Trade & Investment KwaZulu-Natal • South Africa

KwaZulu-Natal Investment Climate Survey

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EXECUTIVE SUMMARY

ES1 Introduction

The central challenge in reaping greater benefits from globalization lies in improving the investment climate – that is, in providing sound regulation in industry, including the promotion of competition; in overcoming bureaucratic delay and inefficiency; in fighting corruption; and in improving the quality of infrastructure. For these reasons the investment climate itself is a key issue for poverty reduction." Sir Nicholas Stern (Investment Climate Survey, The World Bank, March, 2001).

A good investment climate is central to growth and poverty reduction. A vibrant private sector creates jobs, provides the goods and services needed to improve living standards, and contributes taxes necessary for public investment in health, education, and other services. But too often governments stunt the size of those contributions by creating unjustified risks, costs, and barriers to competition." François Bourguignon (World Development Report, 2005).

ES2 Background

The key objective of KwaZulu-Natal Investment Climate Survey was to assess and to discuss the investment climate at a Provincial level and focusing on Durban, Pietermaritzburg and Richards Bay, Port Shepstone and Newcastle. This exercise would draw on the Investment Climate Assessments produced by the World Bank Group. More specifically, the project attempts to address the following:

(i) review the state of the economy in Kwazulu-Natal;

(ii) identify the key constraints impacting on firms operating in the designated regions;

(iii) evaluate the state of innovativeness of firms and how this relates to competitiveness;

(iv) evaluate the primary challenges associated with firm performance, and

(v) identify appropriate intervention strategies that will alleviate obstacles and improve firm productivity and help ease doing business in the region.

ES3 Methodology

A stratified sample size of 400 firms across the province was developed. This means that firms were randomly selected according to their level of representation in different regions and economic sectors. For example, if 23% of firms in KwaZulu-Natal are based in Pietermaritzburg, then 23% of the firms in the wider sample will come from Pietermaritzburg; and if 5% of the firms in PMB are is construction sector, then 5% of the 23% in the sample will be construction companies.

Out of the targeted 400, only 341 (or 85.3%) participated in the survey, due mainly to lack of enthusiasm on the part of firms based in Newcastle and Port Shepstone.

Table ES1 below gives a structure of the sample on which the results of this study are based.

Table ES1: Characteristics of Sample (n = 341) for Investment Climate Survey (KZN)

Variable	Sample share	Percentage share
Type of business		
Sole proprietor	26	8
Partnership	78	23
Closed corporation	164	48
Private	56	15
Public	17	5
Line of business		
Wholesale and retail	41	12
Services	62	18
Construction	65	18
Manufacturing	79	23
Tourism	24	7
Agriculture	17	5
IT	14	4
Transport	13	3
Healthcare	10	3
Film	30	7
Size of business; # of employees		
Micro 1 – 9	116	34
Small-sized 10 – 25	140	41
Medium-sized 25 – 100	65	19
Large 100 – 500	10	3
Very large > 501	10	3

Research questionnaire was administered to the selected firms and responses collected from the same through email, with telephonic follow-ups where necessary.

ES4 Research findings

Over and above confirmation of the structural outlay of the KwaZulu-Natal economy, the following were key findings of the study:

ES4.1 Macroeconomic performance

Small firms have achieved from very small to moderate growth over the previous two periods. For instance, 64% of small firms reported an increase of between 3% and 5% in turnover compared to the previous financial year (2008/2009), compared to turnover increase of 20% which most medium (29%) and large (60%) firms were confident of. Whilst this performance is not spectacular, it is a relatively stable performance amidst the challenges in the macro-economic environment.

Some businesses reflected flat increases in revenue and still yield a profit, based on improved productivities, particularly within the relatively capital intensive industries which can be associated with higher labour productivity: 68% of small firms reported that their turnover had remained the same, compared to 71% medium and 73% large.

ES4.2 Profitability and innovation

Smaller businesses which are located in less labour intensive industries explain average to moderate profitability. Overall, all firms have reported average to moderate profitability in the current year and expressed a moderately confident outlook in relation to future profitability in the various industries within the region. For instance, 66% of small firms expect profitability to increase, while 78% of medium and 85% of large firms share the sentiment. On reverse, 11% of small firms expect a decline in profitability, compared to 9% medium and none of the larger ones.

Overall, smaller firms ranked low to very low on innovation raising concerns regarding competitiveness and sustainable firm growth within their respective markets: 68% of small firms reported very low extent of innovation, compared to only 5% of medium and 0% or large, while on the upper tail none of the small firms reported high or very high level of innovation, compared to 40% medium and 90% large.

ES4.3 Crime and corruption

Apart from direct losses due to unfair competitive practices, corruption also adds to the cost of doing business (commerce must spend by way of furthering a corrupt relationship) and the State (the taxpayer) pays owing to inefficient, shoddy delivery.

Beyond this ‘new-age corruption’, the response from industry participants also maintain that ‘historic relationships’ are a major source of ‘unstated’ corruption - these are commonly referred to as ‘old boy’ networks and involves established businesses enjoying commercial preference based on ‘historic understandings’. This in itself is hardly reported (even purposefully) and should similarly be addressed.

ES4.4 Education, training and skills

The industry participants suggest that the shortage of skilled labour presents significant challenges, particularly in sectors demanding specialized skills and experience. Thus, most of workers in the primary sector cannot be placed in the other two sectors despite improvements in education access and throughput over the last 10 years. For example, 44% of firms in KZN find this issue prohibitive, compared to 35% national average. This issue is confirmed by net emigration phenomenon that is affecting KwaZulu-Natal and other provinces, to the benefit of Gauteng and Western Cape.

In KwaZulu-Natal, skills shortage has proved more of a problem for larger (37%) and medium (22%) firms than their smaller counterparts (7%).

While training rates (i.e. participation in workplace training) in South Africa compare favorably with international standards as shown by the National Skills Survey conducted in 2003, development has not been even as the 2006 survey revealed that KZN training rates in medium and large enterprises are very low. In addition, most of the enterprises surveyed then indicated that they were unimpressed with the services offered by their respective Sector Education and Training Authorities (SETAs).

The reasons for KZN’s inferiority of education and skills quality when compared to other provinces (example Gauteng and Western Cape), should not however be singularly attributed to a mismatch. There is also high labour mobility in the South African labour market. Thus better skilled workers tend to be attracted to areas which offer high skill/ high pay jobs, resulting in a ‘brain drain’ for KZN. Therefore the imbalance might not be due to the shortage of skill (skill mismatch), but fewer opportunities in KZN when compared to Gauteng.

ES4.5 Access to finance

The results indicated that access to finance continues to be a critical constraint to small and medium sized businesses often impacting severely on business growth and innovation. 92% of small firms find

the current level of cost of capital very expensive, compared to 87% medium and 0% of large firms. Inversely, 80% of large firms feel that the current level of interest rates is affordable.

Evidence from the Global Entrepreneurship Monitor reports suggest that access to formal financial support in South Africa is not worse than it is in other developing countries. According to the GEM study the most important sources of finance for people starting businesses in South Africa were their own savings and loans from friends and family. Loans from formal financial institutions on the other hand were of limited importance. Start-up businesses were in most affected and often must resort to alternate sources of finance.

ES4.6 Legislative environment

Overall, industry participants suggest that labour regulations appear to be too rigid and restrictive. In terms of productivity, respondents indicated that very little latitude is allowed for dismissals based on productivity or the lack of it (72% small, 74% medium and 54% large firms believe labour legislative is very inefficient).

Perceptions in this regard are strongest amongst small firms: on the one hand, it is argued that the present set of labour regulations restricts dismissals on productivity grounds, and that this hampers the efficient reallocation of (labour) resources, causing substantial losses from low labour productivity. The counter argument is that restrictions also tend to induce job-specific investments, leading to firms investing in training and other incentive programmes. This has proven true only among larger firms. Consequently, it appears that the management of low productivity is as much a matter of management approach (tactical) and one of resources. Larger firms (medium-sized and above) appear much better resourced and responsive to meeting this challenge.

ES4.7 Lengthy business registration procedures

Industry participants also indicated that the number of procedures registering a business were excessive and not centrally located (one-stop shop). Shortage of specialised labour has been pointed out to have a significant impact on firm performance.

ES4.8 HIV/AIDS

HIV/AIDS affects corporations by increasing costs and reducing productivity. 95% of large firms reported having experienced serious impact of this pandemic, compared to 85% smaller or medium firms. However, only 32% of large firms and 24% small to medium firms expressed concern for future

impact of HIV/AIDS on firms' operations over the next three years, signaling the firms' preparedness to manage the disease.

ES5 Conclusions

This study sought to assess the investment climate in the province of KwaZulu-Natal, the main objectives of which were to: (i) review the state of the economy in Kwazulu-Natal; (ii) identify the key constraints impacting on firms operating in the designated regions; (iii) evaluate the state of innovativeness of firms and how this relates to competitiveness; (iv) evaluate the primary challenges associated with firm performance, and (v) identify appropriate intervention strategies that will alleviate obstacles and improve firm productivity and help ease doing business in the region.

The study found that small firms have achieved from very small to moderate growth over the past two periods and whilst this performance is not spectacular, it is a relatively stable performance amidst the challenges in the macro-economic environment. Some businesses reflected flat increases in revenue, based on improved productivities, particularly within the relatively capital intensive industries which can be associated with higher labour productivity.

The study found that overall, smaller firms ranked low to very low on innovation, raising concerns regarding competitiveness and sustainable firm growth within their respective markets. Medium and large firms reflected moderately high levels of innovation.

The industry participants suggest that the shortage of skilled labour presents significant challenges, particularly in sectors demanding specialized skills and experience.

The results also indicate that access to finance continues to be a critical constraint to small and medium sized businesses often impacting severely on business growth and innovation.

Overall, industry participants suggest that labour regulations appear to be too rigid and restrictive. In terms of productivity, respondents indicate very little latitude is allowed for dismissals based on productivity or the lack of it. Perceptions in this regard are strongest amongst small firms. On the one hand, it is argued, the present set of labour regulations restrict dismissals on productivity grounds which hampers the efficient reallocation of workers, with workers remaining longer in jobs- respondents argue that this causes substantial losses from low labor productivity.

On the other hand, however, the research shows that restrictions also tend to induce job-specific investments. This corollary is evident by the approach of larger firms which have invested in training and other incentive programmes which have not been made available by smaller firms. It appears that the management of low productivity is as much a matter of management approach (tactical) and one of resources. Larger firms (medium-sized and above) appear much better resourced and responsive to meeting this challenge.

The three main constraints industry participants experienced related to (i) labour regulations, (ii) regulations related to starting a business, and (iii) shortage of labour skills.

While KZN has a number of weaknesses, such as the HIV/AIDS burden and low skills level, the province also has many areas of strength. The province's strengths are related to its geographic position, resource endowments and logistics infrastructure.

On the basis of its resource endowments and productive capacity, as well as the emerging structural changes within the provincial economy, the province has the potential to achieve much higher growth rates in the future. With effective government interventions, a number of latent opportunities can be unlocked.

The critical challenges are employment creation, a more effective skills formation strategy and finding ways to mitigate the negative impact of HIV/Aids. A further challenge is to align national, provincial and local institutions and policy instruments to realise sustainable economic development in KZN.

ES6 Recommendations

ES6.1 Mentoring and coaching:

Skilled, experienced, retired employees should be used in coaching and mentoring qualified previously disadvantaged individuals across all economic sectors. The recommendation is that the TIKZN conduct a research in which the viability of this is interrogated for implementation across the entire province with specific emphasis in engineering, manufacturing, construction, IT, finance and the maritime sector. The financing of this programme should be carried by industry, SETAs and local government. The importance of having the right mentors must be stressed.

ES6.2 Business support services:

ES6.2.1 Functional vs advisory support services

Business support services should be more functional and less advisory in nature e.g. there is funding available for start-ups such as business plan writing etc; however funding should be functional or outcomes-based such as payment for and on condition of actual physical services such as securing business registration, licensing, permits, training grants, loans, BEE certification, financial reports and similar. The recommendation is for TIKZN to lobby for outcomes-based support programmes especially for micro, small and medium-size businesses. Programmes should be flexible, responsive to changing business needs-the market is vibrant and trading is dynamic requiring continuous revision to approaches and response; similarly programmes should be based on exceptions to the rule and not simply meeting programme reporting requirements by forcing every case into a particular box.

ES6.2.2 Inclusive decision-making

The recommendation is that decision-making on business support service programmes should include expanded representation from the SME sector in particular. The associated detail of securing representative, competent, efficient persons could include the TIKZN in the selection and appointment of the individuals. Fundamentally though the bureaucracy around support services should be relaxed. It is understood that the present strenuous environment is because of reporting requirements- it is recommended then that reporting requirements be re-examined to determine the relevance, appropriateness and necessity of certain measures; and to minimize these by way relaxing bureaucratic burdens.

ES6.2.3 Provision of specific programmes

Specific support should be given to enhancing the ability of particularly the smaller business owner in improving labour productivity (as opposed to managing its labour relations) as respondents indicate very little latitude is allowed for dismissals based on productivity or the lack of it. However this seems to be better managed at larger enterprises, suggesting that the management of low productivity is more a matter of management competence as opposed resources.

Support programmes must focus on business performance not just loans disbursed. The aim of especially loan programmes should be to reduce the dependency of the business on the programmes.

Therefore it is important that the programme be monitored by how well the businesses supported have performed not just by how many loans have been extended.

ES6.3 Crime and corruption

ES6.3.1 City improvement districts

The recommendation is the development of wide-spread city improvement districts (CIDs) across all parts of the major cities. There is sufficient evidence to point to the beneficial effect improvement districts have on the urban environment, attract investment, job creation, trading conditions, general safety of staff and customers and finally adding to the experience of working and living in a city. The recommendation is for the TIKZN to examine the feasibility of accelerating the formation of CID's with the metros. It is noted that the net effect may be the displacement of crime, however, the CID itself as an investment attractor should assist with future economic expansion and thus reduce unemployment (a key driver of crime).

ES6.3.2 Business ethics charter

One other recommendation is for the establishment of a business ethics charter for the KZN province starting in the Durban region. The mechanics are not clearly spelt out but the essential ideas are:

- Voluntarism
- Agreement on independent auditing of affairs
- A graded system (five star based arrangement)

The purpose of the charter will be to create a sense of fair play amongst business signatories and rebuild the culture of business proprietary.

ES6.3.3 Consultative conference on private sector corruption

Lastly, it is also recommended or suggested that TIKZN to hosts a conference or summit on private sector corruption, which is to include the topics as highlighted above. It is maintained that unless this is addressed – a "crowding out" effect will remain, where small business is confined to trading with the State sector, adding to competition over declining resource spends.

In respect of energy, the recommendation is for the TIKZN to drive a renewable energy solution for commerce generally but in particular for small and medium-size business. Consideration for biogas production at malls should be investigated.

Research into solar heating for all business sizes should be conducted and pilots using solar paneling/ photovoltaic energy (off grid) should be funded to measure attainability for all businesses.

CHAPTER 1: INTRODUCTION

The World Bank conducts customer-oriented investment climate analyses for different countries, at different times. According to the Bank, “the investment climate agenda focuses on how different policies and government behaviors can foster growth, productivity, investment and employment. The literature on growth has traditionally focused on aggregate or cross-country data. The next frontier is to better understand the microeconomics of growth. This involves more detailed information on specific institutional arrangements and indicators of the investment climate, as well as information on firm activities” (The World Bank, 2010).

The first investment climate assessment (ICA) for South Africa was conducted by the Bank in 2005, commissioned by the Department of Trade and Industry (*thedti*). The *dti* commissioned the second ICA to the same Bank in 2008, and this was published in 2010. Until KwaZulu-Natal embarked on a similar exercise in 2009, there was no knowledge of existence of such a survey at a provincial level. The timing of the KwaZulu-Natal ICA was opportune in that it took place during a period when the economic climate was damp, and the perception gauged by the survey was a true reflection of how strongly or weakly firms in the province are able to address economic challenges.

An investment climate survey is a labour intensive perceptions survey, and thus requires a sound method for determining appropriate sample size. Fundamentally, the sample size must be sufficiently- sized so as to be considered representative of the business milieu of Industrial KwaZulu-Natal. The firms were randomly selected in order to construct a representative sample. Table 1 provides a detailed description of the sample of 341 firms that were chosen for this study. Most of the firms were either registered as a private company or as a closed corporation (only formal businesses are included in the survey). The sample consists of firms from the Durban metropolitan, Pietermaritzburg and Richards Bay regions and was composed of micro/small-sized, medium-sized, large and very large (more than 500 employees) enterprises.

