campus. Province allocate building school etc. COCT land register key. Pledged R1 mil to refurbish a building. Training centre establish. Periphery of townships. Entice investors as reduce their staff costs and transport costs and property costs. COCT contribute free or subsidised services. Attract key strategic investors with incentive package.</p> | <p>COCT PGWC Calling the Cape</p> |
| <p>Public transport: no evening public transport for 24 hour call centres so investors provide their own transport but this is expensive.</p> | <p>Provision of safe, 24 hour public transport serving CBD and other key economic nodes.</p> | <p>COCT PGWC</p> |
| <p>Crime, safety, security. Are key to address is initiatives to assist investors to set up on township periphery are to be successful.</p> | | <p>COCT PGWC</p> |
| <p>Social Issues Drug abuse/ TIK is starting to become a problem due to staff absenteeism and the need to replace staff due to inability to function. Domestic violence is also a major problem with some call centres reporting that 80% of women are abused at home.</p> | <p>Social development interventions.</p> | <p>COCT PGWC</p> |

5 Conclusions and Recommendations

5.1 Introduction

Sections 2-5 of this report have identified a wide range of investment constraints, including the following:

- National investment constraints from existing national surveys (Section 2)
- Local level investment constraints facing existing domestic and foreign owned companies based in Cape Town from the Cape Town Investment Constraints Survey (Sections 3.1-3.5)
- Foreign direct investment facilitation constraints based on Wesgro's experience (section 3.6)
- Sector-specific investment constraints in five sectors (Tourism, Film, Business Process Outsourcing, Boat-building, and Oil and Gas)

In addition, proposed actions and recommendations have been solicited from Cape Town firms through the Cape Town Investment Constraints Survey, from Wesgro management, and from sector specialists in the above-mentioned five sectors.

The purpose of Section Five is to integrate and prioritise the above findings into a prioritised list of constraints and associated recommendations.

There is no one clear methodology to identify the top ten single most important investment constraints. Part of the reason for this is that it is not clear what key criteria should be used to rank the various investment constraints. Various criteria might include the following:

- Identifying those constraints which were mentioned by the largest number of respondents as being a serious constraint to additional domestic investment
- Identifying those constraints which are likely to result in the largest Rand value loss in new foreign direct investment
- Identifying those constraints which have clearly identified local-level actions/responses which can make a meaningful impact on a particular constraint. These actions should also have a reasonable likelihood of implementation at the local level by local role-players (particularly the COCT and Wesgro).

None of the above three criteria are entirely suitable for the following reasons:

- The first criteria is problematic in that the Cape Town Investment Constraints survey sample of 102 companies is too small to be representative at a high level of confidence and the sectors surveyed only represent about 20% of the Cape Town economy.
- Criteria two is very difficult to apply and involves expert judgement
- Criteria three can be applied to a certain extent but is complicated by the fact that many constraints require joint action from all three spheres of government (and hence a lobbying role from the COCT). This criteria also requires assumptions to be made about organisational priorities and political decision-making processes in terms of implementation likelihood.

Inevitably, therefore, a degree of judgement will need to be applied in identifying the priority investment constraints. This report will therefore utilize a combination of all of the above criteria. Before proposing a prioritized set of constraints and recommendations, Section 5.2 will briefly summarise the main investment constraints identified from the Cape Town Investment Constraints Survey, sector-specific experts, and Wesgro management.

5.2 Summary of Main Investment Constraints

The main constraints identified in the Cape Town Investment Constraints survey probably impact on the majority of the +-60,000 formal businesses in Cape Town and the prospects for their future sustainability, competitiveness, investment, and growth. **Table 34** summarises those constraints which were found to have a severe negative to debilitating impact on the firm. These are ordered according to the largest number of responses that identified the particular constrain as having a severe negative to debilitating impact on the firm

TABLE 34: INVESTMENT CONSTRAINTS HAVING A SEVERE NEGATIVE TO DEBILITATING IMPACT ON BUSINESS OPERATIONS BY PROPORTION OF RESPONSES

| Constraint | % of responses identifying as severe negative to debilitating impact |
|---------------------------------|--|
| Crime in general | 72% |
| Electricity in general | 71% |
| Telecommunications | 65% |
| Public Transport | 60% |
| Telecommunications costs | 54% |
| Electricity supply | 45% |
| Skills and education of workers | 45% |
| Education system in general | 42% |
| Telecommunications availability | 39% |

In addition, additional investment constraints have been identified as follows in **Table 35**:

TABLE 35: SUMMARY OF INVESTMENT CONSTRAINTS 5 BIGGEST OBSTACLES TO STARTING AND OPERATING A BUSINESS AND OF THE BUSINESS ENVIRONMENT:

| | Priority Constraints from Investment Constraints Survey (in order from most severe constraint) |
|---|--|
| 5 Main Obstacles to Starting a Business | <ol style="list-style-type: none"> 1. Red tape (local government) 2. Labour regulations (starting a businesses) 3. Red tape (national government) 4. Telecommunications cost 5. Electricity reliability |
| 5 Main Obstacles to Operating a Business | <ol style="list-style-type: none"> 1. Violent crime 2. Inadequate roads 3. Property crime 4. Electricity reliability 5. Telecommunications cost |
| 5 Main Weaknesses of the Business Environment | <ol style="list-style-type: none"> 1. Lack of skilled workers 2. Poor safety 3. Lack of public transport 4. Reliability of electricity 5. Parking problems/ availability |
| Priority Municipal processes seen as unfavourable | <ul style="list-style-type: none"> • Time to respond to queries • Time to approve building plans • Time to approve re-zonings • Building regulations |

| | |
|--|---|
| | <ul style="list-style-type: none"> • Filming and linked environmental regulations • Signage regulations |
|--|---|

The constraints identified in **Tables 34-35** can be summarized as follows:

- Crime (especially violent crimes and property crimes)
- Lack of skilled workers and the education system
- Red Tape (local government and national government) (ranging from general customer service to building plans, regulations, re-zonings, and film and environmental by-laws)
- Electricity reliability
- Telecommunications costs and availability
- Public transport
- Inadequate roads and parking

Sector-specific constraints for the five sectors can be summarized as follows in terms of those constraints impacting on both existing firms as well as potential new foreign investors (see **Table 36**):

TABLE 36: SECTOR-SPECIFIC INVESTMENT CONSTRAINTS FOR DOMESTIC AND FOREIGN INVESTMENT

| Sector | Existing Firms/ Investor's Constraints | New Potential Foreign Investor's Constraints |
|---|--|---|
| Tourism | Crime, Safety and Policing | Crime, Safety and Policing |
| | Lack of skilled workers | Lack of Investment and Funding strategy for tourism in the Province |
| | Lack of public transport | Telecommunications Infrastructure |
| Boat-building | Skills Development | Labour Relations |
| | Launching facility at Port | Import Duties |
| Oil and Gas | Lack of Skilled workers | Local Content Regulations in African countries which limit participation from South African companies in the supply and services sub-sector. |
| | BBBEE | Under-developed air routes and freight and passenger flights between South Africa and West Africa limit attractiveness of Cape Town as an investment location for supply and services sub-sector. |
| | Labour legislation and productivity | Lack of Port infrastructure in Cape Town limits repairs and maintenance and fabrication sub-sector opportunities |
| | | Foreign exchange controls limits new investors in supply and services sub-sector |
| Information and Communications Technologies | Lack of appropriate Venture Capital for small ICT businesses | Telecommunications broad-band costs |
| | Conservative Cape Town business culture re understanding of benefits and adoption of new ICTs makes new investment and market entry more difficult for new companies | Skills Development and mismatches |