This report thus contains the outcome of the survey, with an aim to reveal the investment climate as perceived by firms operating in the province, and highlight issues of high legislative and policy important that are vital to creating and enhancing favorable environment for business success in the province. The next chapter presents an overview of the methodology employed in conducting the survey. This is followed in Chapter 3 by an overview of the economic structure and

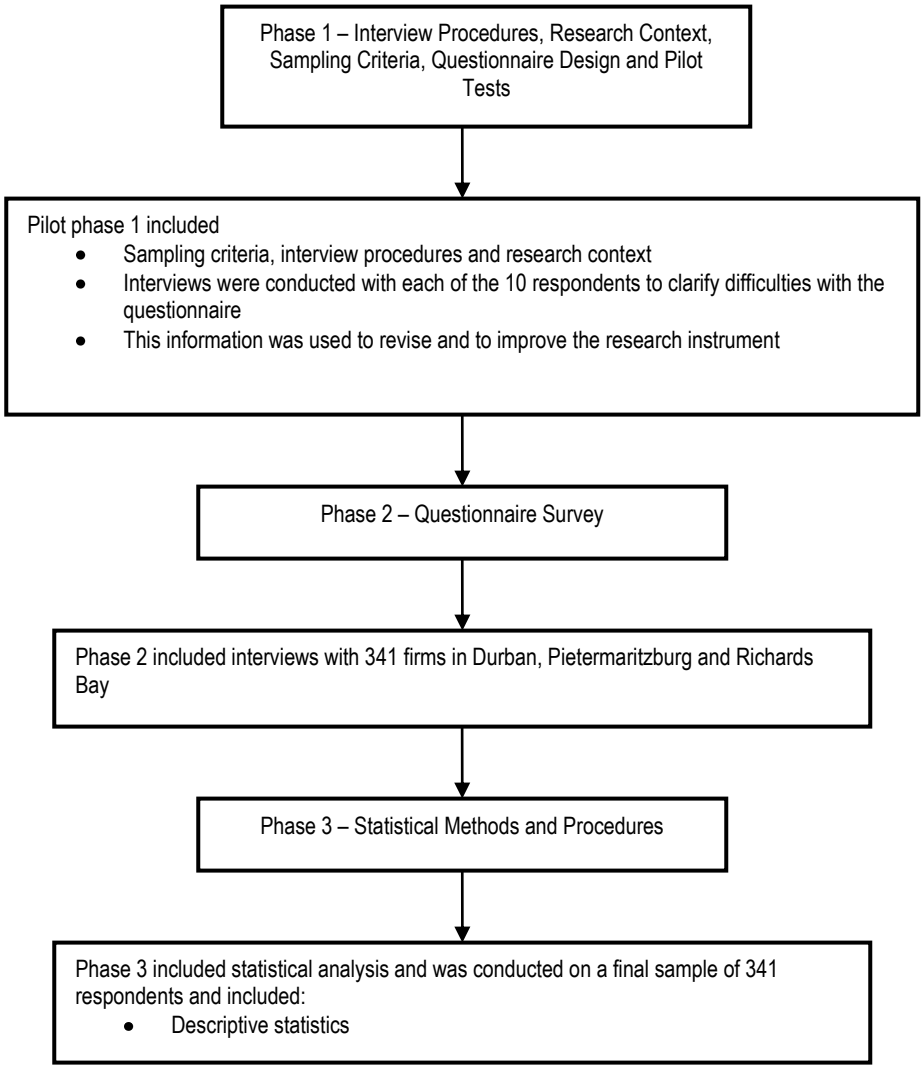
performance of the KwaZulu-Natal province. Chapter 4 presents the results of the survey, and these are followed in Chapter 5 by conclusions of the report. Recommendations are presented in Chapter 6 of the report. The list of reference, and a copy of the questionnaire employed in the survey also form part of this document.

CHAPTER 2: RESEARCH METHODOLOGY

This chapter presents the methodology employed relating to the overall research design, sampling framework, instrument design and piloting, statistical procedures and characteristics of the sample.

2.1 THE RESEARCH PROCESS

Figure 2.1: The research process



PHASE 1

This first phase of the process represented a platform from which to test the instrument for clarity and soundness. Fieldworkers were trained during this phase to become familiar with the research instrument and interview procedures. A pilot survey was conducted in this phase, which presented an opportunity for fieldworkers to improve on efficiency relating to interview duration and related technical proficiency. A small-sized convenience sample of 10 firms was selected for this purpose. The responses were carefully reviewed and necessary adjustments were made to the questionnaire and interview procedures. Fieldworkers from the respective areas within the Province were selected to conduct the fieldwork.

PHASE 2

During phase 2, the data was collected through a survey, telephonic interviews and focus group discussions in Durban, Pietermaritzburg and Richards Bay. A focus group discussion was conducted in Durban with a representative sample of industry participants. Telephonic interviews were conducted with senior management of medium and large firms, particularly since it was hard to obtain appointments. Telephonic interviews were also conducted with small firms. Industry participants were generally skeptical of the survey, particularly small and medium sized firms. We attempted to obtain and use a representative sample of firms for the study. The firms consisted of the sectors described in table 1 below. While Newcastle and Port Shepstone were also targeted for coverage in the study, these regions could not be included due to lack on interest in the study on the part of firms based therein.

PHASE 3

During this phase descriptive statistics were used to describe the central tendency of variables. Measures of dispersion provide information about the distribution of the values of a variable. The results below provide the outcome of the sample of 341 firms.

2.2 THE SAMPLING FRAMEWORK

An investment climate survey is a labour intensive exercise requiring a sound method for determining appropriate sample size. Fundamentally, the sample size must be sufficiently- sized so as to be considered representative of the business milieu of Industrial KwaZulu-Natal. A level of precision needs to be stipulated together with an acceptable confidence interval needs to be agreed. Conventional wisdom holds that a precision of 7.5% with a confidence interval of 90% is

adequate. This implies that a population parameter will be within 7.5% of the measured estimate 90% of the time. Because the businesses in the population are divided into a number of sectors of activity and of different sizes; a stratified sampling approach was used as the sampling variance can be minimized with this approach.

The sectors of activity identified for stratified sampling purposes were derived from the KwaZulu-Natal Economic Review list of the sectors, namely Manufacturing; Construction; Agriculture; Transport and Communication; Retail, Wholesale; Real Estate and Tourism. The second level of stratification was introduced based on firm size. Five classes of firm size were used namely very large, large, medium-sized, small-sized and micro. The categorization of firms is dependent on number of persons employed, where micro and small-sized firms employ up to 25 employees, medium-sized firms have between 25 and 100, large firms have between 100-500 employees and very large firms in excess of 500 employees. Employees were reckoned as those having been in continuous employ with the firm for at least 12 months preceding the survey; these exclude contract employees. No businesses in the 'informal' economy were included in the survey. The term 'firm' mean the workplace or place where the businesses trades or produces.

To estimate sample size some idea of the size of variance in the population must be known. The sample size for each stratum of firms must be determined based on the nature of the measure. The measures may be either on a categorical (nominal) scale (using proportions) or using continuous measure.

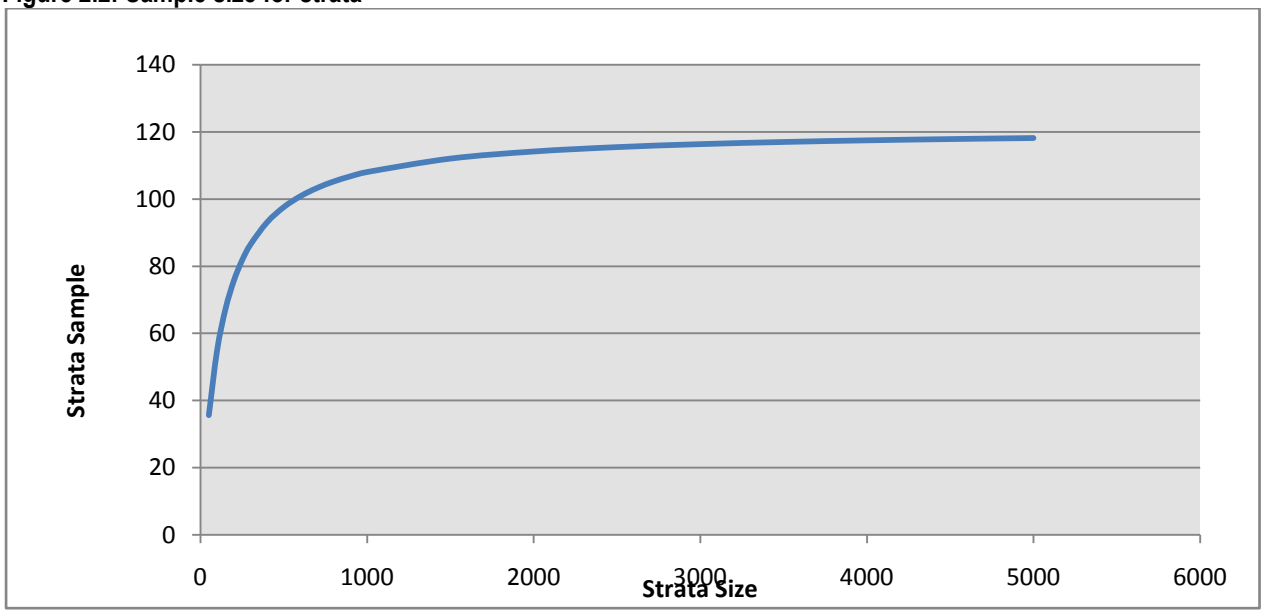
The methodology used employed both i.e. categorical (nominal) scale (using proportions) and continuous measure. The categorical (nominal) scale was used at a higher level (sectoral level) and the continuous measure at the lower or sub-sectoral firm- level. To estimate overall sample size per sector, the categorical scale using proportions was used where p is the proportion then q=1-p. Using this equation, the sectoral sample size was based on proportions rather a continuous measure then the assumption that variance peaks at 0.5 is justifiable. (It can be shown that p(1-p) has a maximum value of 0.25).

The graph for estimating this sample size derived from formula for proportions which is:

$$n = [N-1 + (N-1)(Npq)-1 (k/z1-½\alpha)2]-1$$

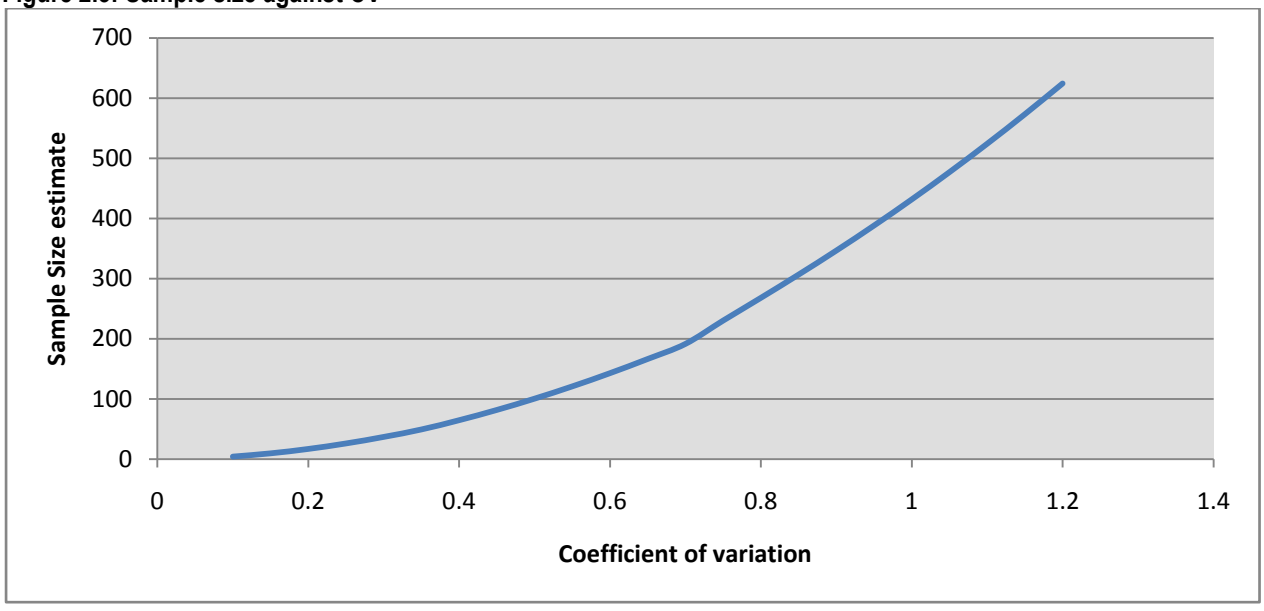
and is given in Figure 2.2. It will be observed that the sample size tend to 120 as the population value N increases.

Figure 2.2: Sample size for strata



Fan, Bruce & Wang - 1999

Figure 2.3: Sample size against CV



Fan, Bruce & Thompson - 1999

Concurrently, sampling of firms within a stratum can then be in proportion to the sizes of the firms as categorized using the continuous scale. It will use the above coefficient of variation to project sample size based on the following equation

$$n = [N-1 + (k/ CV/ z1-½\alpha)2]-1$$

From Figure 2.1 it will be observed that the maximum sample tends to 120 and from Figure 2.2 a sample of 120 is reasonable as long as the CV is less than 0.6 Thus a reasonable overall sample size appears to be between 400 and 680 or about 100 per strata depending on the sector (strata) size. Sampling of firms within a stratum can then be in proportion to the sizes of the firms as categorized above.

Table 2.1: Sample size derived

Sector	Sector size	Derived sample size
Construction	4,000	118
Manufacturing	1,800	48
Transport	15,000	122
Retail/wholesale	13,000	90
Agriculture	12,000	80
Real estate	1,000	40

The estimated sector sizes above are based on 2004 figures and were used for the study.

2.3 SAMPLE DESCRIPTION

The sample obtained in the Durban, Pietermaritzburg and Richards Bay regions as well as the preliminary results are described in this section. The preliminary results include a sample description, performance measures (financial performance) in relation to turnover and net profitability measures, key constraints experienced in the region, macro economic conditions and access to finance.

The sample consists of 341 firms from the Durban metropolitan region, Pietermaritzburg and Richards Bay is described in Table 2.2.

Table 2.2: Characteristics of Sample (n = 341) for Investment Climate Survey (KZN)

Variable	N	Percentage
Type of business		
Sole proprietor	26	8
Partnership	78	23
Closed corporation	164	48
Private	56	15
Public	17	5
Line of business		
Wholesale and retail	41	12
Services	62	18
Construction	65	18
Manufacturing	79	23
Tourism	24	7
Agriculture	17	5
IT	14	4
Transport	13	3
Healthcare	10	3
Film	30	7
Number of employees		
Micro 1 – 9	116	34
Small-sized 10 – 25	140	41
Medium-sized 25 – 100	65	19
Large 100 – 500	10	3
Very large > 501	10	3

Table 2.2 provides a description of the sample of 341 firms in relation to ownership, sector, and size of the enterprise. Most of the firms were either registered as a private company or as a closed corporation (only formal businesses are included in the survey). The firms were randomly selected from the Durban Chamber of Commerce and Industry and Pietermaritzburg Chamber of Business databases.

CHAPTER 3: THE KWAZULU-NATAL PROVINCIAL ECONOMY

Since 1994 the economy of KZN has gone through a number of structural changes as South Africa entered the global arena. The challenges of KZN are not dissimilar to that facing the national economy: high unemployment, rising poverty & inequality and rising inflation, which tend to slow the pace of growth (Hamadziripi and Sishi, 2008). Nevertheless, its competitive advantage as a regional trading area has improved over the years. Competitiveness of an area refers to the *degree to which a location enables* businesses to exploit and create opportunities in their sectors. This includes issues of production factor costs, and factor productivity and accessibility. It also includes factors such as the quality of transport and utilities, the business regulatory and governance environment, innovation, market access, crime and security, and entrepreneurialism.

KwaZulu-Natal is the second major contributor to the economy of South Africa, contributing a steady average of 16.2% of South Africa's GDP for the period 1995 to 2009 (Table 3.1). However, in terms of GDP per capita it was ranked only fifth of the nine provinces.

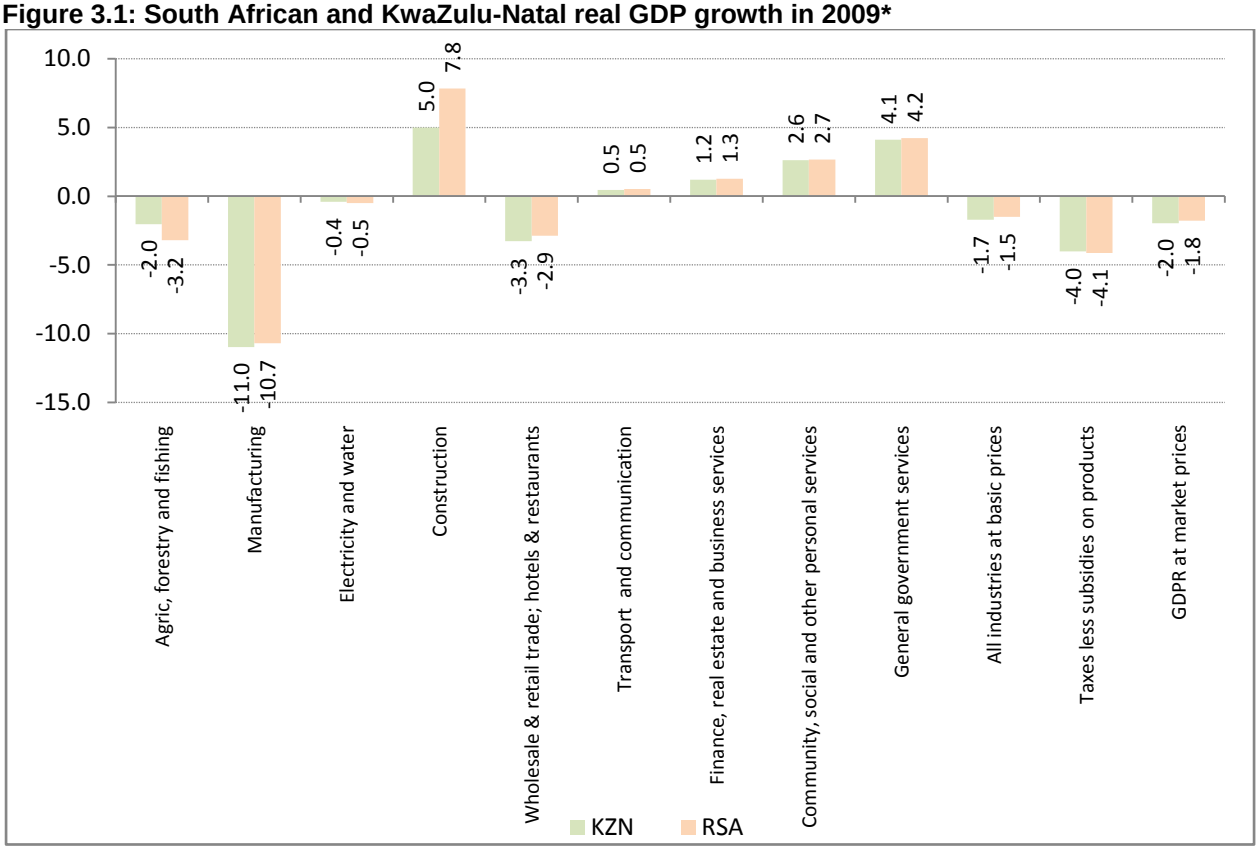
Table 2.1: Growth Trends in South Africa and KwaZulu-Natal

Year	South Africa Real GDP Growth Rate	KZN Real GDPR Growth Rate	% share of KZN GDPR
1995			16.8
1996	3.9	5.2	16.8
1997	2.6	1.9	16.7
1998	0.5	0.9	16.7
1999	2.2	0.8	16.3
2000	4.0	4.5	16.4
2001	2.7	4.4	16.5
2002	3.6	2.4	16.3
2003	2.9	2.7	16.4
2004	4.6	4.5	16.4
2005	5.3	5.8	16.2
2006	5.6	5.5	16.2
2007	5.5	5.8	16.0
2008	3.7	4.0	16.4
2009	-1.8	-2.0	16.3
Average	**3.6***	**3.7***	**16.4**
Average 2004 – 2008	**4.9**	**5.1**	

*Source: Quantec Research (2010), Provincial GDP estimates; Stats SA, (2009), estimates of the GDP; *excludes 2009*

In growth terms, the performance of the KwaZulu-Natal economy has closely mirrored the national average for the entire period. During this period, the provincial real GDPR grew at an average annual rate of 3.7%, while the national economy grew at 3.6%. Between 2004 and 2008, when the South African economy embarked on a higher growth path, the respective growth rates were 5.1% and 4.9%. In 2009, when that South African economy experienced the deepest recession in 17 years, KZN GDPR fell 2% vs 1.8% national average (Table 1 and Figure 1). The largest decline in the provincial economy was recorded in Manufacturing (-11%), Trade (-3.3%) and Agriculture (-2%), while the national economy felt the impact in the same sectors at -10.7%, -2.9% and -3.2% respectively, plus a -7.2% knock in Mining (Figure 3.1).