TABLE 36: SECTOR-SPECIFIC INVESTMENT CONSTRAINTS FOR DOMESTIC AND FOREIGN INVESTMENT (CONT):

| Sector | Existing Firms/ Investor's Constraints | New Potential Foreign Investor's Constraints |
|------------------------------|--|---|
| Film | COCT Regulatory constraints which impose unnecessary time constraints and bureaucratic burden on production activities | National department regulations from Dept. of Labour and Home Affairs are either inappropriate or poorly managed and/or disrupt business. |
| | Public Transport | Crime, safety and policing |
| | Social issues | High telecommunications costs |
| | | International direct air flights and SAA policies |
| Business Process Outsourcing | Public Transport | High telecommunications costs |
| | Social issues | Poor quality of labour skills and productivity (linked to social issues) |
| | Crime, safety and policing | Lack of developed tax breaks and holidays |

In addition, the following investment facilitation constraints have been identified by Wesgro management (see **Section 3.6**):

- Lack of supportive COCT culture and alignment with Wesgro processes regarding development facilitation processes to facilitate investment and land development and service delivery processes which in turn impact on higher development costs and difficulties with addressing with investor retention/ aftercare
- Lengthy COCT land purchase processes (esp. in Atlantis) and building plan approvals
- Inability of COCT to engage with Wesgro and foreign service providers in energy, water, and waste service delivery

Addressing the above issues require a more co-ordinated and aligned relationship between Wesgro and the COCT.

Based on the above, the main investment constraints which are likely to impact across the entire Cape Town economy are summarized in **Table 37** as follows. The constraints have also been tentatively ordered on the basis that the BPO, Construction, Tourism, and Oil and Gas Sectors have been identified as those sectors with the greatest potential average increase in employment/ firm (from 105 employees to 50 employees on average per firm over the next year) (see **Section 3.2**)

TABLE 37: SUMMARY OF SECTOR-SPECIFIC INVESTMENT CONSTRAINTS ON DOMESTIC AND FOREIGN INVESTMENT AND INVESTMENT FACILITATION

| Existing Firms/ Investor's Constraints | New Potential Foreign Investor's Constraints |
|---|--|
| <ul style="list-style-type: none"> • Crime, Safety and Policing • Social Issues • Public Transport • Skills development • Labour legislation and productivity • COCT regulatory constraints • COCT land purchase processes | <ul style="list-style-type: none"> • High telecommunications costs • Crime, Safety, and Policing National regulations regarding air access, foreign exchange controls, import duties, and labour legislation • Inadequate port facilities • COCT development facilitation and service delivery processes |

In conclusion, **Table 38** integrates all these constraints into two categories before **Section 5.3** identifies recommendations to address these constraints:

- c) Constraints which the COCT has direct control over addressing (i.e. which only require COCT action to address)
- d) Constraints which the COCT has indirect influence over addressing (i.e. which require actions by both the COCT as well as other organizations)

TABLE 38: SUMMARY OF PRIORITY CONSTRAINTS TO INVESTMENT WHICH CITY OF CAPE TOWN HAD DIRECT CONTROL AND INDIRECT INFLUENCE OVER:

| Investment Constraints Within COCT Direct Sphere of Control | Investment Constraints Within COCT Indirect Sphere of Influence |
|---|--|
| <ul style="list-style-type: none"> • COCT culture and systems not supportive of investment promotion | <ul style="list-style-type: none"> • Electricity reliability and cost |
| <ul style="list-style-type: none"> • COCT regulatory impacts, particularly for the Film Sector regarding environmental regulations and Film Office billing problems, as well as the construction sector regarding building plan approval time-frames; | <ul style="list-style-type: none"> • Public transport efficiency, coverage, reliability, and safety |
| <ul style="list-style-type: none"> • Development facilitation of strategic investment projects including co-ordination of development process, provision of incentives, and aligned investor after care and development facilitation processes between Wesgro and COCT | <ul style="list-style-type: none"> • Social issues especially the quality of education and health care service provision which results in unproductive labour force |
| <ul style="list-style-type: none"> • Service delivery strategies do not have processes to take advantage and pilot investments in new and innovative service delivery technologies, particularly regarding the energy, water, and waste strategies | <ul style="list-style-type: none"> • Telecommunications costs and availability |

TABLE 38: SUMMARY OF PRIORITY CONSTRAINTS TO INVESTMENT WHICH CITY OF CAPE TOWN HAD DIRECT CONTROL AND INDIRECT INFLUENCE OVER (CONT.)

| Investment Constraints Within COCT Direct Sphere of Control | Investment Constraints Within COCT Indirect Sphere of Influence |
|---|---|
| | <p>Effective resourcing of Wesgro implementation of investment promotion strategy to:</p> <ul style="list-style-type: none"> • Effectively address key constraints/ lobbying strategies, • Adequately package investment opportunities • Effectively target appropriate individual investors • Effectively implement an investor after-care program <hr/> <ul style="list-style-type: none"> • Lack of adequately educated, trained, and experienced skilled workers; <hr/> <ul style="list-style-type: none"> • Crime (particularly property and violent crimes) • Limited air access and direct flights for tourism (North America) as well as freight (e.g. West Africa) • Inadequate Port facilities for the tourism, oil and gas, and boat-building sectors. |

5.3 Recommendations to Address Investment Constraints

Recommendations to address these investment constraints are based on the consultant's knowledge of existing local level initiatives, suggestions received from the Cape Town survey respondents, as well as some initial inputs from COCT Town officials and Wesgro management.

Table 39 contains recommendations to address investment constraints which are primarily within the sphere of control of the COCT:

TABLE 39: RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPETOWN SPHERE OF CONTROL:

| Investment Constraints Within COCT Sphere of Control | Recommendation |
|--|---|
| <ul style="list-style-type: none"> • COCT culture and systems not supportive of investment promotion, including infrastructure constraints and access to land | <ul style="list-style-type: none"> • Develop Services Charter which specifies clear time-frames within which service will be delivered and decisions will be made, for example for land purchases, building plan approval etc. • Refine management performance system aligned to Services Charter • Develop spatial map of existing and expected economic infrastructure constraints and medium term requirements. |

RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPE TOWN SPHERE OF CONTROL (CONT.):

| Investment Constraints Within COCT Sphere of Control | Recommendation |
|---|--|
| <ul style="list-style-type: none"> COCT regulatory impacts, particularly for the Film Sector regarding environmental regulations and Film Office billing problems, as well as the construction sector regarding building plan approval time-frames; | <ul style="list-style-type: none"> Initiate Regulatory Framework Review and Red Tape Reduction Process with the private sector to identify specific problem areas or business processes and develop solutions Develop Services Charter which specifies clear time-frames within which service will be delivered and decisions will be made, for example for land purchases, building plan approval etc. Explore e-government solutions to business processes to reduce bureaucratic burdens |
| <ul style="list-style-type: none"> Development facilitation of strategic investment projects including co-ordination of development process, provision of incentives, and aligned investor after care and development facilitation processes between Wesgro and COCT | <ul style="list-style-type: none"> Wesgro and the COCT need to enter into a Service Level Agreement specifying agreed processes and service delivery performance standards to address service delivery constraints faced by investors COCT to design Investment Development Facilitation Unit with appropriate delegations and level of authority and expertise to coordinate and fast track COCT processes, and act as COCT's investor point of entry and one stop shop to facilitate both major expansions of domestic business as well as new foreign investments Refine management performance system incl. KPIs to reflect fast-tracking of investment process Approve draft COCT investment incentives policy and implement and monitor for one year pilot period and review and refine there-after. |
| <ul style="list-style-type: none"> Service delivery strategies do not have processes to take advantage of and pilot investments in new and innovative service delivery technologies, particularly regarding the energy, water, and waste strategies | <ul style="list-style-type: none"> Develop processes such as expressions of interest and pilot project evaluations to test new technologies which can meet COCT service delivery challenges. |

The top priority recommendations which require immediate implementation are as follows:

- Initiate Regulatory Framework Review process (is underway);
- Develop Wesgro-COCT Service Level Agreement regarding investment facilitation processes;
- COCT to design Investment Development Facilitation Unit and refine relevant investment facilitation business processes;
- COCT to approve and implement Financial Incentives Policy

Table 40 contains recommendations to address investment constraints which the COCT can only indirectly influence through inter-governmental relations, lobbying, leadership, and partnerships:

**TABLE 40: RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF
CAPETOWN'S INDIRECT SPHERE OF INFLUENCE**

| Investment Constraints Within COCT's Indirect Sphere of Influence | Recommendation |
|---|--|
| <ul style="list-style-type: none"> Electricity reliability | <ul style="list-style-type: none"> Facilitate electricity infrastructure projects with Province Strengthen coordinated communication strategy in place between Eskom, Wesgro, COCT, and PGWC to address investor/ business risk concerns/ perceptions |
| <ul style="list-style-type: none"> Public transport efficiency, coverage, reliability, and safety | <ul style="list-style-type: none"> Establish Metro Public Transport Authority (currently under consideration) to address coordination and investment and safety issues including key issues re links to airport and 24 hour public transport. Enhance policing of taxis and bus priority lanes Improve the quality and safety of public transport interchanges Increase residential densities along public transport routes Improve the rail service including safety (with PGWC) Rationalise bus routes (with PGWC) Introduce 24 hour public transport (with PGWC) |
| <ul style="list-style-type: none"> Social issues especially the quality of education and health care service provision result in unproductive labour force and severely constrains economic transformation and participation of HDIs | <ul style="list-style-type: none"> Provincial education and health promotion strategies to contribute towards enhanced labour market productivity. |
| <ul style="list-style-type: none"> Telecommunications costs and broad-band availability. | <ul style="list-style-type: none"> COCT should implement a Metropolitan Telecommunications Network which provides the public with cheap access to the internet and broad-band. |
| <ul style="list-style-type: none"> Lack of adequately educated, trained, and experienced skilled workers; | <ul style="list-style-type: none"> Regional sector development organizations to facilitate skills development strategies with COCT and PGWC support and relevant SETAs and Department of Labour and Higher Education Institutions. |
| <ul style="list-style-type: none"> Crime (particularly property and violent crimes) | <ul style="list-style-type: none"> Establish Tourism Crime Forum to coordinate tourism crime strategy Strengthen business against crime initiatives such as CCTV cameras in crime hot spots Strengthen Municipal Court System and Metro Police effectiveness |
| <ul style="list-style-type: none"> Perceptions regarding the impact and implementation of BBEEE | <ul style="list-style-type: none"> PGWC, COCT, Wesgro, CTRU and Sector Development Organisations to develop clear position regarding FDI and BBEEE Above role-players to develop clear guidelines and support resources to assist companies to promote BBEEE. |
| <ul style="list-style-type: none"> Limited air access and direct flights for tourism (North America) as well as freight (e.g. West Africa) | <ul style="list-style-type: none"> CTRU, Wesgro, Sector Organisations to conduct research to clarify current status quo and inform lobbying process with national government and airlines |

RECOMMENDATIONS TO ADDRESS PRIORITY CONSTRAINTS WITHIN CITY OF CAPE TOWN'S INDIRECT SPHERE OF INFLUENCE (CONT.)

| Investment Constraints Within COCT's Indirect Sphere of Influence | Recommendation |
|--|--|
| <ul style="list-style-type: none"> Inadequate Port facilities for the tourism, oil and gas, and boat-building sectors. | <ul style="list-style-type: none"> COCT MOU and City NPA Steering Committees to be strengthened to ensure economic development constraints are presented to appropriate structures, including the Mayor, COCT to lobby NPA to ensure alignment between economic/industry development goals and NPA plans for the port. |
| <p>Effective resourcing of investment promotion strategy to:</p> <ul style="list-style-type: none"> Effectively address key constraints/ lobbying strategies, Adequately package investment opportunities Effectively target appropriate individual investors Effectively implement an investor after-care program Develop an investment and funding strategy for tourism product development across the Province | <ul style="list-style-type: none"> PGWC and COCT to engage with Wesgro to identify critical investment promotion blockages and constraints to inform resource allocations. |

The top priority recommendations which require immediate implementation are as follows:

- Improve public transport system through a range of strategies including establishment of the Metropolitan Public Transport Authority
- Co-ordinate City crime prevention strategy including enhancing existing initiatives such as Business Against Crime, Metropolitan Police, and Municipal Courts
- Metropolitan Telecommunications Network to offer public access to broadband
- Cape Town Air access strategy to enhance direct flight access for both freight and passengers to key trade and tourism markets esp. North America and West Africa.
- Strengthened high level interaction between the COCT and NPA regarding future port development and options to meet the economy's and key sector needs
- Effective resourcing and refinement of the Provincial Investment Strategy.

The following additional observations are key to the above recommendations:

- It is recommended that the COCT develop additional responses to effectively address the identified priority investment constraints.

The key overarching recommendation is that the COCT needs to become more responsive to business needs. The feedback received from the survey respondents has shown that high levels of dissatisfaction exist with certain services and that this is resulting in a range of unnecessary business costs and inefficiencies which in turn impact on reduced competitiveness, business growth, employment growth, and ultimately poverty reduction. The COCT therefore needs to review and refine its various customer relationship management, customer service, and business processes with a view to becoming more responsive to business needs.

- Many of the investment constraints require sophisticated and well informed lobbying processes which in turn require close strategic interaction at the highest political level between the COCT, Provincial Government, Regional Sector Development

Organisations, Para-statal, and national Departments. The Province and COCT need to review whether existing inter-governmental structures are effectively facilitating this interaction or not.

3. Many of the investment constraints are largely the product of institutional development issues (e.g. COCT Culture, sub-optimal alignment between Wesgro and COCT processes) and depend on energetic leadership which recognizes the magnitude and importance of the problem and ensures that management solutions are implemented. Political leadership could contribute towards the success of addressing these issues. Communication of the research results with the COCT's Mayor and key politicians is an important way forward process.
4. The COCT and Wesgro have the opportunity to refine their external communication strategies in a coordinated manner to build on the understanding of investment constraints and build business and investor confidence by demonstrating initiatives are underway and successes are being achieved to minimize certain investment constraints. Wesgro and the COCT should also extract investment survey feedback which rates certain investment climate issues positively in Cape Town and communicate these to potential investors as such messages will carry weight (i.e. the views of existing businesses) and help to reduce risk perceptions.