Figure 3.1: South African and KwaZulu-Natal real GDP growth in 2009*



Source: Stats SA, 2009 GDP at market prices; Quantec Research (2010), provincial GDP estimates; * Mining excluded due to outliers: 27.1% growth in KZN and -7.2% national average

KZN economy's the main industries include: aluminum, vehicle manufacturing, agriculture and tourism, transport and finance, real estate and business services (FREBS). This partly explains the higher than average decline in the provincial economy in 2009, as these industries are typically sensitive to economic cycles. In addition, the motor vehicle-manufacturing industry has created a considerable multiplier effect in component-providers and service-providers. The province is seen to

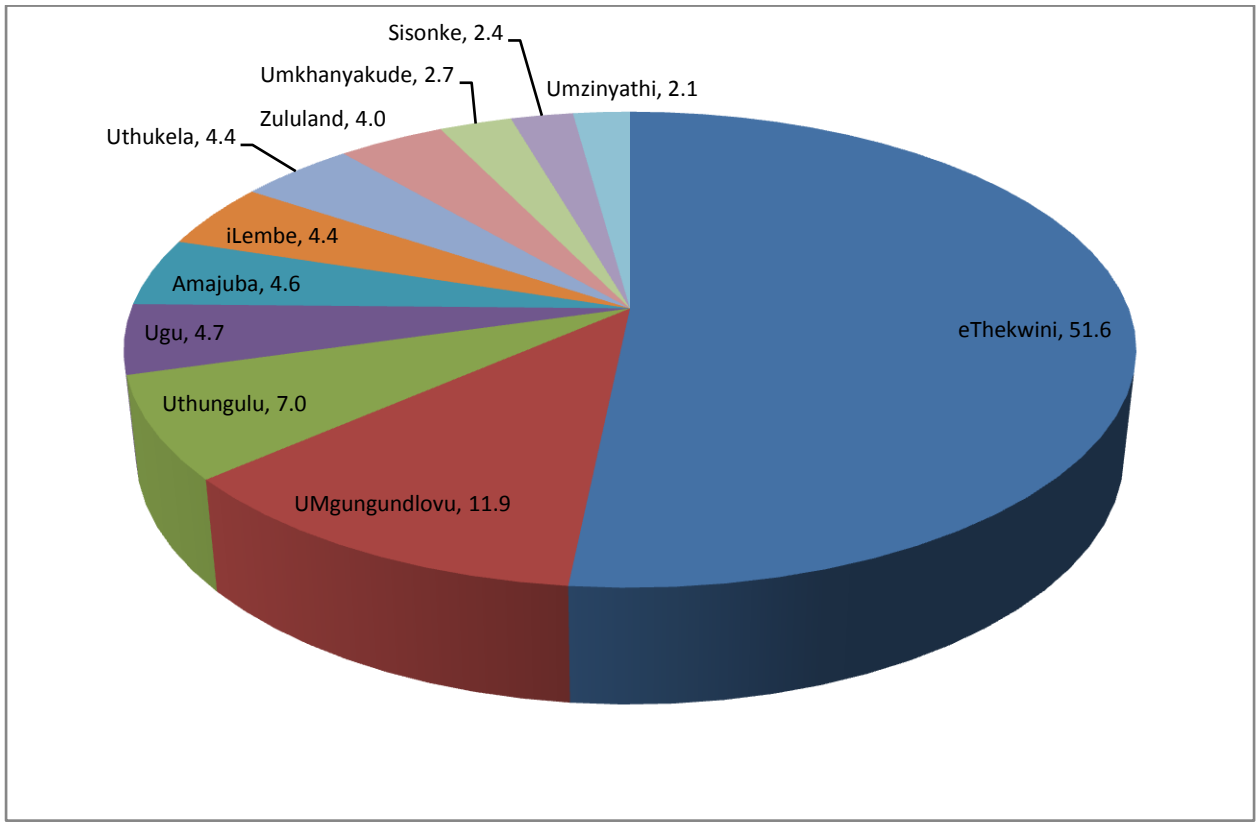
have undergone rapid industrialization with major industries found at Newcastle, Ladysmith, Dundee, Richards Bay, Durban, Hammarsdale, Richmond, Pietermaritzburg and Mandeni. The sugar-cane plantations along the Indian Ocean coastal belt form a mainstay of the economy and agriculture of the region. Another major source of income is forestry in the areas around Vryheid, Eshowe, Richmond, Harding and Ngome, which is also known for its tea plantations.

3.1 KWAZULU-NATAL DISTRICTS' ECONOMIC PERFORMANCE

KwaZulu-Natal provincial economy is skewed towards two main hubs; the eThekwini metro (contributing on average more than half the province's output) and uMgungundlovu (12%), between 1995 and 2008. These are followed closely by uThungulu at 7%.

Umkhanyakude, Sisonke and Umzinyathi were the least contributors to the provincial GDPR, at only 2.7%, 2.4% and 2.1% respectively during this period (Figure 3.2)

Figure 3.2: KwaZulu-Natal GDPR by district (%), average 1995-2008

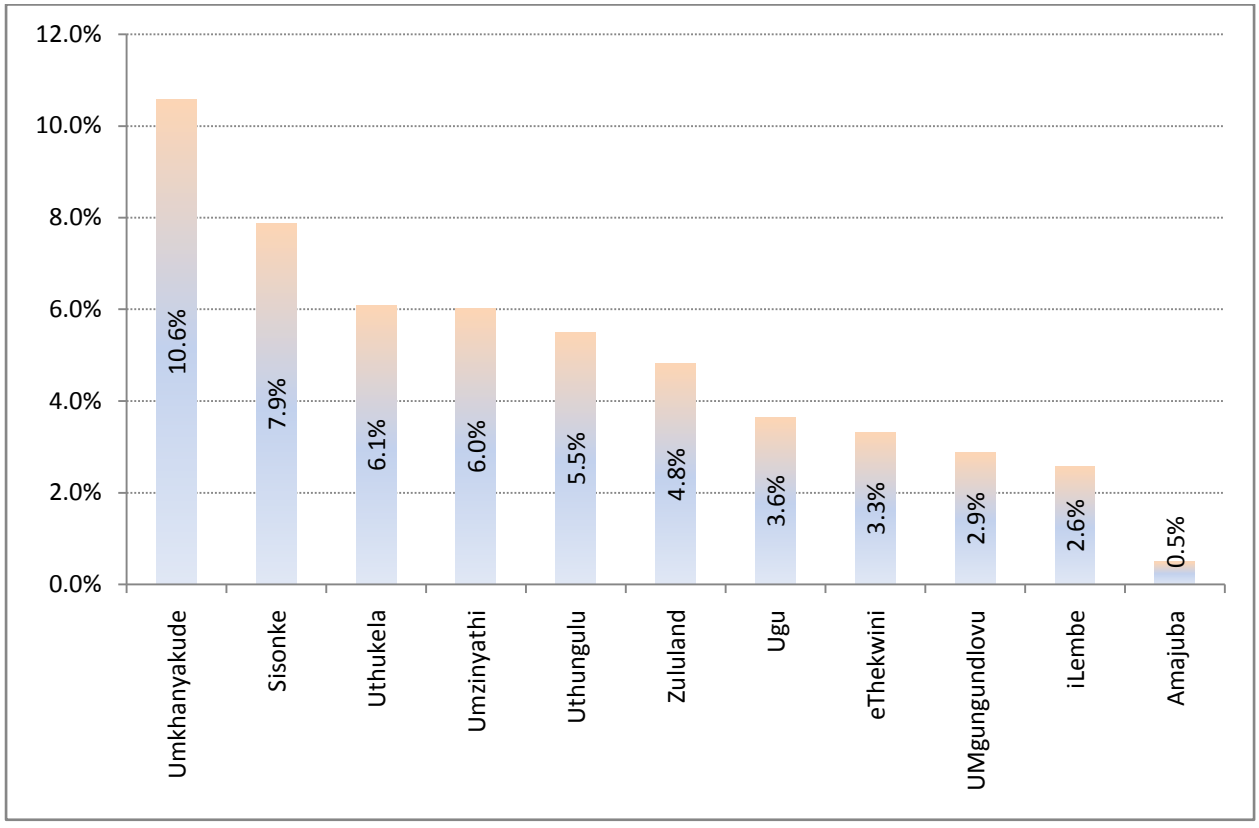


Source: Quantec, 2010 (online databases)

A significant difference between the high and low contributors is the structural difference in the districts economic built-up. For instance, eThekwini, uMgungundlovu and uThungulu's economies are all skewed towards manufacturing, FREBS, trade and transport, while the poorer contributors tend to rely heavily on government services, trade, agriculture and community services. In uMzinyathi for instance, the main contributions for this district are from the agriculture, mining, construction, services and trade sectors. Trade sector has reportedly fueled a great part of growth in this district, even though potential is highlighted in the agricultural sector (uMzinyathi District Municipality Integrated Development Plan, 2008). Similarly, for Zululand primary industries had the highest contribution, with mining taking the lead, while agriculture was the leading contributor to Uthukela's economyl.

In terms of growth, uMkhanyakude (10.6%), Sisonke (7.9%) and uThukela (6.1%) grew the fastest during the same period (Figure 3.3).

Figure 3.3: KwaZulu-Natal GDPR growth by district (%), average 1996-2008



Source: Quantec, 2010 (online databases)

The fastest growing sectors in these districts were in the tertiary arena, ranging from manufacturing (15.8%), FREBS (14%) and trade (13.5%) in uMkhanyakude; FREBS (16.8%), manufacturing

(13.5%), transport & logistics (12.7%), and construction (11.8%) in Sisonke; and FREBS (11.1%), mining (9.8%) and agriculture (9.3%) in Uthukela.

3.2 KZN SOCIO-ECONOMIC ANALYSIS

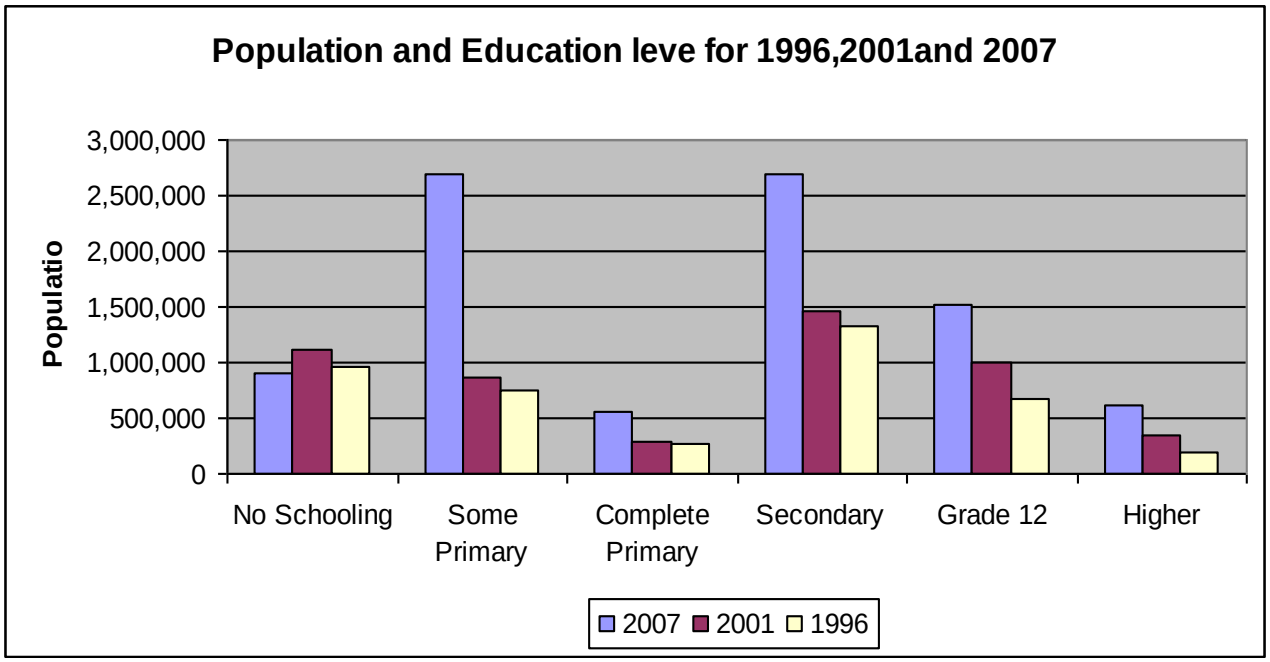
The socio-economic analysis of the province, as reflected by per capita income, population density, unemployment rate and education levels, also shows a bleak picture of the province in terms of progress. In terms of the real per capita income, the province shows disappointing changes; this grew from R20,778 in 1995 to R27,499 in 2009 (or 1.9% per annum), alongside a 3.8% annual average growth rate in GDPR. This ia s an indication of a provincial with population growth in excess of its economic growth, which phenomenon puts pressure not only on the petite economy but also on land availability, social service delivery, and sadly tax liability on the part of the earners.

KwaZulu-Natal is home to about 10.6 million people (2010), a steady 21% of the South African population. The provincial has been the most populous of all in the country, until recently yielding its leading position to Gauteng. In terms of gender, the province had more women than males (average 51:49).

Unemployment is a problem in the province, with official rates persisting stubbornly at an annual average of 28% since 1995 through 2009. Even during 2004-2008 when the province was enjoying a higher growth ride of 5.1%, unemployment rate in the province averaged 29.2%.

Figure 6 shows the population proportions of workforce and the education levels across the respective years. As can be seen from this figure, there was a huge backtrack in education attainment in the province, with the number of persons (aged 15 years and above) with incomplete primary education increasing from below a million in 2001 to over 2,5 million in 2007! There was a consoling similar increase in the number of persons holding a secondary education certificate, an accompanying increase in matric and higher education, and an insignificant fall in the number of people with no formal education at all. The slow shift in lack of education in KwaZulu-Natal could easily be attributed to contributing to high unemployment rates in the province, as the provincial economy has shifted structurally from the primary sector to the more advanced services sector.

Figure 3.4: KwaZulu-Natal population by education levels, 1996, 2001 & 2007



Source: Stats SA, 2009

The number of employed persons per sector shows that the tertiary sector had the highest employment levels for all the years, followed by the secondary sector, while the primary sector had the lowest. Even though for the primary sector there were slight increase in the proportion between 1996 and 2001, it went down to about 5% by 2007. On the other hand, the percentage of people employed in the other sectors increased significantly over the same years. This works to emphasize the contraction of the sector due to the shift towards the secondary and tertiary sectors within the province. Also, the changes in the education structure of the population could explain the changes in the numbers people employed away from the primary sector given that the primary sector is usually associated with unskilled labour. The increasing number of persons with incomplete primary education could also explain the escalating problem of unemployment.

Even though within the tertiary industry the highest average contribution to the provincial GDP comes from finance industry, it was the personal services and wholesale industries that absorbed the highest percentage of the total workforce for the province between 1996 and 2001. Mining and the utilities industries were the least contributors to the provincial employment. The reason for the former could be linked to the loss of favor (productivity or interest) of the industry, while the later can be linked to skills shortage. In the latter case there is high demand of skilled labour which is scarce even at national level. However, it is also worth noting that there was 64.4% increase in the number of the people employed within the financial and the construction industries between 2001 and 2007. This

could explain the expansion of the industries in the build up to the 2010 World Cup, especially when compared to the agriculture/fishing/forestry industries which actually fell by about 53.5% in the same period.

When it is general knowledge that economic growth is essential in tackling unemployment, a consensus prevails that it is just a necessary but not sufficient condition to redressing unemployment challenges. Training (or skills development) and industrial policy appears equally necessary to take advantage of any spurts as while generating alternate opportunities. National developments (end 2009/2010) in respect of industrial policy formulation and efforts on worker retraining are both positive initiatives to realizing such sustained a improvement developments, and should be soberly implemented to realize the benefits and make significant inroads in the unemployment issue.[7]

In terms of government financial support services approximately 25% of the total population in the province depends on social grants, with the highest percentage (23.9%) accruing to the black community. Child support grants accounted for the largest share of the grants amongst blacks and coloureds, while the India/Asian and White communities record the largest number of old age grant recipients.

With South Africa having hosted the mega event (World Cup 2010), and KwaZulu-Natal having had a share in the the future trends of growth rates for both the province and national level are expected to increase to unprecedented peaks. A major contribution is expected from the tertiary sector, specifically the tourism, retail and FREBS industries. However, if this is not well managed, it could only be for that period i.e. a short term spike. A suggested way of managing this would be to raise proper media consciousness regarding holiday-maker safety-a key consideration of visitors- with an emphasis on dispelling myths and reporting in a balanced and fair manner.

On the other hand, though, it has been argued that the net benefits of such mega events are heavily overestimated, as critiques tend to point out the opportunity cost of investment in stadia is large and has crowding out effects on other aspects of investment such as social services, e.g. education and health (Swinnen and Vandemoortele, 2008). In this regard another suggestion will be to channel spending towards education after the world cup.

[7] The government launched a policy to boost employment of inexperienced workers. Under this, companies will be compensated for employing inexperienced personnel for a period of two years (Business report, 18 February 2010); additional the DTI started a fund for the retraining of workers in failing companies as a means of averting retrenchment. Finally, the DTI has also announced the development of an industrial policy for later publication (2010) blue-printing the future economic growth plan.