Two key initiatives require explicit focus:

- Telecommunications and Metro Telecoms Network
- Public Transport and 2010

Explicit communication strategy coordination mechanisms need to be put in place with key role-players for the following cross-cutting issues:

- Crime
- Public Transport
- Electricity

In addition, specific communication strategies need to be developed at communities to address key economic development challenges, for example:

- Raise the understanding of the broader social and economic contributions of key sectors (e.g. especially tourism and film)
- Raise the understanding of career opportunities and skills requirements in growth niches to inform study and career choices at school level.

5. The COCT and Wesgro need to put in place mechanisms which recognize and reward the business, financial and social contributions which business (domestic and foreign) make to the COCT. One way to do this is through an Annual Awards Function, such as an Annual Mayor's Investor Award. The design of Mayor's Investor Award should recognise the broader economic and social contribution of growing businesses in Cape Town and could include strategic corporate sponsor/ partner and categories could include:
 - Fast growing BEE company (job growth)
 - Most socially responsible foreign invest(or)ment
 - Most innovative green fields investor etc.

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ANNEXURE A

SUMMARY OF SELECTED EXISTING INVESTMENT CONSTRAINTS SURVEYS

Additional detailed information pertaining to the existing investment constraints literature is included in Annexure A as this may be relevant for investment promotion activities. Main findings from the following surveys are included:

- Doing Business 2006
- Bureau of Economic Research 2006

Doing Business 2006

| Ease of... | 2006 rank | 2005 rank | Change in rank |
|------------------------|-----------|-----------|----------------|
| <i>Doing Business</i> | 29 | 28 | -1 |
| Starting a Business | 57 | 49 | -8 |
| Dealing with Licenses | 45 | 39 | -6 |
| Employing Workers | 87 | 94 | +7 |
| Registering Property | 69 | 83 | +14 |
| Getting Credit | 33 | 33 | 0 |
| Protecting Investors | 9 | 9 | 0 |
| Paying Taxes | 74 | 79 | +5 |
| Trading Across Borders | 67 | 63 | -4 |
| Enforcing Contracts | 43 | 42 | -1 |
| Closing a Business | 65 | 62 | -3 |

Note: 2005 rankings have been recalculated to reflect [changes to the 2006 methodology](#) and the addition of 20 new countries.

Starting a Business (2006)

The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.

| Indicator | South Africa | Region | OECD |
|---------------------------------------|--------------|--------|------|
| Procedures (number) | 9 | 11.1 | 6.2 |
| Time (days) | 35 | 61.8 | 16.6 |
| Cost (% of income per capita) | 6.9 | 162.8 | 5.3 |
| Min. capital (% of income per capita) | 0.0 | 209.9 | 36.1 |

Dealing with Licenses (2006)

Shown below are the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

| Indicator | South Africa | Region | OECD |
|-------------------------------|--------------|---------|-------|
| Procedures (number) | 17 | 17.7 | 14.0 |
| Time (days) | 174 | 230.2 | 149.5 |
| Cost (% of income per capita) | 33.5 | 1,024.5 | 72.0 |

Employing Workers (2006)

The difficulties that employers face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

| Indicator | South Africa | Region | OECD |
|-------------------------------|--------------|--------|------|
| Difficulty of Hiring Index | 44 | 44.3 | 27.0 |
| Rigidity of Hours Index | 40 | 52.0 | 45.2 |
| Difficulty of Firing Index | 40 | 44.9 | 27.4 |
| Rigidity of Employment Index | 41 | 47.1 | 33.3 |
| Hiring cost (% of salary) | 2.4 | 12.7 | 21.4 |
| Firing costs (weeks of wages) | 24.0 | 71.2 | 31.3 |

Registering Property (2006)

The ease with which businesses can secure rights to property is shown below. Included are the number of steps, time, and cost involved in registering property.

| Indicator | South Africa | Region | OECD |
|----------------------------|--------------|--------|------|
| Procedures (number) | 6 | 7.0 | 4.7 |
| Time (days) | 23 | 109.9 | 31.8 |
| Cost (% of property value) | 8.9 | 11.6 | 4.3 |

Getting Credit (2006)

Measures on credit information sharing and the legal rights of borrowers and lenders are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better

designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

| Indicator | South Africa | Region | OECD |
|-------------------------------------|--------------|--------|------|
| Legal Rights Index | 5 | 4.2 | 6.3 |
| Credit Information Index | 5 | 1.3 | 5.0 |
| Public registry coverage (% adults) | 0.0 | 1.5 | 8.4 |
| Private bureau coverage (% adults) | 53.0 | 3.8 | 60.8 |

Protecting Investors (2006)

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

| Indicator | South Africa | Region | OECD |
|---------------------------|--------------|--------|------|
| Disclosure Index | 8 | 4.4 | 6.3 |
| Director Liability Index | 8 | 4.5 | 5.0 |
| Shareholder Suits Index | 8 | 5.2 | 6.6 |
| Investor Protection Index | 8.0 | 4.7 | 6.0 |

Paying Taxes (2006)

The data below shows the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

| Indicator | South Africa | Region | OECD |
|---------------------------|--------------|--------|-------|
| Payments (number) | 23 | 40.9 | 15.3 |
| Time (hours) | 350 | 336.4 | 202.9 |
| Total tax rate (% profit) | 38.3 | 71.2 | 47.8 |

Trading Across Borders (2006)

The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

| Indicator | South Africa | Region | OECD |
|-------------------------------------|--------------|--------|------|
| Documents for export (number) | 5 | 8.2 | 4.8 |
| Time for export (days) | 31 | 40.0 | 10.5 |
| Cost to export (US\$ per container) | 850 | 1,561 | 811 |
| Documents for import (number) | 9 | 12.2 | 5.9 |
| Time for import (days) | 34 | 51.5 | 12.2 |
| Cost to import (US\$ per container) | 850 | 1,947 | 883 |

Enforcing Contracts (2006)

The ease or difficulty of enforcing commercial contracts in is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

| Indicator | South Africa | Region | OECD |
|---------------------|--------------|--------|-------|
| Procedures (number) | 26 | 38.1 | 22.2 |
| Time (days) | 600 | 581.1 | 351.2 |
| Cost (% of debt) | 11.5 | 42.2 | 11.2 |

Closing a Business (2006)

The time and cost required to resolve bankruptcies is shown below. The data identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is also shown.