3.3 HIV/AIDS

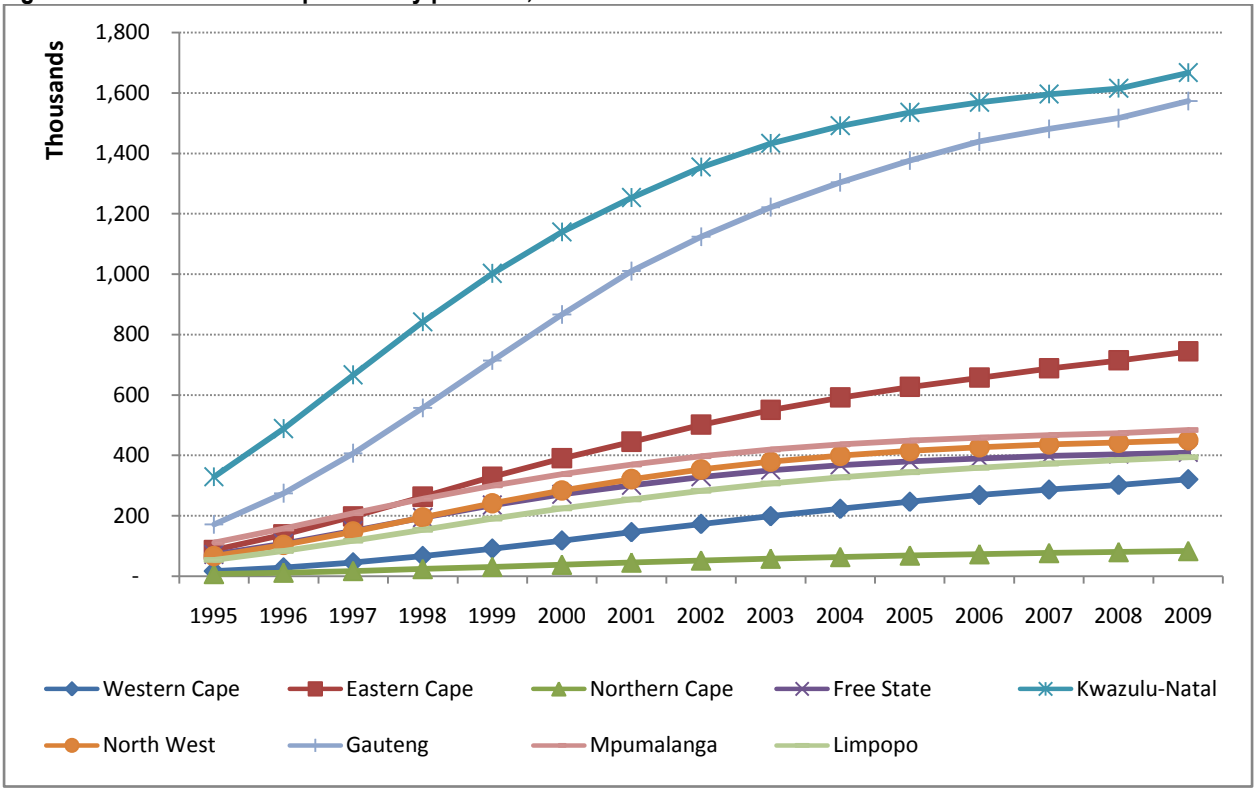
The HIV/AIDS pandemic in South Africa remains critical. Overall, the economic impact of HIV/AIDS is seen in reduced labour productivity, increased rate of labour turnover and increased spending on medication rather than more productive goods and services. Generally, HIV infection results in AIDS which either exacerbates mortality (i.e. reduce population size, particularly the economically active group) and morbidity (reducing productivity). Thus, at a macroeconomic level, the disease negatively impacts the labour market, firm productivity and government service capability. At firm level, the management has to keep up with replacement of the infected employees, leading to sizeable labour turnover costs.

In South Africa, KwaZulu-Natal being no exception, the rate of HIV infection amongst the economically active population also compromises labour productivity through absenteeism and increase in AIDS-related deaths (HSRC, 2002). In this case, the authorities are faced with a situation that requires increased expenditure on ARV medication. The human development index (HDI), which measures the overall human advancement and includes progress in aspects such as longevity, literacy rates and access to basic services, has also been on a decline both at provincial and national levels.

KZN has the largest population of people living with HIV/AIDS, an estimated 1,67 million in 2009 (Quantec, 2010). The province is also estimated to have the highest HIV prevalence rate in the country (12.3% vs 8.8% national average). Figure 3.5 below shows trends in the number HIV infected people across the provinces of South Africa from 1995 to 2009.

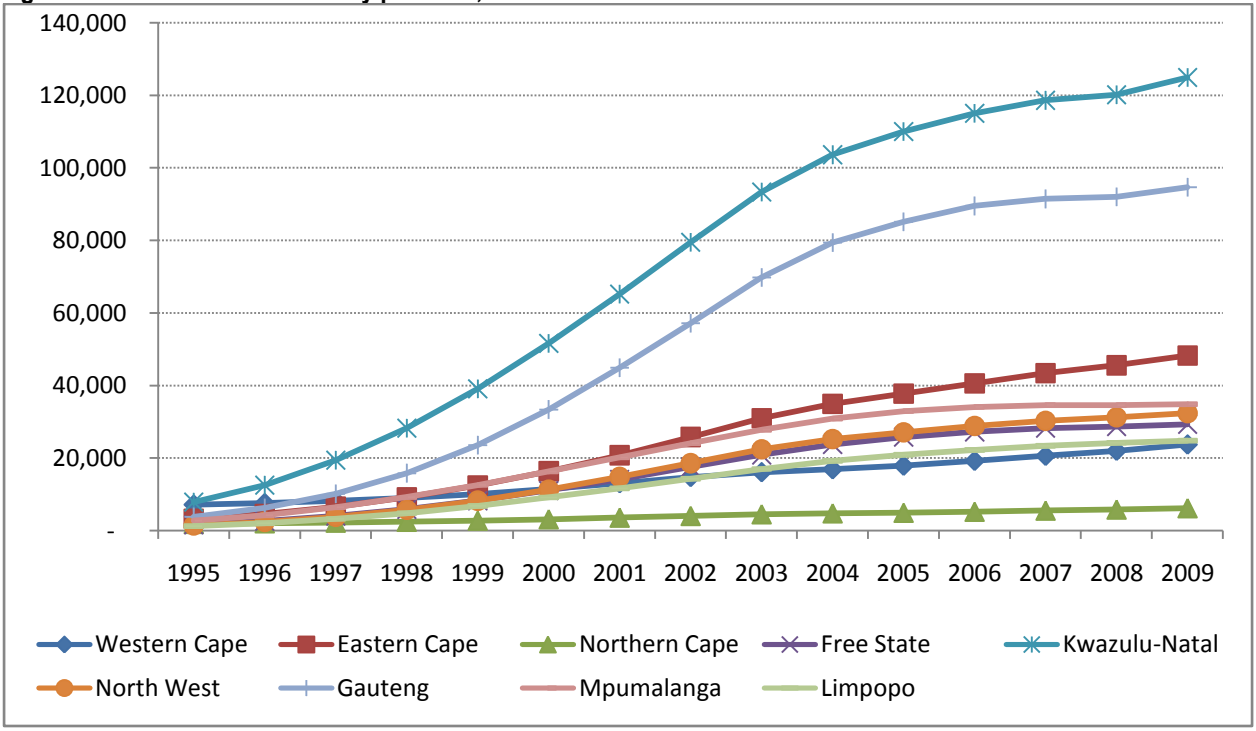
A better picture about loss of skills to this pandemic can be shown with trends in AIDS-related deaths in the provinces, which have been increasing at a closely similar pace during the same period.

Figure 3.5: Number of HIV+ persons by province, 1995-2009



Source: Quantec Standardised Regional Database (2010)

Figure 3.6: AIDS-related deaths by province, 1995-2009

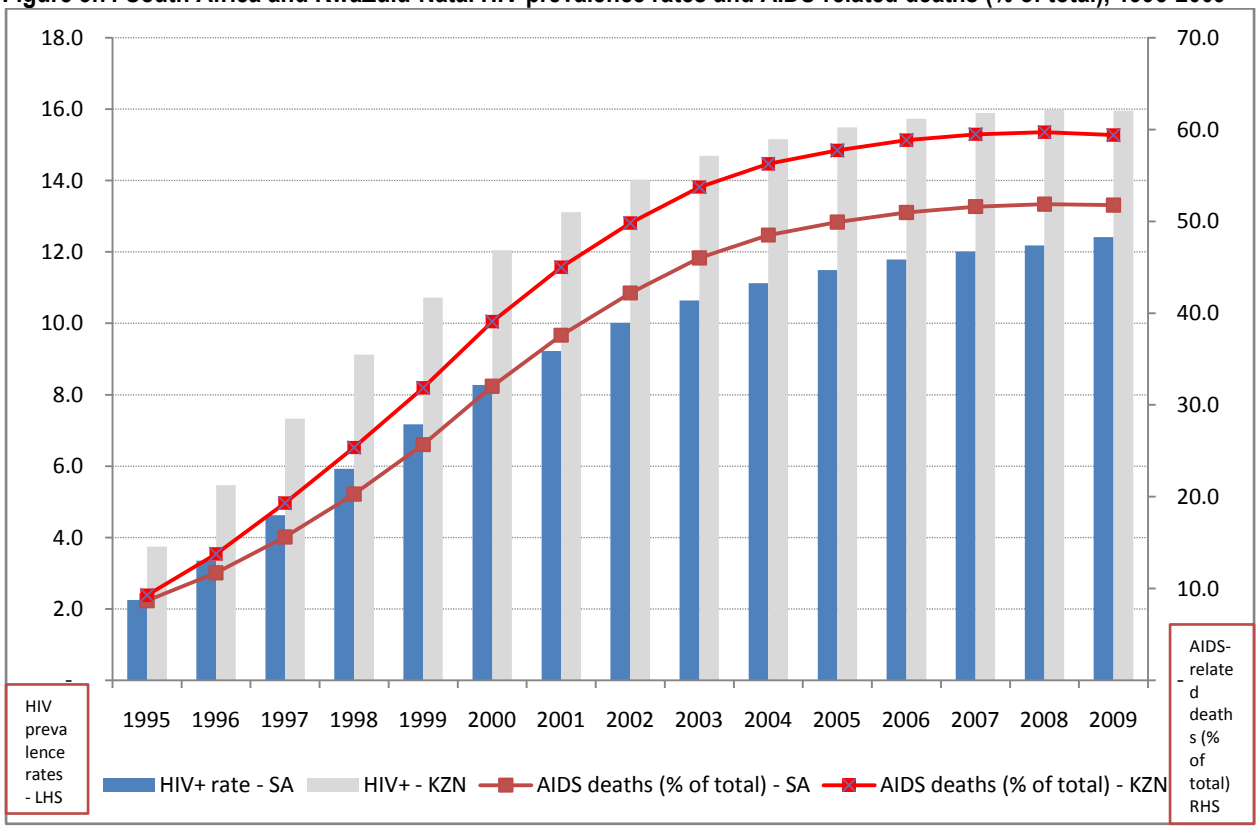


Source: Quantec Standardised Regional Database (2010)

As KZN and Gauteng have the highest rates of infection, it is not surprising that AIDS deaths are the highest in these provinces. Still KZN has the highest number of deaths, and again the gap increased over years when compared to that of other provinces. However, the rate of growth in the number of deaths seems to have flattened out in both provinces since 2004. (the two trends became flatter more or less like other provinces). This could imply positive impact of public awareness and rolling out of related programmes in the country.

How KZN compares to South Africa as a whole confirms the province's higher than average burden of the disease (Figure 3.7). HIV prevalence rates in KwaZulu-Natal have been higher than the national average. Similarly, aids-related deaths in the province, as a proportion of total reported deaths have towered the national ratios.

Figure 3.7: South Africa and KwaZulu-Natal HIV prevalence rates and AIDS-related deaths (% of total), 1995-2009



Source: Quantec Standardised Regional Database

Although the numbers of AIDS-related deaths at both national and provincial level were very small relative to infection rates, the rate of growth in the deaths has been faster than the increase in infections; for instance, the average growth rates over the period in the number of HIV positive persons is 13.2%, while growth in AIDS-related deaths is estimated at 23.3% during the same period.

This could signal failure in successfully rolling out AIDS treatment programmes in the province, coupled with otherwise successful prevention progrmammes.

The respective national growth rates were 15.5% and 21.4% percent.

CHAPTER 4: RESEARCH RESULTS AND ANALYSIS

This chapter presents the results of the study and is guided by the responses from survey questionnaires and focus group discussion sessions that were conducted. The questions covered in the questionnaire related to business environment, measure firm turnover and profitability, investment prospect and the businesses' response to some of the challenging aspects of business operation such as access to finance and the impact of HIV/AIDS and skills shortage on productivity.

4.1 CURRENT BUSINESS PERFORMANCE[1]

Table 4.1: Turnover of current year as per firm size

	S1 turnover current year					
	Small		Medium		Large	
< 1 million	210	82%	9	13%	0	0%
Between 1 million and 50 million	46	18%	56	87%	0	0%
Between 50 million and 500 million	0	0%	0	0%	12	61%
>500 million	0	0%	0	0%	8	39%
	256	**100%**	**65**	**100%**	**20**	**100%**

Source – TIKZN Investment Climate Survey 2010

Micro-sized firms reported average turnover between R150,000 and R1,5 million, while small-sized firms reported average turnover between R1,5 million and R5 million rand per annum. Medium-sized firms indicated a range between R5 and R50 million rand per annum; large firms indicated a range between R50-R500 million per annum, while very large firms indicated a turnover above R500 million.

After adjustments for inflation and allowing for real growth (allowance of 2%), the new real growth for micro firm owners indicated an average of only 2.4% improvement in turnover compared to the previous year; while small-sized firm owners yielded a higher increase of 5.2%. Medium-sized firms indicate an improvement of 11.7%% while large and very large firms indicated average turnover increase of 18%.

[1] Where response allocations are too small for meaningful analysis, firm sizes were grouped together such that micro and small firms form one category, while large and very large firms fall in same category

Table 4.2: Turnover compared to previous financial year

	S2 turnover compared to previous year					
	Small		Medium		Large	
Decrease	61	24%	5	8%	2	12%
Stayed the same	174	68%	46	71%	15	73%
Increased	21	8%	14	21%	3	15%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Table 4.3: Turnover outlook over the next 2 years

	S4 outlook of turnover over 2 years					
	Small		Medium		Large	
Decrease	21	8%	9	13%	2	9%
Stay the same	184	72%	36	56%	14	69%
Increase	51	20%	20	31%	4	22%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

The element of profitability was tested as the primary performance measure of the firms trading in the region. Higher profitability is generally associated with better firm performance as firms operating with higher profitability and lower overhead costs are better positioned to take advantage of opportunities, attract external capital investment and withstand cyclical downturns (see Tables 5 and 6). The turnover of the current year as well as the general outlook for future turnover is reported.

The responses for net profitability compared to the previous year, expected profitability for the next 2 years, current investment in equipment and technology; and expected investment in equipment and technology is illustrated in Tables 4.4 to 4.6.

Table 4.4: Current year profitability compared to previous year

	F1 Current year profitability					
	Small		Medium		Large	
Increase between 3-5%	164	64%	0	0%	2	10%
Increase between 6-10%	13	5%	13	20%	2	10%
Increase between 11-20%	8	3%	3	5%	2	10%
Increase more than 20%	0	0%	19	29%	12	60%
Stayed the same	35	14%	21	32%	2	10%
Declined between 3-5%	13	5%	5	7%	0	0%
Declined between 6-10%	8	3%	4	7%	0	0%
Declined between 11-20%	13	5%	0	0%	0	0%
Declined by more than 20%	2	1%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Generally, current year profitability relating to all firms indicates either that profitability stayed the same or increased. This is reflected in table 4.4 where 86% of small firms indicated that profitability in the current financial year either stayed the same or increased. The majority of micro and small-sized firms indicated higher profitability compared to the previous financial year, an improvement of between 3% and 5% and is indicated by 64%. 66% of medium sized firms indicated that profitability in the current year either remained the same or increased. 49% of medium-sized firms indicated that profitability increased either between 6% and 10% or more than 20%, while 60% of large and very large firms indicated that profitability increased by more than 20% compared to the previous financial year.

Table 4.5: Outlook relating to profitability over the next 2 years

	F2 outlook of profitability over 2 years					
	Small		Medium		Large	
Decrease	28	11%	6	9%	0	0%
Stay the same	59	23%	9	13%	3	15%
Increase	169	66%	50	78%	17	85%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

The second category measured expected net profitability for the next 2 years, as reflected in Table 4.5. 66% of small firms indicated that profitability would increase over the next two years, 78% of medium-sized firms indicated that profitability would increase over the next 2 years while 85% of large and very large firms indicated an increase in profitability. Table 6 records a generally positive outlook and confidence in the respective industries.

Table 4.6: Responses relating to investment in capital equipment in current year

	F3 Investment in capital equipment in current year					
	Small		Medium		Large	
Did not invest in equipment	197	77%	14	21%	2	10%
Invested in equipment	59	23%	51	79%	18	90%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

The third category measured current investment of the firms in equipment and technology. The majority of micro and small-sized firms did not invest in technology or equipment in the current year while medium-sized, large and very large firms did invest in technology and equipment. The fourth category measured expected investment in equipment and technology in the next 2 years. All the firms indicated that they would invest in technology and equipment over the next 2 years reinforcing commitment and confidence in the region.

Table 4.7: Outlook of investment in equipment in 2 years

	F5 outlook of investment in equipment over 2 years					
	Small		Medium		Large	
Will not invest in equipment	28	11%	5	8%	0	0%
Will invest in equipment	228	89%	60	92%	20	100%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

The lackluster performance in revenue tracks the sluggish profit earnings meaning that even if presently revenue were to increase, expenses will also (usually) increase and so the percentage change in profit will not even then be significant. Typically a strong business may record flat increases in revenue and still yield a profit, based on improved productivities, particularly within the relatively capital intensive industries which can be associated with higher labour productivity. This appears not the case with the smaller business group and is suggesting of challenges with underlying business

performance and an inability to transform cost structures to support growth and profitability objectives. Smaller businesses which are located in less labour intensive industries explain average to moderate profitability. On the other hand, higher profitability could also be associated with a lack of competition.

The counter to this, however, is that responses to poor/ sluggish performance are determined by the degree of underperformance. Typically where weak or even recessionary conditions are experienced, the following responses can be expected: Change in sales and marketing, changes in employment, changes in products and/or services offered changes in financing, changes in entrepreneurial / management behavior or even changes in premises. Discussions around these typical changes were put to various smaller business owner/ managers and responses suggested little by way of any drastic implementation of any of these measures. In this case where actions have not been as sharp, it can be fairly assumed that the experience of trading conditions has been of *limited* and not *severe* impact with the management of the firm not being able to identify any specific impacts upon the business that could be attributed to weaker performance. Although this report does not examine in any great detail the nature and scope of smaller business performance, discussions with individual business owners also reveal that adverse trading conditions do not impact on all smaller businesses in the same way- some experience significantly reductions in sales, whilst others are unaffected, still others have increased sales (with increased costs). Academic works tell us that responses to lackluster performance are contingent upon a wide range of organizational factors such as the resources available, and external influences, including product, labour and capital market conditions are key influences. In this case, it does suggest that the smaller business lack the resources (finance, skills, and networks) to adapt adequately to overcoming more challenging trading conditions.

The results from the survey also then show a contrast with that of medium-large-and larger firms who appear better able to traverse same conditions. Within the discussion the unique position of the entrepreneur in the smaller firms should not be understated- the capacity of the entrepreneur to interpret business circumstances, to define a set of objectives and to choose a course of action (right or wrong) ultimately decides whether aims are achieved. Through their actions and authoritive standing, entrepreneurs are able to influence the impact of adverse trading conditions meaning that the responses to effects of adverse trading conditions are not just simply the outcome of the influence of the activities of others - for example, competitors, customers and suppliers.

It is imperative therefore that a higher standard of entrepreneurship is encouraged (and possibilities for this are investigated) as the irreducible role for human agency is amplified in the smaller business setting. As mentioned earlier, responses to more challenging trading conditions have been shown to

vary. The differences are amplified in the medium-large-to larger firm range where results show that these firms have been able to take advantage of market opportunities and, in fact grew margins during this period. This situation does speak to a resilience and depth of trading experience to traverse sudden or cyclical downturns. From discussions, it appears that these firms implemented a ‘dual track’ approach combining both revenue-generation and cost/asset-reduction activity.

4.2 INNOVATION

At a firm level, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share, etc. A simplistic definition of innovation from an organizational perspective is given by Luecke and Katz (2003), "innovation ... is generally understood as the successful introduction of a new thing or method... It is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services.

The value of innovation has been widely reported to include:

- Improved quality
- Creation of new markets
- Extension of the product range
- Reduced labour costs
- Improved production processes
- Reduced materials
- Reduced environmental damage
- Replacement of products/services
- Reduced energy consumption
- Conformance to regulations

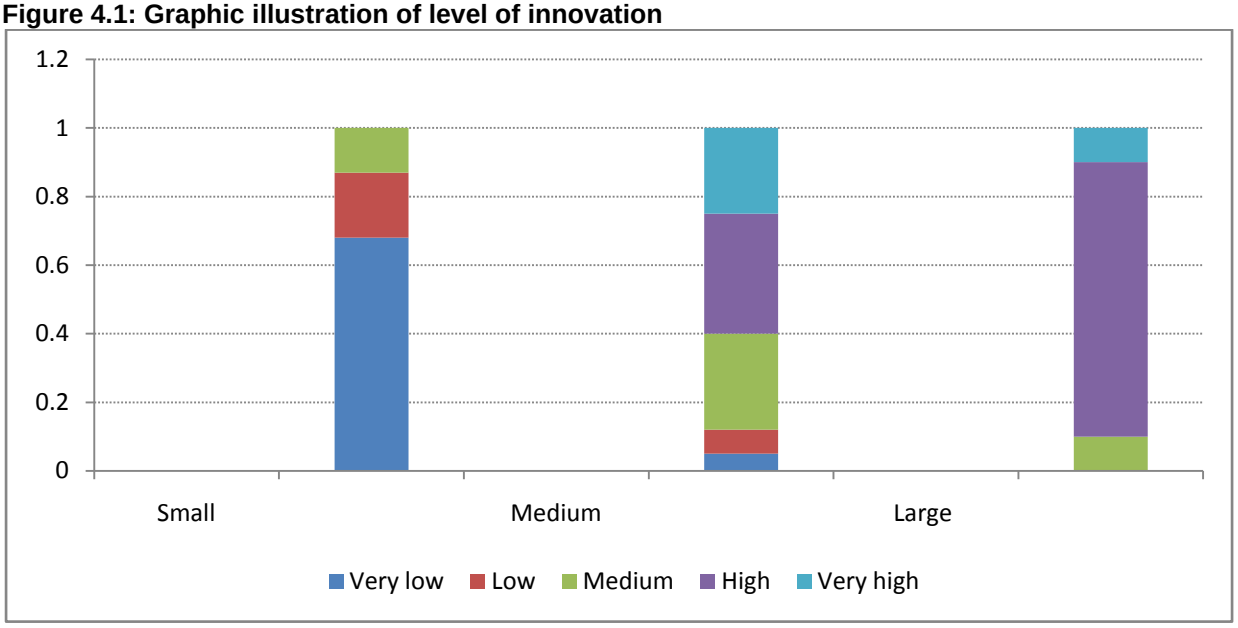
The preceding indicates the close relationship of innovation to business growth and ultimately job creation. It is a key ingredient for industrialized regions to overcome locally the challenges of globalization and the arising of the emerging regions. In this section, the current level of innovation is measured in terms of initiatives taken during the past 2 years. It has been performed because from a micro perspective an average level of innovation is required to increase a firm’s chances of higher levels of innovation.

Table 4.8: Level of Innovation

	l1extent of innovation					
	Small		Medium		Large	
Very low	174	68%	2	5%	0	0%
Low	49	19%	5	7%	0	0%
Medium	33	13%	18	28%	2	10%
High	0	0%	23	35%	16	80%
Very high	0	0%	17	25%	2	10%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Figure 4.1: Graphic illustration of level of innovation



Source – TIKZN Investment Climate Survey 2010

87% of micro and small-sized firms were rated low to very low on the innovation scale. They indicated that often the necessary funding and resources were not available to acquire innovative technology, particularly when attempting to get the firm to scale.

61% of medium-sized and 90% of large and very large firms rated moderately high to very high on innovation.

Respondents were asked questions about the extent of innovation relating to their business in relation to developing a new product line, upgrading an existing product line, introducing new technology etc.

Business owners of micro, small-sized and medium-sized firms indicated that greater access to innovation finance is required to produce an increase in introduction of new product lines, upgrading existing product lines etc. They further pointed out that banks are reluctant to finance early stage innovation as a result of the associated high risk.

Despite the more difficult trading conditions, the survey found out that medium-sized to large firms were continuing to invest in collaboration and innovation. This might be in appreciation of innovation as a key part of business plans to grow again (following a recession). On the other hand, smaller firms must start strategically planning for innovation and avoid knee-jerk or quick fixes in response to changing dynamics. It appears that a key unstated failure of smaller businesses is the inability to address underlying cultural barriers to innovation, such as organizational structure, owner-manager leadership issues, a lack of empowerment and lack of use of employees' ideas and suggestions for innovation.

A further and probable reason for the failure of smaller firms in regard to innovation is inability to grow business either through exports or enhanced local sales and not being able to become part of successful supply chains. Further failures were noted in regard to collaboration with the existing tertiary education base (technikon and university) ranging from taking up interns to conducting R&D studies-these same opportunities have very well been taken up by larger firms. The fact that small businesses are not able to become part of successful supply chains could emphasize the lack of technological progress via innovation, technology absorption, quality standards, and ICT use. This could contribute to growth of incumbents and the creation of new firms. Interventions aiming at facilitating technological progress could yield greatest impact if pursued in conjunction with reforms to improve the skills of the labor force.

4.3 INTEREST RATES AND INFLATION

This section reports on the perception of interest rates and inflation rates by firm owners and management and how this impacts on firm growth.

Access to finance and the cost of financing are major obstacles to business starts-up and growth in South Africa as well as in developed and developing countries (Orford, Wood, Fisher, Herrington and Segal, 2003). According to the South African Investment Climate Survey (2004), finance is ranked among the top five constraints to business development in Sub-Saharan Africa. In this current study, cost of finance does not include any provincial comparisons, as these rates are all determined

nationally (cost of capital and credit). The Kaiser Associates report: Economic Development Practice (2006) points out that firms in South Africa appear to be relatively unconcerned about access to finance and cost of financing.

In 2009/2010, it is clear that the global economic recession starting at end 2008 adversely impacted the provincial economy- in the first quarter of 2009 the province experienced a contraction of -7.3% from a decline of -2.9% in the last quarter of 2008. As a result of this several jobs were lost through retrenchments and downscaling activities of firms in the region. The role of inflation and interest rates during this period is interesting as both have an impact in fixed investment decisions.

Small and medium firms expressed the lack of acquiring preferential interest rates as a major concern and often utilize alternative sources of funding which attracts a much higher interest rate. It is widely documented in Global Entrepreneurship Monitor reports that small and medium businesses do not receive preferential interest rates and this impact significantly on the profitability of the firm.

4.3.1 INFLATION AND EFFECTS ON BUSINESS

The effect of inflation on investment occurs directly and indirectly. Directly, inflation increases the real cost of transactions, operations and information, which potentially inhibits economic development. Inflation also makes distorts price signals, making investment planning difficult. As an example, firms may be reluctant to enter into contracts when inflation cannot be predicted making relative prices uncertain. This reluctance to enter into contracts over time inhibits investment which will affect economic growth and may cause a recession (Hellerstein, 2009).

Additionally, in an inflationary environment intermediaries will be less eager to provide long-term financing for capital formation, restraining growth. Both lenders and borrowers will also be less willing to enter long-term contracts, affecting predictability and price stability. This undermines both producer and consumer confidence.

Table 4.9: Inflation rates - 2007-2010

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	6.20	5.70										
2009	8.10	8.60	8.50	8.40	8.00	6.90	6.70	6.40	6.10	5.90	5.80	6.30
2008	9.20	9.80	10.60	11.10	11.70	12.20	13.50	13.70	13.10	12.10	11.70	9.50
2007	6.00	5.70	6.10	7.00	7.00	7.00	7.10	6.70	7.20	7.90	8.50	8.90

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Table 4.10: Outlook on inflation

	EE7.1 Outlook of inflation					
	Small		Medium		Large	
Greater than 20%	0	0%	0	0%	0	0%
Between 10 and 19%	46	18%	22	34%	3	13%
Between 6 and 9%	197	77%	39	60%	17	87%
Between 3 and 5%	13	5%	4	6%	0	0%
Between 1 and 2%	0	0%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Firms were asked to rate expected inflation rates in the following five years. Over 77% of micro and small firms indicated that they expected future inflation rates of between 6% and 9%, while 60% of medium firms shared the view. The corresponding figure for large and very large firms was 87%, while a large proportion of medium-sized firms (34%) expected inflation of in excess of 10%, compared to 18% and 13% of micro-small and large-very large firms, respectively. this could be an indication of 'fearing the worst' on the part of small firms, fueled by their limited ability to withstand hostile economic changes, after experiencing high rates of inflation in 2008, followed immediately by the local recession.

None of the large-very large firms expected inflation to fall below 6%, quite a pessimistic outlook for their size. This could also indicate their lack of concern for higher rates, cushioned by the favourable ability to withstand high rates environments. A few of the micro-small firms did anticipate rates below 6%, a possible indication of their desire.

Table 4.11: Impact of inflation on business performance

	EE7.2 Impact of inflation on business performance					
	Small		Medium		Large	
Very little impact	0	0%	0	0%	4	20%
Relatively low impact	0	0%	0	0%	3	15%
Average	51	20%	9	15%	4	20%
Relatively high	108	42%	20	30%	9	44%
High impact	97	38%	36	55%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Respondents were asked to rate the impact of current inflation (average 7.6%) on business performance for the trading period 2009-2010. 80% of micro and small-sized firms and 85% of medium-sized firms indicated that current inflation had a significant impact on business performance. They also indicated that the high inflation rates significantly curtailed consumer spending which impacted directly on their businesses. Only 44% of large and very large firms indicated that the current inflation rate had a relatively high impact on their respective industries and businesses while 35% of large indicated very little to relatively little impact. This validates the observation of different levels of affordability by the firms.

This rate ironically is lower than those recorded in the 2007-2008 period where inflation went well beyond the monetary policy target band. Discussions with this group (small to medium-sized business) indicate an experience of 'real or business operating inflation' ranging between 10-15%. This has been attributed to escalating costs: primary and secondary inputs (raw materials, electricity and fuel). The situation is blamed on large (monopoly) suppliers' abuse of their market position and raising prices (even irrationally). The group's anecdotal observations rely extensively on media-reported investigations by the Competitions Commissions into a number of corporations' anti-competitive practices. Aside from this however, no empirical data to date exists to suggest that these large firms have maximized their short-term profits by engaging in price fixing activities. In fact, anecdotal evidence suggests that larger firms still set prices with a target profit level for the best long-term growth of profits.

4.3.2 INTEREST RATES AND EFFECTS ON BUSINESS

When interest rates rise, the effective cost of commercial loans also rises, leading to decreases in credit transactions and investment. Rising interest rates also increase operating costs (rentals), affect consumer spending (reduced customer numbers) and generally undermines business and consumer confidence.

Respondents were asked to rate the affordability of current interest rates and their outlook for the interest rate environment.

More than 92% of micro and small-sized firms indicated that interest rates were excessive compared to 87% of medium-sized firms which shared similar sentiments. They indicated that rising prices of raw materials coupled with the current inflationary environment impacted significantly on bottom lines. 80% of large and very large sized firms indicated that current interest rates were generally affordable and not excessive.

Table 4.12: Affordability of interest rates

	EE6.1Affordability of interest rates on business performance					
	Small		Medium		Large	
Very affordable	0	0%	0	0%	6	30%
Affordable	0	0%	0	0%	10	50%
Average	0	0%	0	0%	4	20%
Relatively expensive	20	8%	8	13%	0	0%
Very expensive	236	92%	57	87%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Table 4.13: Outlook on future interest rates

	EE6.3Projected interest rates					
	Small		Medium		Large	
18% and higher	0	0%	0	0%	0	0%
Between 13 and 18%	136	53%	35	53%	9	43%
Between 8 and 13%	120	47%	23	35%	11	55%
Between 6 and 8%	0	0%	5	10%	0	0%
Between 2 and 5%	0	0%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

On request to provide an indication of expected interest rates over the long term, 53% of micro and small-sized firms – and an equal proportion of medium-sized firms – indicated their expectation of the interest rate to range between 13% and 18%, this compared to 43% of large and very large firms sharing the outlook.

4.4 GENERAL TRADING CONDITIONS

The general trading conditions related to the predictability of regulations with regard to turnaround times, official competency and cost of doing business (licenses, permits etc.). Other aspects taken into account related to the state of crime and corruption, trade regulations and conflict resolution.

4.4.1 REGULATIONS AND COST OF DOING BUSINESS

It is widely held that the greater the degree of uncertainty or unpredictability in the regulatory process, the greater the investment risk. Business desires stable regulatory and legal environments and this is often reflective of political stability. As an example, if one takes licensing: it is expected that criteria and conditions should be applied in accordance with regulations that are developed in an efficient, transparent and open manner.

Generally though, in the application of the regulatory framework, the degree of flexibility is also highly valued as the commercial environment is dynamic and requires tailoring and introduction of new, innovative services ensuring both responsiveness and the necessary safeguards. With this in mind, respondents' views were tested with respect to predictability and regulations as a cost of doing business.

Respondents were asked to rate the predictability of labour regulations as well as the ease of obtaining licenses and permits in order to conduct business in relation to time, cost and overall efficiency. Generally, all the firms pointed to moderate to highly predictable labour regulations.

Table 4.14: Current Regulatory predictability

	EE8 Current regulatory predictability					
	Small		Medium		Large	
Significantly unpredictable	0	0%	0	0%	0	0%
Moderately unpredictable	0	0%	0	0%	0	0%
Neither	82	32%	0	0%	0	0%
Moderately predictable	84	33%	51	79%	3	15%
Significantly predictable	90	35%	14	21%	17	85%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Table 4.15: Outlook on regulatory predictability

	EE8.1 Outlook on regulatory predictability					
	Small		Medium		Large	
Significantly unpredictable	0	0%	0	0%	0	0%
Moderately unpredictable	33	13%	0	0%	0	0%

Neither	28	11%	2	4%	0	0%
Moderately predictable	95	37%	7	10%	0	0%
Significantly predictable	100	39%	56	86%	20	100%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

A significant proportion of small and medium sized firms pointed to significant inefficiencies (Table 4.16). Firm owners indicated that costs associated with business registration, obtaining operating licenses, permits etc. were expensive, time consuming and cumbersome. Focus group sessions suggested low cost administrative reforms while others mentioned significant changes to the legislation.

Table 1.16: License and operating permits as the ease of doing business

	EE8.1 Outlook on regulatory predictability					
	Small		Medium		Large	
Very inefficient	74	29%	24	37%	0	0%
Relatively inefficient	97	38%	27	42%	8	38%
Medium	61	24%	12	18%	12	62%
Moderately efficient	18	7%	2	3%	0	0%
Highly efficient	6	2%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

4.4.2 CRIME

The 2004 South African Investment Climate Survey found that crime is a costly burden to individuals and firms- it was ranked fourth in terms of costs. Losses due to crime in South Africa amounted to R2,272 million (Investment Climate Survey, 2004). According to Business Against Crime (BAC) (2006), there are basically two ways under which crime affects business, namely: directly through the theft of property and money, and indirectly through reduced business confidence, loss of investment, emigration and the steady erosion of the foundations upon which the economy is built. Thus, crime, together with corruption, constitutes a serious obstacle to doing business. According to Mauro (1995) the two retard entrepreneurial activity, increase transaction costs and slow down economic growth.

From a provincial perspective, 41% of firms in KZN rate crime as a serious obstacle to doing business.