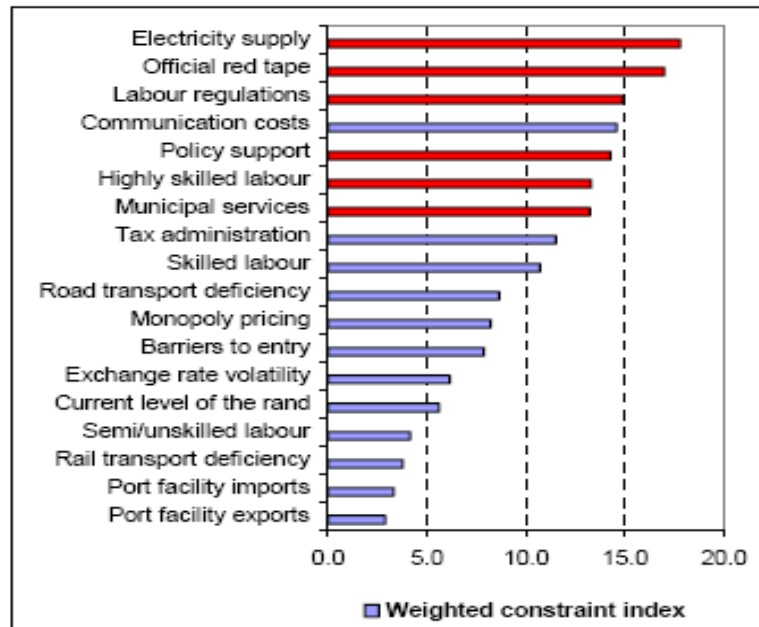
| Indicator | South Africa | Region | OECD |
|-------------------------------------|--------------|--------|------|
| Time (years) | 2.0 | 2.6 | 1.4 |
| Cost (% of estate) | 18.0 | 16.0 | 7.1 |
| Recovery rate (cents on the dollar) | 34.4 | 17.7 | 74.0 |

Bureau of Economic Research (2006)

The BER Survey identified constraints to business growth and segmented these according to economic sector, geographic province, and size of business. The findings show that there are differences in terms of the priority given to growth constraints depending on the sectoral characteristics of the business, the geographic location, and the size of the business.

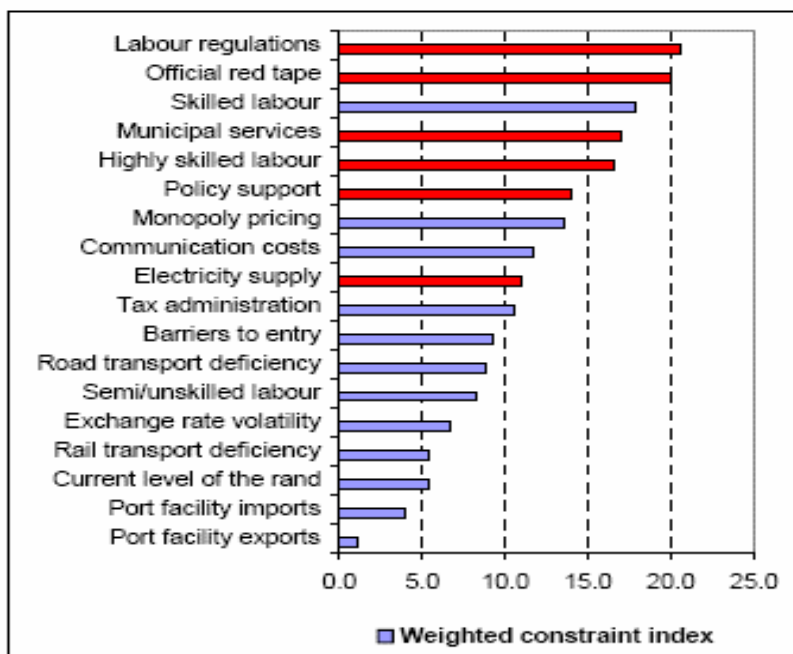
Comparing the ranking of growth constraints by firms in the services and construction sectors, for example, one finds that labour regulations are the number one constraint for construction firms (and third constraint for service sector firms) and electricity supply is the main constraint for service sector firms.

Economic growth constraints: SERVICES



Source: Bureau of Economic Research (2006)

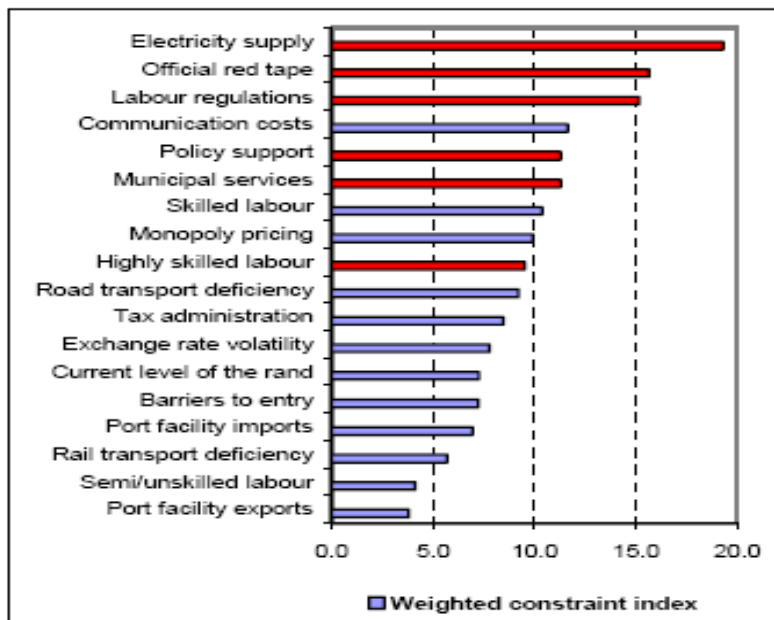
Economic growth constraints: BUILDING & CONSTRUCTION



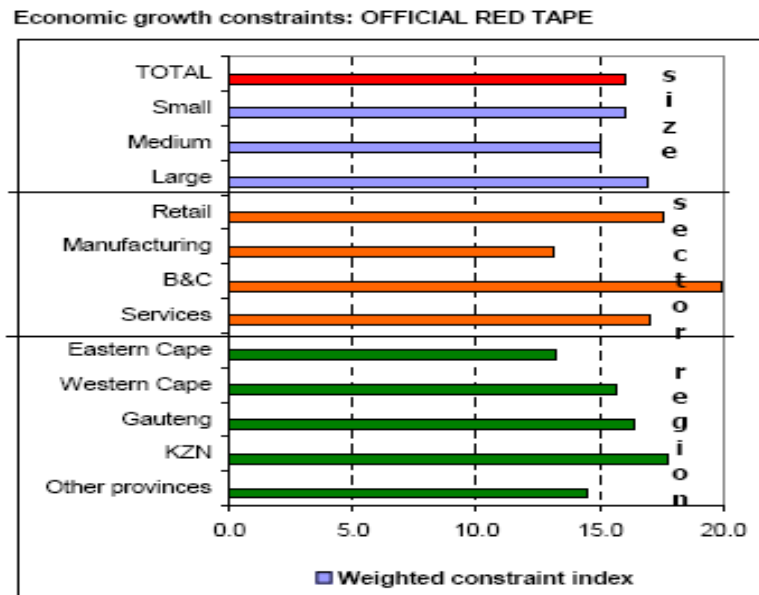
Source: Bureau of Economic Research (2006)

There are also geographic/ provincial differences in ranking growth constraints. For example, businesses in the Western Cape rank electricity supply as the top constraint and communication costs as 4th constraint, while Gauteng lists labour regulations as top constraint. 39% of Western Cape businesses reported red tape as a serious or debilitating problem.

Economic growth constraints: WESTERN CAPE



Red tape is a particular constraint to small companies as well as companies in the construction/building industry. The Western Cape is ranked as the 3rd worst province for red tape.