The major crime statistics released by government in 2008 (for the April 2007 – March 2008 period), showed that the number of reported murder cases in South Africa is still very high, when compared to countries such as the UK and the US. Nationally, the crime rate for business burglary over the same period was 131.7 (62,995 cases), 497.1 for house burglary (237,853 cases) and 247.3 for aggravated robbery (118,312 cases) (Mahadea, 2008). In KwaZulu-Natal, bank robberies increased from 11 to 22 (100%) over the period April 2007- March 2008. House robberies also increased from 2,667 cases to 3,480 cases (30%), while business robbery increased from 997 cases to 1,923 (92%) over the same period; this rate was far above the national average (30%) and of the other provinces e.g. Gauteng 31%, Western Cape 23%, and Eastern Cape 6% (Mahadea, 2008).

4.4.3 CORRUPTION

In terms of corruption and according to the 2007 (also the latest) Transparency International's Global Corruption Barometer which measures among other things, the number of respondents who paid a bribe to obtain services (for example in the legal, tax, or police system, or for water or electricity); only 3% of South African respondents indicated a positive response. This indicates that it is by far the norm to get services without any need for bribery. However, according to Business Unity South Africa many people still hold the perception that doing business in Africa requires some kind of 'greasing of the palms' and dubious business connections.

The survey examined the extent to which firms believed they had been unfairly disadvantaged by competitors gained from corrupt practices. Corrupt practices included collusion between officials and business, the presentation of gifts, loans, preferential treatment, employment, or any other benefit. It also included anti-competitive (or anti-trust) practices such as price fixing, market division, collusive tendering and abuse of a dominant market position as set out in the Competition Act (No. 89 of 1998).

Respondents were asked to rate the state of general crime and corruption on the performance of their firms. The result show that crime does not appear to be a thorny in the province, with 84% of micro and small-sized firms, 76% of medium sized firms, and 90% of large and very large firms indicating that crime did not have a significant impact on firm performance (Table 4.17). This could be an indication by the firms that they do not scare easily from 'alarming' changes in the crime rates in the province, since the reports could actually be stemming from relatively low bases.

Table 4.17: Impact of crime on firm performance

	EE18 Effect of general crime on business performance					
	Small		Medium		Large	
Highly significant	10	4%	2	4%	1	5%
Moderately significant	31	12%	7	10%	1	5%
Medium	0	0%	7	10%	0	0%
Moderately insignificant	161	63%	36	56%	11	55%
Highly insignificant	54	21%	13	20%	7	35%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Table 4.18: Impact of corrupt business practices on firm performance

	EE18.1 Impact of corruption on business					
	Small		Medium		Large	
Significant impact	159	62%	42	64%	5	27%
Moderate impact	67	26%	13	21%	0	0%
Medium	0	0%	0	0%	0	0%
Moderately insignificant	30	12%	10	15%	0	0%
Highly insignificant	0	0%	0	0%	15	73%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

General attitudes toward crime and corruption were also determined, and an average of 63% of micro, small-sized and medium-sized sized firms claimed to have suffered from corruption, particularly in the construction, services and tourism sectors. Only 27% of large and very large firms indicated that they suffered an unfair competitive advantage obtained from competitor's corrupt behavior (Table 4.18).

The focus group discussions indicated that general crime levels in the region declined consistently while corruption continues to be rife. The participants also indicated their expectation of continued decline in general in the long term. This suggests great confidence in KZN's ability to combat crime but less so with respect to corruption. Discussions with respondents revealed strong perceptions of criminally corrupt political elite at all levels of government. This could possibly be explained by high media exposure of conflicts of interest.

Interestingly, KPMG (in Reid (2007)) and SAPS (2006) and reported that fraud occurred mostly because of poor internal controls, as well as collusion between employees and a third party. According to the KPMG's South African fraud survey, a significant proportion of perpetrators were in management, compared to the UK where results indicated that 71% of perpetrators were company employees. At a minimum this suggests that South Africa is not only prone to violent crime, but also that has a disturbing white-collar crime rate, rife in both private and public institutions. When put to the respondents, the majority agreed but felt that business was often 'coerced' into corrupt practices to ensure a degree of efficiency.

It is clear that challenges with corruption are as much internal to company practices and culture as they existent within the public sector; and firms would have to firstly recognize this and then take pro-active steps to combat white-collar crime. This would have to be addressed with as much vigor as the more media-focused violent crime. Beyond this 'new-age corruption', the discussion also maintains that 'historic relationships' are a major source of 'unstated' corruption - these are commonly referred to as 'old boy' networks and involves established white business enjoying commercial preference based on 'historic understandings'. This in itself is hardly reported (even purposefully) and should similarly be addressed.

Interestingly however, the survey and the focus group discussion confirmed the incidence of crime itself does not materially impact on fixed investment decisions at both a small and large business levels. It transpired that the key and typical drivers such as ROI remain the primary source informing expansion, re-investment-type decision-making.

The threat or perception of violent crime however negatively adds to the brain drain as the more skilled (and thus more mobile) see emigration to other cities as an option. Generally industry participants suggested that the general crime rate is lower and continue to decline in the region. This suggests greater confidence in KZN's ability to combat crime but less so with respect to corruption. Discussions with respondents reveal strong perceptions of criminally corrupt political elite at all levels of government. This could possibly be explained by high media exposure of conflicts of interest.

4.4.4 CUSTOMS AND TRADE REGULATIONS

Small and medium-size enterprises are key drivers of competition, growth and job creation, particularly in developing countries. In developing economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive

bureaucracy and regulation. Where regulation is burdensome and competition limited, success tends to depend more on whom one knows than on what they can do. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides.

In line with neo-liberal globalization policies, South Africa reduced its mean tariff for all products from 11.7% in 1994 to 4.9% by 2002 (Cassim and Onyango, 2002). By July 2000, nearly 60 percent of South Africa's imports faced a zero tariff. South Africa's trade liberalization and the associated reduction in tariff and non-tariff barriers means that transport costs have become an increasingly important determinant of trade performance (Chasomeris, 2004).

Despite these policy changes, a number of South African studies have highlighted specific areas for improvement in the business environment. For example, a survey of knowledge intensive industries found that foreign tariffs, regulations affecting export shipments, and foreign licenses limiting access to export markets were obstacles to the operations of the firms, particularly for large machinery and equipment producers. Further, these firms found the unreliability and high cost of transport services at harbours and airports to be a major obstacle to their operations. Such regulations are the same for all the provinces, thus KwaZulu-Natal is not an exception. However, Kaiser Associates Economic Development Practice (2006) noted that more KZN firms (21%) expressed concern over customs and trade regulations than their counterparts in Gauteng (14%) and Western Cape (20%), and the national average. However, this was well below the levels noted in Eastern Cape (31%). On the other hand, it is also worth pointing out that KZN-based firms noted the shortest average number of days for exports to clear customs (compared to firms in the other main port provinces of Western Cape and Eastern Cape). This is an encouraging revelation on the efficiency of the South African Revenue Services (SARS) and Transnet in the province.

With regard to port governance, policy and pricing, the report states that port users expressed general discontent, particularly with those policies that promote import substitution of high value domestic substitutes. Intra- and inter-port cross subsidization, insufficient investment in port infrastructure and superstructures, bureaucracy and skewed prices, were also some of the problematic areas.

In this regard respondents were asked to rate the efficiency of customs, tariff and trade regulations.

Table 4.19: Efficiency of customs and trade regulations

	EE22. Efficiency of customs and trade regulations					
	Small		Medium		Large	
Very inefficient	215	84%	41	63%	11	54%
Relatively inefficient	31	12%	13	20%	6	30%
Medium	0	0%	11	17%	0	0%
Moderately efficient	10	4%	0	0%	3	16%
Highly efficient	0	0%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Approximately 96% of small firms indicated that trade and customs regulations were relatively inefficient to highly inefficient, compared to 83% of medium sized firms, and 84% of large and very large firms. However, focus group discussions pointed to improvements in customs and trade regulations, particularly on the part of large and very large firms. In particular, satisfaction is expressed with the simplification of the customs procedures and the better use of electronic tools in these procedures. There was a perception exists that these business processes are unequally presented to different-sized traders with more benefits being made available to larger firms (traders), and it was generally held that improvements should be more widely communicated and workshopped with all players to ensure adoption of procedures in the same form.

Challenges of the regulatory environment, particularly at a local and provincial government levels, had been raised, albeit with vagaries thus requiring further interrogation. Challenges with operating regulations, specifically with new business registrations, amendments, environmental impact assessments, licensing and permits included criticisms that spoke to: (i) a perception that processes are generally intricate, complex and costly, (ii) administrative official incompetence, and (iii) turnaround times that are too long.

The discussion on incompetence put less blame on the lack of ability and more on failure by officials to exercise due skill and care. This was attributed to a general culture of poor service ethics throughout the local and provincial bureaucracy. It is claimed that the existing culture invites corrupt relations as business is forced to ‘facilitate’ efficiency (a rapid result).

The general trading conditions related to the predictability of regulations with regard to turnaround times, official competency and cost of doing business (licenses, permits etc.). This measure represents a kind of a cholesterol test for the regulatory environment for businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for

our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

While the industry participants expressed their confidence in the regulatory framework in the region, they were dissatisfied with the efficiency of conducting business. Specific reference was made to the turnaround times related to aspects such as number of licenses, costs associated with license fees, entry screening and physical inspections. Although a number of departments have moved to electronic registration systems in order to improve efficiency, the high turnover of staff at such departments had a significant impact on turnaround times. In particular, the Kaiser (2006) study found generally dissatisfaction with customs and trade departments in the region.

4.4.5 CONFLICT RESOLUTION AND ENFORCEMENT OF CONTRACTS

The importance of not just the presence of legislation, but also its enforcement, is a cornerstone of political economic development. The laws, regulations and their enforcement reflect the overall objectives of the economy. This instills consumer and investor confidence when enforced consistently and transparently. The production of efficient mechanism to resolve disputes becomes a requirement. The preferred means of achieving such efficiencies, neutrality and transparency is for the development of regulatory independence.

Confidence in the judicial system for purposes of enforcing contractual and other rights in business and labour disputes is crucial to the operational effectiveness of a business. Thus perceptions in this area were based on overall confidence in the judicial system to resolve disputes, average time it takes to resolve disputes and the degree of prohibition of using the judicial system to resolve disputes.

Table 4.10: Efficiency of conflict resolution and enforcement of contracts

	EE25. Efficiency of conflict resolution and enforcement of contracts					
	Small		Medium		Large	
Very inefficient	0	0%	0	0%	0	0%
Relatively inefficient	0	0%	0	0%	0	0%
Medium	0	0%	0	0%	0	0%
Moderately efficient	223	87%	53	82%	3	17%
Highly efficient	33	13%	12	18%	17	83%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

Generally, all types of firms expressed confidence in the judicial system in relation to enforcement of contracts and conflict resolution. They also indicated that the efficiency ranged from moderately efficient to highly efficient, with an impressive 83% of large and very large firms citing high efficiency in the system.

4.4.6 LABOUR REGULATIONS

Previous studies have shown that labour regulation in South Africa is perceived to be somewhat of a constraint to investment. However, the Rigidity of Employment index – a sub component of doing business index developed by the World Bank – shows that in 2008 and 2009, South Africa fell in the band of the "moderately rigid" regulatory environment, with an index of 35 [2]. This measure tests perceptions of the ease of compliance to labour regulations and the ease of hiring and firing procedures to get an idea about the burden (if any) that labor regulations impose on businesses.

Respondents were asked to rate the efficiency of labour regulations, measured specifically as it relates to the ease of hiring and redundancy of workers.

Table 4.11: Compliance to labour regulations

	EE27. Efficiency of labour regulations					
	Small		Medium		Large	
Very inefficient	184	72%	48	74%	11	54%
Relatively inefficient	38	15%	11	17%	7	36%
Medium	8	3%	0	0%	2	10%
Moderately efficient	21	12%	3	5%	0	0%
Highly efficient	5	8%	3	5%	0	0%
	256	100%	65	100%	20	100%

Source – TIKZN Investment Climate Survey 2010

A large proportion of firms indicated that labour regulations are relatively inefficient to very inefficient. Focus group sessions also confirmed, indicating that compliance with labor regulations represents one of the biggest constraints in the business. This was more prevalent amongst micro and small firms and to a smaller degree, medium firms. Firm owners indicated that dramatic decline in demand

[2] 0 = least rigid, 100= most rigid

for their products usually meant down-scaling the business and reducing staff, but that these decisions often resulted in challenges with the labour legislation; this was more prevalent during the period of the study, as a result of the widespread economic slowdown. Respondents in focus group sessions highlighted the fact that less rigid dismissal procedures are needed. Respondents also indicated greater flexibility in the use of fixed term contracts. In general, firm owners and management indicated that they were not as concerned with direct labour costs (hiring new employees) compared to implicit costs (number of strikes, disciplinary enquiries per annum, labour market regulations, etc.).

4.4.7 EDUCATION AND SKILLS

On the issue of skills, respondents were starkly differed between smaller and larger firms. The smaller firms (micro and small) did not rate the lack of employee skills as a major obstacle to business expansion and influencing fixed level investment decisions. However this differed sharply with larger firms; only 7% of smaller firms (micro and small) indicated lack of employee skills and the inability to source them as a challenge, compared to 22% of medium-sized firms and 37% of larger firms.

The significant difference can be accounted for in terms of job profile and relative value of labour in the competitive mix. In the smaller firms, employees are mostly unskilled and semi-skilled (easily replaced). In larger firms, the reliance is greater on skilled employees and the mobility of trained employees is a real threat especially after skills training).

Research has over years maintained that individual employee performance has implications for firm-level success. For example, Wright and McMahon (1992) drawing on Barney's (1991) resource-based theory of the firm contended that human resources can provide a source of sustained competitive advantage when 4 basic requirements are met:

i) firstly, the employee must add value to the firm's production processes-levels of individual performances must matter
ii) secondly, the skills the firms seek must be rare, however since human performance is normally distributed, Wright and McMahon noted, all human resources meet these criteria.
iii) thirdly, the combined human capital investments a firm's employees represent cannot be easily imitated- basically training in one firm differentiates those employees in another who have not received skills training
iv) finally, a firm's human resources must not be subject to replacement by technological advances or other substitutes if they are to provide a source of sustainable competitive advantage.

4.4.8 LABOUR PRODUCTIVITY

In terms of labour productivity, 76% of smaller sized firms (micro and small) highlighted problems with labour productivity- claims of laziness, absenteeism and general labour quality. 68% of medium-sized firms made similar claims, while only 14% of larger firms presented such difficulties as significant challenges in growing their businesses. Challenges expressed include a perceived sense of entitlement, a poor work ethic and unrealistic expectations from employers. Claims included that skilled (or rather qualified) entrants tend to seek instant gratification (recognition as management) when they often lack the necessary experience and work ethic associated with the real work demands of the job.

Wright & McMahon (1992) also revealed two challenges with regard to low labour productivity: (i) poor attitudes in respect of career development from aspirant graduates, and (ii) poor work performance partly blamed on inadequate experience and/or misaligned technical training. Not surprisingly, firms claimed to experience high levels of job hopping; and report suspicion that employees leave for opportunities in more affluent regions such as Gauteng.

In respect of workplace productivity, research on improvement factors is quite extensive. As it relates to human resources, Cutcher-Gershenfeld (1991) found that firms adopting “transformational” labour relations - those emphasizing co-operation and dispute resolution - had lower costs, less scrap, higher productivity and a greater return to direct labour hours than did firms using ‘traditional’ adversarial labour relations practices. Similarly Katz, Kochan and Gobeille (1994) found that quality of work life, quality circles and labour-management teams increase productivity, whilst Bartle (2003) established the link between the adoption of training programmes and productivity growth.

This survey found an almost complete absence of the modern HRM practices within the small to medium-size firms, and reliance on the more dated ‘command’ system of labour relations. The failure to ‘modernise’ labour relations has been partly realized as the focus group discussions attribute lower productivity to employment environments lacking proper monitoring and evaluation systems. This appears as rebuttal of claims that dismissal of employees is costly and time-consuming (it was generally reported that the higher costs associated with replacing labour is also deterrent to labour replacement and hence emphasis should be placed on improving performance).

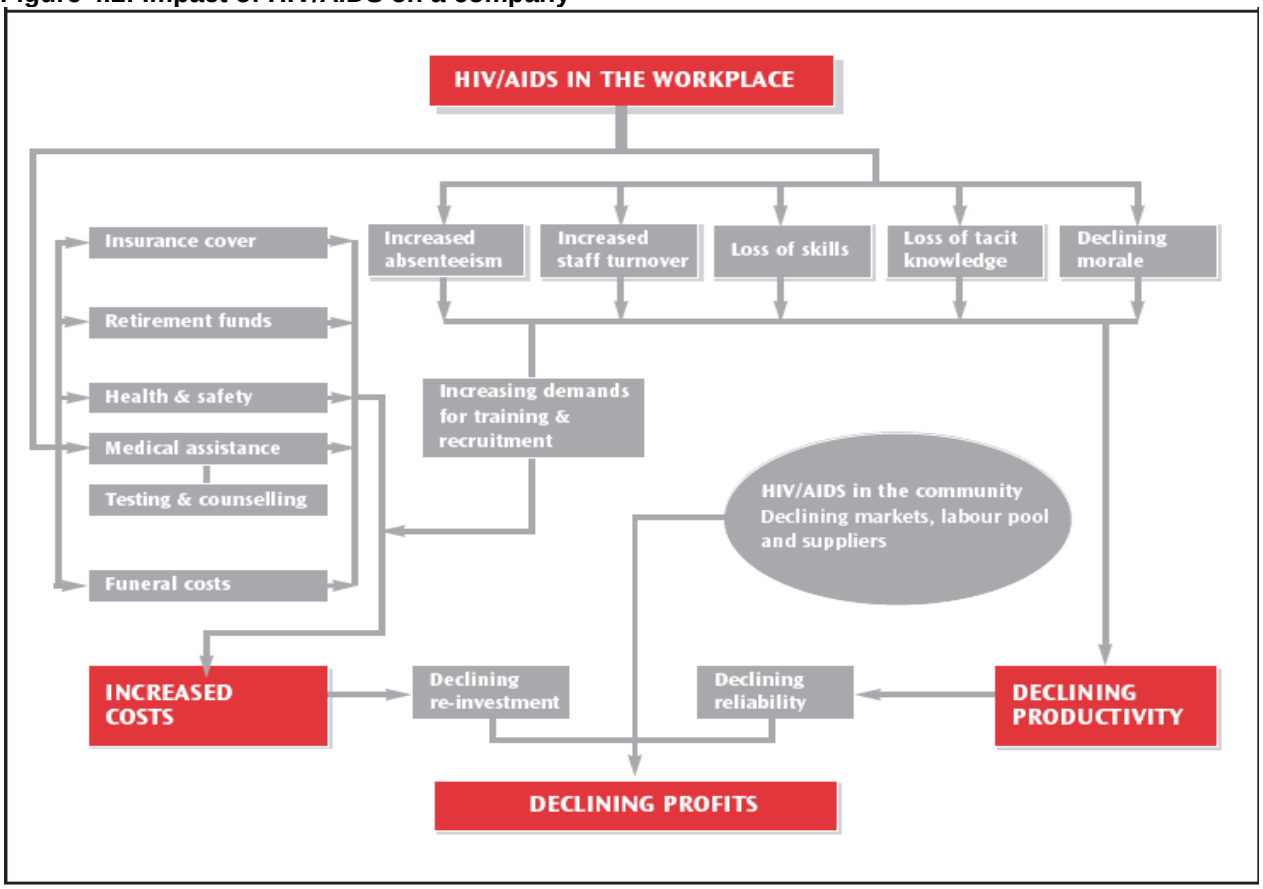
Concern was expressed that previously disadvantaged employees are not given sufficient time and support to perform their duties to their ultimate ability; and that older white male employees (skilled and experienced) have left industries.