ANNEXURE B: DETAILED PROBLEMS WITH PARA-STATAL SERVICES AND INFRASTRUCTURE

Telkom-Specific issues

- LESS EXPENSIVE ACCESS TO TELECOMS & FASTER BROADBAND FOR INTERNET
- REDUCE COSTS
- HIGH COSTS OF SERVICE
- COSTS & BAND WIDTH
- increased supply of band width and cables
- PHONE CHARGES ARE TOO HIGH
- REDUCE COSTS. IMPROVE SERVICE DELIVERY
- INCREASE BANDWIDTH. IMPROVE SERVICE DELIVERY TIMES
- SERVICE DELIVERY, COST
- EXPENSIVE SERVICE, KEEP COSTS DOWN
- CONTINUING TO GIVE THE BEST SERVICE & COST
- PRICES TOO HIGH FOR THE INADEQUATE SERVICE OFFERED
- SERVICE DELIVERY IS NOT GOOD
- LOWER THE COSTS OF COMMUNICATING
- REDUCE PRICES & MONOPOLY INCL CELLULAR NETWORKS
- PURELY A COST ISSUE BUSINESS SHOULD GET CHEAPER RATES FOR HIGHER USE
- COST
- HIGH COSTS
- SERVICE TOO EXPENSIVE
- THEY CAN PROVIDE THE SERVICES YOU NEED
- SERVICE DELIVERY IS BAD - THIS MUST BE IMPROVED
- CONNECTIVITY, BETTER & QUICKER SERVICE
- BANDWIDTH & GENERAL TELEPHONIC COST
- OPEN COMPETITION TO TELKOM
- TELKOM'S COSTS IS TOO HIGH & THEIR ADSL IS TOO SLOW
- TARIFFS & DIGITAL LINES. IT IS TOO EXPENSIVE
- INTERNET ACCESS VERY SLOW & POOR. THE RELIABILITY IS VERY POOR
- REDUCE PRICES
- CALL RATES NATIONAL & INTERNATIONAL TOO HIGH
- LOWER PRICES, ESPECIALLY CELLULAR CHARGES
- COST OF TELECOMMS
- SERVICE DELIVERY & PRICING

- EXPENSIVE & MISSING INTERNET SERVICES
- COST OF TELECOMMUNICATIONS & BANDWIDTH
- CHEAPER RATES
- REDUCE COSTS & GETTING UP TO INTERNATIONAL COMPETITIVE STDS
- REDUCE BUSINESS TARIFF & INTRODUCE NEW TECHNOLOGY
- REDUCE COSTS. TELKOM DON'T TO MAKE SO MUCH PROFIT
- REDUCES COSTS. IMPROVE LINES
- INCREASE BAND WIDTH & IMPROVE/USE NEW AVAILABLE TECH REDUCE COSTS
- TO IMPROVE THE COMMUNICATION SYSTEM FOR BETTER SERVICE DELIVERY
- NEW COMPETITORS WHICH WOULD SCARE TELKOM INTO PROVIDING A BETTER SERVICE. NO ADSL IN STRAND AREA. MORE LONG TERM PLANNING
- TELKOM INFRASTRUCTURE, SPECIFICALLY ADSL NOT AVAILABLE EVERYWHERE. SERVICE DELIVERY LEAD TIME EXTENSIVE
- COST OF SERVICES TO BE MADE COMPARABLE TO INTERNATIONAL STATUS
- TELKOM PRICES
- IMPROVE QUALITY OF SERVICE
- COST OF TELECONS & QUALITY OF INTERNET CONNECTIONS
- QUALITY OF SERVICE EG ADSL LINES GOING DOWN. COST OF CALLS
- REGULATE COSTS ACCORDING TO INTERNATIONAL STANDARDS & IMPROVE QUALITY SERVICE
- BREAK MONOPOLY TO INCREASE COMPETITION & INTRODUCE NEW TECH
- SERVICE QUALITY & COSTS
- EXPANSIVE AND COST NEEDS TO BE REDUCED TO IMPROVE INTERNATIONAL COMPETITION OF CITY
- TOO COSTLY
- REDUCE COSTS, SPEC INTERNET
- NO SERVICE ETHIC. THEY ARE ARROGANT AND IF THE SERVICES ARE DOWN THE CENTRE CANT WORK. THEY DON'T CARE ABOUT IT
- MAINTAIN EFFICIENCY
- TO GET TELKOM MORE RELIABLE & A BETTER SERVICE DELIVERY (SPEED OF SERVICE)
- PRICES
- TO REDUCE COST OF TELECOMMUNICATION
- THEY SHOULD ENGAGE IN COST
- REDUCE THE COSTS OF CONNECTIVITY TO BUSINESS
- LOOK AT REDUCING RATES - LESS COSTLY TO OPERATE
- BROADBAND CONNECTION COSTS TOO HIGH
- BANDWIDTH PROBLEMS
- BREAK MONOPOLY THEREFORE IMPROVE SERVICE

- ADDRESS INEFFICIENCY & COST REDUCTION
- COST & INTERNET INFRASTR (BAND WIDTH)
- SERVICE DELIVERY IS POOR & COMMUNICATION IS BAD
- SYSTEM OVERLOAD
- COSTS, LEAD TIMES OF INSTALLATION
- GET RID OF MONOPOLY REDUCE PRICES
- TELKOM'S COSTS, THEIR CONTROL OF RULES REGS IE LASER TECH SERVICE BAD
- PROVISION OF DATA SERVICES EG ADSL
- REDUCTION OF COST & MONOPOLY IN INTERNET ACCESS

Eskom-Specific issue

- RELIABILITY
- RELIABLE ELECTRICITY SUPPLY
- REDUCE PRICES & MONOPOLY
- INCREASE POWER SUPPLY
- POWER SHUT DOWN. THINKING OF BACKUP OPTION WHICH IN CT IS VERY COSTLY
- CONSISTENT SUPPLY
- GUARD AGAINST POWER CUTS
- SERVICE DELIVERY, COST
- NO CONTINUITY SUPPLY DURING BUSY BUSINESS HOURS
- IMPROVE CAPACITY & RELIABILITY
- NEEDS TO UPGRADE SERVICE DELIVERY
- ENSURE FUTURE ELECTRICITY SUPPLY IS CATERED FOR
- WHY CEO IS PAID SO MUCH WHILE POWER IS IRREGULAR BUT STILL IN POST
- IMPROVE CAPACITY & THEREFORE RELIABILITY
- ENSURE UNINTERRUPTED POWER SUPPLY
- ENSURE SUSTAINABILITY OF POWER SUPPLY VIA INCREASED CAPACITY
- CURRENT CAPACITIES UPGRADE
- ADDITIONAL SUPPLY
- TOO MANY EXTRA CHARGES ON BILL. ELECT MAY BE CHEAP, BUT CHARGES MAKE IT EXTREM EXPENSIVE
- REDUCE TARIFF PRICES

- LOWER COSTS
- WE NEED TO HAVE UNINTERRUPTED SERVICES OF ELECTRICITY
- HIGH COSTS
- BECOME MORE RELIABLE (PROPER BACKUP PLANS)
- increased and uninterrupted supply
- SERVICE DELIVERY & PRICING
- BETTER PLANNING OF POWER CUTS / NOTICES TO MINIMISE LOSSES
- NOT ENOUGH SERVICE
- INFRASTR, CAPACITY
- TO REDUCE COST OF ELECTRICITY
- REDUCE PRICES
- WE TRUST THE 2006 POWER OUTAGES ARE HISTORY
- CONTINUING TO GIVE THE BEST SERVICE & COST
- GUARANTEE SUSTAINABLE. ELEC SUPPLY BY INCREASING CAPACITY
- THEY SHOULD ENGAGE IN THE DISRUPTION
- UNINTERRUPTED SERVICE PROVIDED
- ELECTRICITY, REGULAR POWER FAILURES
- POWER FAILURE, LOST PRODUCTIVITY
- REDUCE ELECTRICITY COSTS & INCREASE RELIABILITY/CAPACITY
- AVAILABILITY OF CONTINUOUS, UNINTERRUPTED SERVICE
- CHEAPER RATES
- FOR MORE STABLE ELECTRICITY SUPPLY
- EXPENSIVE SERVICE, LOWER COSTS
- AVAILABILITY OF ELECTRICITY INCONSISTANT
- PAY SERIOUS ATTENTION TO RED 1 (REDISTRIBUTION OF ELEC)
- RELIABLE POWER SUPPLY
- INCREASE RELIABILITY
- POWER OUTAGES
- PROVIDE INFRASTRUCTURE FACILITY TO PREVENT BLACK OUT
- BETTER PLANNING
- ESKOM LAY FIBRE OPTIC CABLES THAN TELKOM. WE WANT ACCESS TO IT
- UNINTERRUPTED ELECT SUPPLY
- AVAILABILITY & COST
- SERVICE DELIVERY TERRIBLE IE SUPPLY MUST BE CONSTANT
- MAINTAIN EFFICIENCY
- IMPROVE RELIABILITY
- TO STOP POWER FAILURES & TO STOP COMMUTER CORRUPTION
- IMPROVE ELECTRICITY SUPPLY
- POWER CUTS & CAPACITY
- POWER RELIABILITY IN LR

- REDUCE COSTS, IMPROVE RELIABILITY
- NO MORE NUCLEAR POWER STATIONS
- EXPLORE ALTERNATIVE ENERGY SOURCES TO COPE WITH GROWTH IN CITY ENERGY DEMAND
- UNINTERRUPTED POWER SUPPLY
- INCREASE EFFICIENCY
- ESTABLISH NEW POWER STATIONS & REDUCE COSTS
- RELIABILITY. NEED TO HAVE MAINTENANCE CHECKS FOR SYSTEM
- SERVICE INTERRUPTION

National Ports Authority-Specific issue

Valid

- 5 STAR DOCKING FACILITY FOR CRUISE LINERS
- ALLEVIATING CONTAINER CONGESTION
- ORGANISE LAUNCHING FACILITIES FOR LOCAL BUSINESS
- INFRASTR. MAINT & TARIFFS
- RELIEVE CONGESTION IN TERMINALS
- REDUCE OFF LOADING DELAYS
- COSTS & PROVIDES APPROPRIATE FACILITIES TO CAP
- ACCESS AND TURN AROUND TIMES
- ENSURE STRIKES / GO SLOW ARE KEPT TO A MINIMUM
- TO ENSURE QUICK UNLOADING CONTAINERS
- CONTROL & REGULATE BERTHING ... INSURE PORT CRAN
- REVIEW COSTING OF TARIFFS. TARIFFS TOO HIGH
- DIALOGUE TO GET WITH THE PROGRAM, NEED TO BE M
- SERVICE DELIVERY, COST
- SLOW PROCESSES & FREIGHT & THEFT ISSUES

- things waiting in harbour for release
- CONGESTION. CAPITAL INVESTMENT ON NEW INFRASTRU
- REDUCE CONGESTION IN PART
- PORTS CONGESTION
- STOP INSPECTING SHIPMENTS FOR SO LONG
- CONGESTION
- NO ONE SPEAK TOO. LACK OF DECISION MAKING. NO

- PORT CONGESTION IS COSTING SA MILLIONS
- FASTER HANDLING OF CARGO
- SPEED UP SERVICE DELIVERY
- DELAYS IN IMPORT CLEARANCE ALSO CONGESTION PRO
- ALLOW LAUNCHING & DOCKING OF PUT YACHTS
- WE PLAN TO HAVE DIRECT MEETINGS WITH THEM REGA

SA Ports Operations-Specific issue

- PORT CONGESTION IS COSTING SA MILLIONS
- NO ONE SPEAK TOO. LACK OF DECISION MAKING. NO FACI
- CONGESTON
- REDUCING PORT CONGESTION
- ORGANISE LAUNCHING FACILITIES FOR LOCAL BUSINESSES
- BEEF UP SECURITY. SURVEILLANCE BROKEN & INEFFECTIV
- SAME AS ABOVE
- SLOW PROCESSES & FREIGHT AND THEFT ISSUES
- MORE EFFICIENT OPERATION
- DIALOGUE TO GET WITH THE PROGRAM, NEED TO BE MORE
- TARIFFS TOO HIGH. REVIEW COSTS
- PILOTAGE (TOO SLOW THEREFORE LESS SHIPS DOCK IN CT
- REDUCE OFF LOADING DELAYS
- FASTER HANDLING OF CARGO
- EFFICIENCY OF DELIVERY DUE TO FAILURE OF MACHINERY
- DELAYS IN IMPORT CLEARANCE ALSO CONGESTION PROBLEM
- SPEED UP SERVICE DELIVERY
- TOO MUCH CONGESTION
- ALLOW LAUNCHING & DOCKING OF PUT YACHTS
- SERVICE DELIVERY, COST
- REDUCE CONGESTION IN PART
- THE LOW WORKER PRODUCTIVITY

Airports Company South Africa-Specific issue

- THE ISSUE OF THEFT OF BAGGAGE
- MONOPOLY & INCREASE FLIGHTS. TOO EXPENSIVE
- PARKING AVAILABILITY. SECURITY OF PASSENGERS
- TAXES TOO HIGH AS COMPARED TO INTERNATIONAL STANDARDS
- AVAILABILITY OF PARKING & COSTS
- PASSPORT QUEUES ARE A HUGE PROBLEM - MANAGEMENT OF VOLUMES, PARKING
- too inefficient and expensive and not safe enough
- IMPROVE DOMESTIC DEPT & ARRIVALS."NEEDS FACELIFT"
- INVESTING MORE IN VEHICLE PARKING
- MORE DIRECT FLIGHTS FOR FREIGHT PASSENGERS FROM INT DESTINATIONS TO CT AIRPORT
- CLEARING CUSTOMS TAKES TOO LONG - INCREASE CUSTOMS OFFICIALS
- SUPPLYING MUNICIPAL BUS SERVICE FROM CITY TO AIRPORT
- MORE FLIGHTS
- COST OF AIRPORT TAXES ARE HIGH
- TRY GET MORE DIRECT FLIGHTS FROM INT MARKET
- PASSPORT QUEUES ARE A HUGE PROBLEM - LESS TIME FOR SHOPPING AT THE AIRPORT
- INCREASE CAPACITY, DECREASE CONGESTION
- BUREAUTIC,THEY DON'T DEAL SUFFICIENTLY WITH PROBLEMS
- CONSISTANCY OF CARGO ARRIVAL TIMES
- SERVICE DELIVERY BAD
- AIRPORT MUST IMPROVE EFFICIENCY, REDUCE CONGESTION & MORE PARKING
- -2
- RELIABILITY BECAUSE THERE IS ALWAYS DELAYS
- FREIGHT CONGESTION LACKS OF FLIGHT AVAILABILITY. CANT GET PRODUCTS OUT TO CUSTOMERS
- STREAMLINE OPERATIONS IN CLEARING PLANES
- SAA MONOPOLY ON BUSINUS GROWTH
- MANAGEMENT & FLIGHT DELAYS
- SERVICE DELIVERY, COST
- EXPANSION OF AIRPORT TO REDUCE CONGESTION