A discussion on monitoring and evaluation introduced a need for a wider management practice of coaching and mentoring. This should however go further to address the more widely 'traditional' HRM practices highly prevalent in the smaller to mediums firms. This could potentially bring into being a more productive system, reflected in lower absenteeism, increased product quality and labour efficiency.

4.4.9 IMPACT OF HIV/AIDS ON LABOUR AND FIRM-LEVEL PRODUCTIVITY

HIV/AIDS affects corporations by increasing costs and reducing productivity, as outlined in *Figure 16*. Rising costs result from higher health care costs, increased absenteeism due to illness or caring for infected family member(s), higher recruitment and training costs for new employees and greater funeral costs. The pandemic also leads to high staff turnover, resulting in a loss of intellectual capital, and low morale for the surviving relatives due to loss of loved ones and/or fear of discrimination. This is captured in

Figure 4.2: Impact of HIV/AIDS on a company



Source: Daly, K. "The Business Response to HIV/AIDS: Impact and Responses." UNAIDS, The Prince of Wales Business Leaders Forum (PWBLF) and the Global Business Council on HIV&AIDS. 2000.

When asked to state if they had experienced any impact of HIV/AIDS on their performance, 62% of small-to-medium size firms and 38% of large to larger firms reported in the positive. In regard to the extent of the impact, only 7% of the large-larger firms reported serious impact, while 28% of the smaller firms recorded same.

Serious impact meant a loss of an employee, with 95% of large-larger firms indicating having had lost skilled employees and new recruits up to middle management; 5% indicated loss of senior management and professional staff. In the case of the smaller firms, further probing reveals that of the 85% of those smaller entities claiming serious impact experienced a loss of employees who had been with the firm for more than 3 years, suggesting a large degree of over-reliance on the employee, making them harder to replace.

Lesser impact, measured in (i) increased absenteeism due to illness or caring for an infected family member – was cited by 9% of respondents; (ii) higher recruitment and training costs for new employees – was reported by 37% of respondents, and (iii) greater funeral costs driven by funeral loans – was cited by 28% of respondents. Only 32% of large-larger firms and 24% of small-medium firms expressed future concern about HIV/AIDS on the firms' operations over the next three years, suggesting either or both (i) their confidence in the State and private sector investments in HIV/AIDS education and the ARV roll-out programme, and/or (ii) the rate of unemployment has allowed for the rapid replacement of workers especially at low and semi-skilled levels. 37% of all respondents attributed productivity losses to time lost due to lack of experience by new recruits and time taken to fit into the business. Larger firms reported that this was made harder by the death of mentors and coaches who were used to fast-track new entrants.

The challenge of HIV/AIDS is still rampant, and it is worrying that only less than 3% of surveyed micro-smaller firms and 48% of medium size businesses have ongoing HIV/AIDS programmes. The figure is much higher for the larger segment (92%). For this survey purpose, ongoing programmes were defined as any activity that encourages HIV/AIDS awareness at least once a year over the last 3 years and can include anything from as basic as an AIDS flyer/ribbons to awareness sessions (formal/informal), and testing at workplaces.

The emphasis on HIV/AIDS education, the survey suggests, should be directed at firms in the smaller-medium range. The importance of HIV/AIDS education at the workplace cannot be overstated as the workplace can be central point for prevention and care within the existing structures of human resource development, training programmes and health and safety. In this regard, smaller business

firms have a unique characteristic of closer relationships born from closer proximities which can be leveraged when driving awareness/prevention programmes.

4.4.10 TAXATION

Respondents were asked to rate the level of competence, efficiency of the tax administration system as well as the corporate taxation rates. 55% of small firms indicated that the tax administration was moderately efficient to highly efficient, while the majority of medium sized firms indicated that the system was not efficient. 68% of large firms indicated that the tax system was efficient. Small firm owners indicated that although the tax administration was efficient, there should be specialist consulting services rendered to small businesses. The focus group sessions highlighted that taxes were excessive, particularly related to medium and large firms.

Table 4.12: Efficiency of tax administration

	Overall efficiency of tax administration					
	Small		Medium		Large	
Very inefficient	0	0%	0	0%	0	0%
Relatively inefficient	10	4%	42	65%	0	0%
Medium	105	41%	20	30%	6	32%
Moderately efficient	59	23%	3	5%	14	68%
Highly efficient	82	32%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – KZN Investment Climate Survey 2010

In addition to corporate income tax (CIT), companies pay taxes on the profits that they distribute known as Secondary Tax on Companies (STC). This measure related to the impact of company tax including STC on perceptions of the overall burden of tax compliance to increased exports performance and/or firm growth/expansion[8]. Respondents rated taxation as excessive and cumbersome, and indicated that they expected tax rates to remain constant over the next 3 years.

[8] *Company tax rates: For f*inancial years ending on any date between 1 April 2010 and 31 March 2011.

* Micro businesses with turnover of up to R1 million per annum may elect to be taxed under a turnover-based presumptive tax system, as an alternative to income tax and VAT. STC to be replaced with a dividends tax. The compulsory VAT registration threshold is an annual turnover of R1 million.

Type Rate of tax: Corporate 28%; Passive holding companies (effective date to be) announced)-40%; Small business corporation* R0 – R57 000 : 0%

4.4.11 ACCESS TO FINANCE

Efficiency of financial services was assessed as it relates to access to finance and preferential treatment of small and medium firms and overall service efficiency of banking and financial services personnel. Significant proportions of small and medium sized firms indicated that the level of efficiency of financial services were low to very low (Table 4.13). This could be due to the fact that South African financial institutions have developed in an economy that is home to large corporations that undertook big projects, and as a result, assessing start-ups and small-sized enterprises is not a string point of managers in most financial institutions. The banking system worldwide requires some form of security and collateral in order to qualify for a loan. South Africa's bankers appear to be no more demanding than the norm. This survey reveals that 60% of borrowers had to provide collateral equal to at least 100% of the value of their loans. Given greater risk associated with extending loans to small-sized firms, there was evidence of negative correlation between collateral requirements and firm size, with smaller firms (69%) reporting severe difficulties associated with access to finance. In addition, these firms reported not being able to meet the rigid requirements regarding collateral, more often than not, and not qualifying for a bank loan. This forced them to resort to alternative sources of finance, which attracted much higher interest rates impacting significantly on the business. These include commercial loans (inability to access due to perceptions of high risk) and more reliance on sources of personal credit (credit cards, personal loans, and overdraft) at a higher rate of interest.

The above scenario dispels the illusion that "special" interest rates are available from commercial banks for smaller business due to their size and relative risk. The only source of cheaper finance would be government, however, low interest financing from government sponsored programmes is in little evidence and none of the respondents indicated use of one (including the Khula financing scheme). This describes an irony in the sense that a business application of financing could be considered high risk (and refused) yet the owner/s may still be able to secure low interest rates based on personal assets and income.

It appeared that a challenge for most smaller-sized businesses is moving up the business curve. From the discussions, it is apparent that their start-up and construction phases dragged on for longer during

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R57 001 – R300 000: 10%
R300 001 and above: 28%
Personal service provider companies 33%
Non-resident companies 33%
Secondary Tax on Companies -10%
Gold, oil and gas mining, and long-term insurance are subject to special rules

which time higher cost personal financing became the only source of capital available to cover interim losses and/or larger than expected operating costs. It also appears that poor financial modeling (planning) is at the centre of the challenge of access to finance. Interviewed respondents indicate poor anticipation of capital requirements and the eventual average true cost of borrowing. Both impact negatively on realizing cash flow projections, inhibiting planned activities. This calls for increased transparency on the part of the financiers.

Table 2: Efficiency of financial services

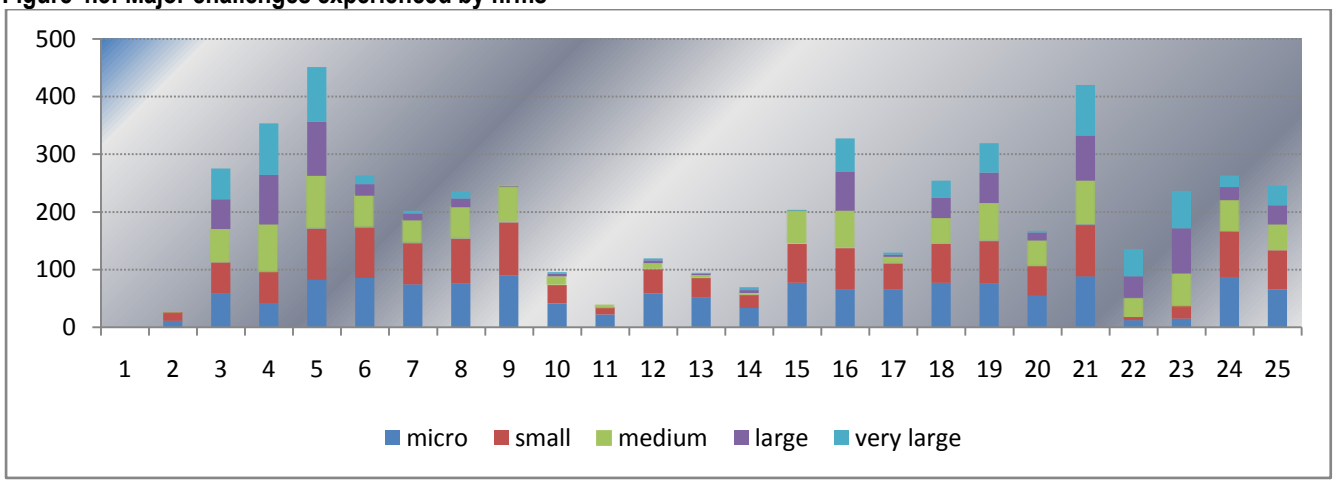
	EE27. Efficiency of financial services					
	Small		Medium		Large	
Very inefficient	177	69%	36	55%	6	30%
Relatively inefficient	31	12%	22	34%	3	16%
Medium	26	10%	6	9%	9	45%
Moderately efficient	13	5%	1	2%	2	9%
Highly efficient	9	4%	0	0%	0	0%
	256	100%	65	100%	20	100%

Source – KZN Investment Climate Survey 2010

4.5 MAJOR OBSTACLES TO DOING BUSINESS IN KZN

The industry participants were asked to indicate the primary constraints related to their businesses in the region. They were provided with a list of twenty five items (Figure 4.3 and Table 4.14).

Figure 4.3: Major challenges experienced by firms



Source – KZN Investment Climate Survey 2010

Table 4.14: Factors impacting on firm performance

	1.No hurdles		18.Competition from imports
	2.Ownership regulations		19.Crime and theft
	3.Tax regulations and/or high taxes		20.Official corruption
	4.Skilled labour shortage		21.Regulations for starting a new business, new operations or expansion
	5.Labour regulations and labour costs		22.Rand strength
	6.Obtaining land and buildings		23.High costs of innovation (R&D)
	7.Lack of business support services		24.Over-traded industry (too much competition)
	8.Inadequate supply of infrastructure		25.High capital equipment costs and lack of or inefficient administration of incentive schemes
	9.Inadequate access to credit		
	10.Import regime		
	11.Export regulations		
	12.Poor access to markets		
	13.High cost of maintaining standards/ quality		
	14.High incidence of worker HIV		
	15.High collateral requirements		
	16.High interest rates		
	17.Insufficient demand for my products		

Source – KZN Investment Climate Survey 2010

The three main constraints industry participants experienced related to:

i. labour regulations,
ii. regulations related to starting a business, and
iii. shortage of labour skills.

Industry participants suggested that labour regulations are too rigid and restrictive impacting on job creation. Industry participants also indicated that high dismissal costs can deter employers from creating jobs in the formal sector. Industry participants also indicated that the number of procedures registering a business were excessive and not centrally located (one-stop shop). Shortage of specialised labour has been pointed out to have a significant impact on firm performance.

CHAPTER 5: CONCLUSIONS

This chapter presents the conclusion related to the study and includes a summary of the main findings of the study.

Small firms have achieved from very small to moderate growth over the past two years; whilst this performance is not spectacular, it is a relatively stable performance amidst the challenges in the macro-economic environment. Some businesses reflected flat increases in revenue and still yield a profit, based on improved productivities, particularly within the relatively capital intensive industries which can be associated with higher labour productivity. Smaller businesses which are located in less labour intensive industries explain average to moderate profitability. Overall, all firms have reported average to moderate profitability in the current year and expressed a moderately confident outlook in relation to future profitability in the various industries within the region.

Entrepreneurial business owners enjoy shaping their environment and kick off processes of 'creative destruction' which unbalance market structures and allow new players to enter the market (Schumpeter, 1934). Innovation is essential to entrepreneurial performance, firm growth and competiveness. Overall, smaller firms ranked low to very low on innovation raising concerns regarding competitiveness and sustainable firm growth within their respective markets. Medium and large firms reflected moderately high levels of innovation.

Apart from direct losses due to unfair competitive practices, corruption also adds to the cost of doing business (commerce must spend by way of furthering a corrupt relationship) and the State (the taxpayer) pays owing to inefficient, shoddy delivery. Beyond this ‘new-age corruption’, the response from industry participants also maintain that ‘historic relationships’ are a major source of ‘unstated’ corruption - these are commonly referred to as ‘old boy’ networks and involves established white businesses enjoying commercial preference based on ‘historic understandings’. This in itself is hardly reported (even purposefully) and should similarly be addressed.

The industry participants suggested that the shortage of skilled labour presents significant challenges, particularly in sectors demanding specialized skills and experience. Thus, most of workers in the primary sector cannot be placed in the other two sectors despite improvements in education access and throughput over the last 10 years. Training rates (i.e. participation in workplace training) in South Africa, in fact, compare favorably with international standards as shown by the National Skills Survey conducted in 2003. However, development has not been even as the 2006 survey revealed that KZN training rates in medium and large enterprises are very low. In addition, most of the enterprises

surveyed then indicated that they were unimpressed with the services offered by their respective Sector Education and Training Authorities - the latter probably contributing to the situation of poor skills uptake (Graham Muller Associates, 2006).

The reasons for KZN's inferiority of education and skills quality when compared to other provinces (example Gauteng and Western Cape), should not however be singularly attributed to a mismatch. There is also high mobility in the South African labour market. Thus better skilled workers are attracted to areas which offer high skill/ high pay jobs, resulting in a 'brain drain' for KZN. Therefore the imbalance might not be due to the shortage of skill (skill mismatch), but fewer opportunities in KZN when compared to Gauteng.

The results indicated that access to finance continues to be a critical constraint to small and medium sized businesses often impacting severely on business growth and innovation. Evidence from the Global Entrepreneurship Monitor reports suggest that access to formal financial support in South Africa is not worse than it is in other developing countries. According to the GEM study the most important sources of finance for people starting businesses in South Africa were their own savings and loans from friends and family. Loans from formal financial institutions on the other hand were of limited importance. Start-up businesses were the most affected and often had to resort to alternative sources of finance.

Overall, industry participants suggest that labour regulations appear to be too rigid and restrictive. In terms of productivity, respondents indicate very little latitude is allowed for dismissals based on productivity or the lack of it. Perceptions in this regard are strongest amongst small firms. On the one hand, it is argued, the present set of labour regulations restrict dismissals on productivity grounds which hampers the efficient reallocation of workers, with workers remaining longer in jobs – respondents argued that this causes substantial losses from low labor productivity. On the other hand, however, the research shows that restrictions also tend to induce job-specific investments. This corollary is evident by the approach of larger firms which have invested in training and other incentive programmes which have not been made available by smaller firms. It appears that the management of low productivity is as much a matter of management approach (tactical) than one of resources. Larger firms (medium-sized and above) appear much better resourced and responsive to meeting this challenge.

Industry participants were asked to indicate the major constraints in the region. The three main constraints industry participants experienced:

(i) related to labour regulations,

(ii) regulations related to starting a business, and

(iii) shortage of labour skills.

Industry participants suggested that labour regulations are too rigid and restrictive impacting on job creation. Industry participants also indicated that high dismissal costs deter employers from creating jobs in the formal sector. Industry participants also indicated that the number of procedures registering a business were excessive and not centrally located (one-stop shop). Shortage of specialised labour has been pointed out to have a significant impact on firm performance.

In summary, KZN is the most populous province in South Africa, with the highest level of unemployment and a severe incidence of HIV/Aids. Moreover, it has a disproportionately high share of South Africa's manufacturing sector and is home to the most important logistics platform for South Africa's trade. The province's economic fortunes will therefore clearly have a significant impact on the broader South African economy and therefore has an integral part to play in the economy.

While KZN has a number of weaknesses, it also has many points of strengths. The province's strengths are related to its geographic position, resource endowments and logistics infrastructure. Furthermore, the economic performance of the Province has been relatively stable and consistent. Key weaknesses of the KZN economy are related to its high levels of unemployment and high incidence of HIV/Aids. The evidence suggests that skill formation is not taking place at the desired pace and that KZN's education institutions are not responsive to the skill demands emanating from industry. A significant proportion of industry respondents have indicated that skill shortage is a major constraint. In terms of the structure of the KZN economy, the higher share of manufacturing enterprises has meant that the province has been more vulnerable to the negative impact of trade liberalisation as South Africa becomes integrated with the global economy.