Industrial Development Corporation-Specific issue

- HELP STIMULATE FUNDING FOR SMALL BUSINESS
- ENTREPRENEUR FUNDING
- VISIT EMERGING BUSINESSES TO SEE HOW THEY CAN ASSIST. MORE PUBLICATION OF THEIR SERVICES
- ACCESS TO FINANCE
- FACILITATE CHEAPER CREDIT
- ACCESS TO FINANCE & OPPORTUNITIES SHOULD BE OPEN TO ALL
- IDC'S INVESTMENT IN FILM. NEED MORE INTERACTION & MUST BE SMOOTHER
- IMPROVE ACCESS TO FINANCE
- PROMOTE THE SKILLS DEVELOPMENT WITHIN CONSTRUCTION INDUSTRY
- MUST LOOK AT HELP FUND BUSINESS
- SETUP INTERACTIVE PROCESS FOR BUSINESS ENTREPRENEUR AND INVESTORS VIA THE INTERNET
- TAKE OFF ON WORLD CUP PROJECTS
- IMPROVE SUPPORT FUNDING FOR IT SECTOR
- BE MORE VISIBLE & MARKET IDC BETTER
- IMPROVE ACCESS TO SERVICES & FUNDING. HIGHLY BEAUROCRATIC
- CUT RED TAPE IN ORDER TO FACILITATE FUNDING FOR NEW BUSINESSES
- MORE MARKETING OF CORPORATION IN TERMS OF THEIR ROLE IN SOCIETY. USE MEDIA MORE EFFECTIVELY
- MARKET HOTELS ON BEHALF OF INDUSTRY
- TOO MUCH RED TAPE. SLOW
- SERVICE DELIVERY, COST

- CREATE EMPLOYMENT BY ESTABLISHING FACTORIES IN THE AREA
- NEED TO MAKE THEMSELVES MORE AVAILABLE, RAISE THEIR AWARENESS
- MAKE MORE LAND AVAILABLE TO BEE COMPANIES
- -1
- SMALLER LOANS FOR MICRO BUSINESSES

- FUNDING FOR SMALL BUSINESS
- NEED SUBSIDIES ETC TO MARKET SA'S IMAGE (VERY EXPENSIVE FOR PUT CO'S)
- AVAILABILITY OF VENTURE CAPITAL

State IT Agency-Specific issue

- SERVICE DELIVERY, COST
- MAKE PROCUREMENT POLICY MOR TRANSPARENT

- COLLABORATE WITH IDC TO SETUP THE PREVIOUS ISSUE
- IMPROVE BAND WIDTH CAPACITY

- BANDWITH REGULATIONS
- ENGAGE MORE WITH CIIT & SUPPOR THEM

- MOVE TOWARDS A REAL TIME & PAPERLESS SYSTEM
- OPEN UP BAND WIDTH
- -4
- INCREASE COMPETITION IN SECTOR

- FUNDING FOR SMALL BUSINESS
- SYNCRONISE OPERATIONS WITH TELKOM
- BROADBAND WIDTH TO BE IMPROVED

**ANNEXURE C: CAPE TOWN INVESTMENT CONSTRAINTS
SURVEY: BUSINESS ENVIRONMENT
WEAKNESS PER GEOGRAPHIC AREA:**

| Business Environment Weakness | Geographic Area and number of times weakness mentioned | | | | | | |
|---|--|---------|----------|-----|--------------|--------------|--------------|
| | Airport Industria | Athlone | Atlantis | CBD | Century City | South Subs 1 | South Subs 2 |
| Poor safety | 3 | 1 | 1 | 16 | 0 | 0 | 2 |
| High unemployment | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Growth in market | 0 | 1 | 1 | 1 | 0 | 0 | 1 |
| Parking | 0 | 0 | 0 | 10 | 1 | 2 | 0 |
| Utilities, Capacity [Electricity] | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Utilities, Capacity [Telecommunications] | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Capacity [Other- code and specify] | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Cost [Electricity] | 0 | 0 | 1 | 1 | 0 | 0 | 2 |
| Utilities, Cost [Telecommunications] | 0 | 0 | 0 | 5 | 0 | 0 | 1 |
| Utilities, Cost [Other- code and specify] | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Utilities, Reliability [Electricity] | 1 | 0 | 0 | 8 | 0 | 0 | 1 |
| Utilities, Reliability [Telecommunications] | 1 | 0 | 0 | 3 | 0 | 1 | 0 |
| Utilities, Cost of Water | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Reliability of Water | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Utilities, Reliability [Other-code and specify] | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Size of premises | 1 | 0 | 0 | 9 | 0 | 1 | 1 |
| Cost of premises | 0 | 0 | 0 | 6 | 1 | 0 | 2 |
| Lack of government services | 0 | 0 | 0 | 4 | 0 | 0 | 1 |
| Distance from market potential customers | 0 | 0 | 0 | 1 | 0 | 0 | 3 |
| Transport costs | 1 | 0 | 0 | 2 | 1 | 1 | 1 |
| Transport congestion | 1 | 0 | 0 | 3 | 0 | 1 | 0 |
| Cost of labour | 0 | 0 | 1 | 2 | 0 | 0 | 4 |
| Lack of skilled workers | 1 | 1 | 0 | 9 | 1 | 0 | 2 |
| Lack of public transport | 2 | 0 | 0 | 6 | 2 | 1 | 2 |

| Business Environment Weakness | Geographic Area and number of times weakness mentioned | | | | | | |
|--|--|----------------|------------|----------|-------------|--------------------|------------|
| | North Subs | Epping Ind etc | Helderberg | Hout Bay | Khayelitsha | Paarden Eiland etc | West Coast |
| Poor safety | 2 | 0 | 0 | 1 | 1 | 1 | 0 |
| High unemployment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth in market | 0 | 1 | 1 | 0 | 1 | 1 | 0 |
| Parking | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Utilities, Capacity [Electricity] | 2 | 0 | 0 | 0 | 0 | 0 | 1 |
| Utilities, Capacity [Telecommunications] | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Capacity [Other- code and specify] | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Utilities, Cost [Electricity] | 0 | 2 | 1 | 0 | 1 | 0 | 1 |
| Utilities, Cost [Telecommunications] | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| Utilities, Cost [Other- code and specify] | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Reliability [Electricity] | 2 | 0 | 1 | 2 | 1 | 1 | 1 |
| Utilities, Reliability [Telecommunications] | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Utilities, Cost of Water | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Utilities, Reliability of Water | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilities, Reliability [Other- code and specify] | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Size of premises | 1 | 1 | 0 | 0 | 0 | 3 | 1 |
| Cost of premises | 1 | 0 | 0 | 0 | 0 | 1 | 2 |
| Lack of government services | 0 | 1 | 1 | 0 | 0 | 2 | 1 |
| Distance from market ational customers | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Transport costs | 1 | 0 | 1 | 0 | 0 | 1 | 2 |
| Transport congestion | 0 | 0 | 0 | 0 | 0 | 3 | 1 |
| Cost of labour | 1 | 1 | 1 | 0 | 0 | 1 | 0 |
| Lack of skilled workers | 2 | 2 | 2 | 0 | 3 | 3 | 0 |
| Lack of public transport | 0 | 1 | 0 | 0 | 0 | 2 | 2 |