The KZN province, on the basis of its resource endowments and productive capacity, as well as the emerging structural changes within the provincial economy, has the potential to achieve much higher growth rates in the future. With effective government interventions, a number of latent opportunities can be unlocked. The critical challenges are employment creation, a more effective skills formation strategy and finding ways to mitigate the negative impact of HIV/AIDS. A further challenge is to align national, provincial and local institutions and policy instruments to realise sustainable economic development in KZN.

CHAPTER 6: RECOMMENDATIONS

This chapter presents the recommendations in the form of suggested interventions to counter the key challenges reveled by this study. Implementation of the recommendations should facilitate the attractiveness of investment in the region.

6.1 HIGH SKILL LEVEL CHALLENGES

MENTORING AND COACHING

In relation to deficits in high skill needs, discussions and analysis including those with focus groups indicated that the resource: skilled, experienced, retired white males should be used in coaching and mentoring qualified previously disadvantaged individuals across all economic sectors.

Recommendation

The recommendation is that the TIKZN conduct a research in which the viability of this is interrogated for implementation across the entire province with specific emphasis in engineering, manufacturing, construction, IT, finance and the maritime sector. The financing of this programme should be carried by industry, SETAs and local government. It is the contention that the resource is available, under-utilised and could assist with bridging experience and skill deficits. At this juncture, the importance of having the right mentors must be stressed. There are many mentor-type programmes in operation. If Trade and Investment KZN were to take this recommendation forward, it is worth noting that there is compelling evidence that the kind of mentor matters. For example research by the UCT Centre for Innovation and Entrepreneurship (CIE) has shown that the KHULA mentors fail to add value to the businesses they mentor because they lack business experience. In contrast the UCT CIE mentors have significant business experience and can play an ongoing role in supporting businesses they work with. However, in addition to business experience it is also important that mentors are able to establish a good working relationship with the business owners they mentor.

6.2 BUSINESS SUPPORT SERVICES

Criticisms of the support environment have been reported and summarized below:

- Funding is seldom in the core activities of the business but for complementary business needs as it relates to marketing, promotion, trade shows and similar

- The turnaround time on these initiatives are unacceptably long and not sufficiently flexible

The net effect of the above is that the primary beneficiaries to these initiatives are service consultants and the bureaucracy itself.

Recommendations

The most meaningful recommendations to emerge from the discussions and analysis including those with focus groups calls for the re-alignment of business support services

6.2.1. Functional vs. advisory

Business support services should be more functional and less advisory in nature e.g. there is funding available for start-ups such as business plan writing etc; however funding should be functional or outcomes-based such as payment for and on condition of actual physical services such as securing business registration, licensing, permits, training grants, loans, BEE certification, financial reports and similar.

The recommendation is for TIKZN to lobby for outcomes-based support programmes especially for micro, small and medium-size businesses. Programmes should be flexible, responsive to changing business needs – the market is vibrant and trading is dynamic requiring continuous revision to approaches and response; similarly programmes should be based on exceptions to the rule and not simply meeting programme reporting requirements by forcing every case into a particular box.

6.2.2. Decision-making

The recommendation is that decision-making on business support service programmes should include expanded representation from the SME sector in particular. The associated detail of securing representative, competent, efficient persons could include the TIKZN in the selection and appointment of the individuals. Fundamentally, the bureaucracy around support services should be relaxed. It is understood that the present strenuous environment is a result of reporting requirements – it is recommended that reporting requirements be re-examined to determine the relevance, appropriateness and necessity of certain measures; and to minimize these by way relaxing bureaucratic burdens.

6.2.3. Specific programmes:

Specific support should be given to enhancing the ability of particularly the smaller business owners in improving labour productivity (as opposed to managing its labour relations) as respondents indicated very little latitude is allowed for dismissals based on productivity or the lack of it. However this seems to be better managed at larger enterprises, suggesting that the management of low productivity is more a matter of management competence as opposed resources.

6.2.4 General

Support programmes must focus on business performance not just loans disbursed. The aim of especially loan programmes should be to reduce the dependency of the business on the programmes. Therefore it is important that the programme be monitored by how well the businesses supported have performed not just by how many loans have been extended.

6.3 CRIME AND CORRUPTION

6.3.1. CITY IMPROVEMENT DISTRICTS

This is a challenging national question. The focus group recommendation is the development of wide-spread city improvement districts (CIDs) across all parts of the major cities. There is sufficient evidence to point to the beneficial effect CIDs have on the urban environment, attract investment, job creation, trading conditions, general safety of staff and customers and finally adding to the experience of working and living in a city. The recommendation is for the TIKZN to examine the feasibility of accelerating the formation of CID's with the metro and the districts. It is noted that the net effect may be the displacement of crime, however, the CID itself as an investment attractor should assist with future economic expansion and thus reduce unemployment (a key driver of crime).

6.3.2 BUSINESS ETHICS CHARTER AND SEMINAR ON WHITE-COLLAR CORRUPTION

Previous reference to the challenges of corruption has been made, in particular its debilitating effect on business efficiency. Once again the report highlights respondents' and participants' views that commerce is similarly culpable in bureaucratic corruption either as passive or active participants.

A key challenge in the fight against corruption is the debilitating effect ‘historic relationships’ commonly referred to as ‘old boy’ networks and involving established white business enjoying commercial preference based on ‘historic understandings’. This in itself is hardly reported (even purposefully) and should similarly be addressed.

The recommendation is for the establishment of a business ethics charter for the KZN province starting in the Durban region. The mechanics are not clearly spelt out but the essential ideas are:

- Voluntarism
- Agreement on independent auditing of affairs
- A graded system (five star based arrangement)

The purpose of the charter is to create a sense of fair play amongst business signatories and rebuild the culture of business proprietary.

The second recommendation or suggestion is for the TIKZN to host a conference or summit on private sector corruption, which is to include the topics as highlighted above. It is maintained that unless this is addressed- a “crowding out” effect will remain, where black business is best able to trade with the State sector, adding to competition over declining resource spends.

6.4 OTHER

The high cost of transport and energy (electricity) were raised.

A perception exists that the rail transport infrastructure has all but collapsed – this must be addressed urgently. Consideration should be given for a once-off tax to rebuild this vital part of the transport network. Little else was offered by way of solutions.

In respect of energy, the recommendation is for the TIKZN to drive a renewable energy solution for commerce generally but in particular for small and medium-size business. Consideration for biogas production at malls should be investigated.

Research into solar heating for all business sizes should be conducted and pilots using solar paneling/ photovoltaic energy (off grid) should be funded to measure attainability for all businesses.

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2. APPENDIX

KWA-ZULU NATAL INVESTMENT CLIMATE SURVEY

Please note that all information is handled with strict confidentiality.

Instructions

Please answer all the questions. Please try to answer questions from a 'dominant impression' or general observation perspective i.e. avoid having once-offs or unique situations cloud the reporting of the general experience.

Unless otherwise specified, tick your answer. Provide answers either by ticking in the space provided or by colour highlighting that box.

If you preferring ticking, you can create a tick, simply by going to "Format" in the tool bar, then choose "Bullets and Numbering" and then click on "Bulleted". Once there select a Bullet choice. When answering a question simply then click on the Bullet tab in the Toolbar.

Company Name:		
Address:		
Title of respondent	1.	
Telephone:	[W]	(CELL)

GENERAL INFORMATION

G1. How old is your business?

a) Less than 2 years	b) Between 2 and 5 years	c) Between 5 and 10 years	d) Older than 10 years

G2. What is the legal status of the firm?

a) Sole trader	b) Partnership	c) Closed Corporation	d) Cooperative	e) Privately held	f) Other

G3. What is your firm's BEE status? (SEE *NOTES SECTION IF EXPLANATION NEEDED*)

a)	Level 1 contributor	e)	Level 5 contributor
b)	Level 2 contributor	f)	Level 6 contributor
c)	Level 3 contributor	g)	Level 7 contributor
d)	Level 4 contributor	h)	Level 8 contributor
		i)	Non-compliant

G4. Which industry sector best describes your business?

a)	Manufacturing and supply (general)	j)	10. Education and training
b)	Mining and mining supply	k)	11. Farming and farming supply
c)	Engineering	l)	12. Professional services/ occupations
d)	Wholesaling & Merchandising - Consumer / Industrial Products	m)	13. Chemical
e)	Entertainment/ Leisure/ Hotels	n)	14. Motor

f)	Agency/ brokerage	o)	15. Industrial equipment-manufacture/ supply
g)	Transport	p)	16. Medical and related
h)	Building contracting and building supply	q)	17. Manufacturing and supply (consumer products)
i)	Retailing	r)	18. Industrial outwork and services

G5. Do you export?

a) YES	b) NO

G6. Employment levels: The business employs:

a)	Less than 5 workers	g)	Between 76-100 employees
b)	Between 5-10 employees	h)	Between 101-150 employees
c)	Between 11-20 employees		Between 150-200 employees
d)	Between 21-30 employees	j)	Between 201—500 employees
e)	Between 31-50 employees	k)	Between 500- 1000 employees
f)	Between 51-75 employees	l)	More than 1000 employees

Current and anticipated business performance

S1. In your estimation, business turnover for the current year will be or has been:

a)	Less than 1 million rand	i)	Between 75-100 million rand
b)	Between 1-3 million rand	j)	Between 100-150 million rand
c)	Between 3-5 million rand	k)	Between 150-200 million rand
d)	Between 5-8 million rand	l)	Between 200-300 million rand
e)	Between 8-15 million rand	m)	Between 300-500 million rand
f)	Between 15-30 million rand	n)	Between 500- 1 billion rand
g)	Between 30-50 million rand	o)	Between 500- 1 billion rand
h)	Between 50-75 million rand	p)	More than 1 billion rand

S2. During the current year, compared to the previous year, did your sales revenue:

a) Decrease	b) Stay the same more or less	c) Increase

S 3. If changed, please indicate the percentage by which sales revenue increased or decreased?

a) By less than 5%	b) Between 5% and 10%	c) Between 10% and 25%	d) Between 25% and 50%	e) More than 50%

f) Between 75%-100%	g) Grew by more than 100%

S 4. In the next 12-24 months, do you anticipate your sales revenue will:

a) Decrease	b) Stay the same	c) Increase

S 5. If changing, please indicate the percentage by which you think sales revenue will increase or decrease?

a) By less than 5%	b) Between 5% and 10%	c) Between 10% and 25%	d) Between 25% and 50%	e) Between 50% and 75%

f) Between 75%-100%	g) Grow by more than 100%

Current and anticipated financial performance

F1. During the current year, compared to the previous year, NETT profitability:

a.	Grew between 3-5%	i.	Declined between 3-5%
b.	Grew between 6-10%	j.	Declined between 6-10%
c.	Grew between 11-20%	k.	Declined between 11-20%
d.	Grew by more than 20% but less than 35%	l.	Declined by more than 20% but less than 35%
e.	Grew by more than 35% but less than 50%	m.	Declined by more than 35% but less than 50%
f.	Grew by more than 50% but less than 70%	n.	Declined by more than 50% but less than 70%
g.	Grew by more than 70% but less than 100%	o.	Declined by more than 70% but less than 100%
h.	Grew by more than 100%	p.	The firm is busy closing down

F2. Over the next 12-24 months, our NETT profitability will:

a.	Grow between 3-5%	i.	Decline between 3-5%
b.	Grow between 6-10%	j.	Decline between 6-10%
c.	Grow between 11-20%	k.	Decline between 11-20%
d.	Grow by more than 20% but less than 35%	l.	Decline by more than 20% but less than 35%
e.	Grow by more than 35% but less than 50%	m.	Decline by more than 35% but less than 50%
f.	Grow by more than 50% but less than 70%	n.	Decline by more than 50% but less than 70%
g.	Grow by more than 70% but less than 100%	o.	Declined by more than 70% but less than 100%
h.	Grow by more than 100%	p.	The firm may be closing down

F3. Did your firm invest in capital equipment or technology (machinery, tools, equipment) in the current year?

a) YES	b) NO

F4. If yes, has the amount been:

a)	Less than 1% of turnover	d)	Between 4-5% of turnover
b)	Between 1 and 2% of turnover	e)	Between 5-6% of turnover
c)	Between 2-4% of turnover	f)	More than 6% of turnover

F5. Does your firm plan to invest in capital equipment or technology in the next 12-24 months?

a) YES	b) NO

F6. If yes, to what extent does your firm plan to invest in capital equipment or technology in the next 12-24 months?

a)	Less than 1% of turnover	d)	Between 4-5% of turnover

b)	Between 1 and 2% of turnover	e)	Between 5-6% of turnover
c)	Between 2-4% of turnover	f)	More than 6% of turnover

F7. Projected growth will be financed primarily from

a)	Retained earnings	g)	Foreign banks
b)	Donor agency	h)	Joint venture
c)	Individuals	i)	Venture capitalists
d)	Private banks	j)	Loan from parent or affiliated company
e)	Commercial banks	k)	
f)	Investment funds/special development financing/other state services		

EXTERNAL ENVIRONMENTAL CONSTRAINTS TO THE FIRM

Access to finance

EE 1. In your opinion, in relation to the current year, your experience of accessing finance from financial institutions generally proved:

	a) Very difficult	b) Moderately difficult	c) Neither difficult or easy	d) Moderately easy	e) Very easy
Current year					

EE 2. If the difficulty was severe or moderate, to which of the following do you mostly attribute this: (choose one only)

a) Insufficient collateral	b) Impaired credit rating	c) Inability to get favourable terms	d) Challenging application demands	e) Weak understanding of your needs	f) None of these
Current year					

EE 3. In your opinion over the next 3 years, in relation to the current year, you anticipate that accessing finance from financial institutions will become

	a) Even more difficult	b) Become moderately more difficult	c) Access issues will not change much	d) Become moderately easier	e) Become much easier
Year 1					
Year 2					
Year 3					

EE 4. If access will become more difficult, to which of the following do you mostly attribute this: (choose one only)

a) Insufficient collateral/ high guarantee demands	b) Impaired credit rating	c) Inability to get favourable terms	d) Challenging application demands	e) Weak understanding of your needs	f) None of these

Interest rates, inflation and general trading conditions

EE 5. In your opinion, in relation to the current year, interest costs to the business were:

	a) Far too high and expensive	b)Moderately high but just about affordable	c) Acceptable/ affordable	d) Moderately cheap	e) Quite cheap
Current year					

EE 6. In your opinion, over the next few years, you anticipate that the projected cost of financing (interest rates) will be:

	a) 18% and higher	b) 13-18%	c) Stay in a band of 8-13%	d) Become moderately lower: 6-8%	e) Drop significantly to between 2-5%
Year 1					
Year 2					
Year 3					

EE 7. In your opinion, over the next few years, you anticipate inflation (CPI) will be:

	a) 20%-higher	b) 10-19% over	c) Stay in a band of 6-9%	d) Become moderately lower 3-5%	e) Drop significantly to 1- 2% year on year
Year 1					
Year 2					
Year 3					

EE 8. In your opinion, regulatory certainty (operating rules such as permits, licences etc) for your company and sector presently is:

	a) Significantly Unpredictable	b) Moderately unpredictable	c) Neither	d) Moderately predictable	e) Significantly predictable
Current year					

EE 9. In your opinion, regulatory certainty (operating rules) for your sector over the next 12-24 months will become:

	a) Significantly more unpredictable	b) Moderately more unpredictable	c) Same as now	d) Moderately more predictable	e) Significantly more predictable
Next 12-24 months					

EE 10. In your opinion, in relation to the current year, business licensing and operating permits as a % of business costs, proved generally:

	a) Very costly and time-consuming	b) Moderately costly & difficult	c) Costs Affordable/ Acceptable	d) Moderately easy	e) Quite easy to traverse
Current year					

EE 11. In your opinion and in relation to the previous year business licensing and operating permits costs will:

	a) Become far more expensive	b) Become moderately more expensive	c) Inflation-linked costs increases	d) Moderately cheaper	e) Much cheaper

Year 1					
Year 2					
Year 3					

Corruption, crime

EE 12. During the current year, do you think your business suffered from any unfair competitive advantage your competitors gained from having corrupt relations with government officials?

a) YES	b) NO

EE 13. If yes, in your opinion, what could have been the cost expressed in turnover to the business i.e. if it hadn't been for corruption…….

a) Turnover could have been higher by 25% and more	b) Turnover could have been between 20-25% higher	c) Turnover could have been between 15-20% higher	d) Turnover could have been between 10-15 higher	e) Turnover could have been between 7-10% higher	f) Turnover could have been between 6-7% higher
g) Turnover could have been between 4-5% more	h) Turnover could have been between 3-4% higher	i) Turnover could have been between 2-3 % higher	j) Turnover could have been between 1-2% higher	k) Turnover could have been higher but by less than 1%	l) Can't say

EE 14. If possible, please put an estimated rand value cost to the business i.e. indicate how much money you estimate the business lost (potential/ actual) from such corrupt competitor practices.

R _____

EE 15. In your opinion, over the next 3 years, the levels of government corruption will:

	a¦Increase significantly	b¦Moderately increase	c¦Stay more or less at present levels	d¦Moderately decrease	e¦Significantly decrease
Year 1					
Year 2					
Year 3					

EE 16. During the current year, do you think your business suffered in any way from crime, theft (staff/ external) and disorder?

1¦ YES	2¦ NO

EE 17. If yes, in your opinion, what could have been the cost expressed in turnover to the business i.e. if there hadn't been crime, theft and disorder…..

a¦Turnover could have been higher by 25% and more	b¦Turnover could have been between 20-25% higher	c¦Turnover could have been between 15-20% higher	d¦Turnover could have been between 10-15 higher	e¦Turnover could have been between 7-10% higher	f¦Turnover could have been between 6-7% higher
g¦Turnover could have been between 4-5% more	h¦Turnover could have been between 3-4% higher	i¦Turnover could have been between 2-3 % higher	j¦Turnover could have been between 1-2% higher	k¦Turnover could have been higher but by less than 1%	l¦Can't say

EE 18. In your opinion, over the next 3 years in relation to the current year, crime, theft and disorder will:

	a¦Increase significantly	b¦Moderately increase	c¦Stay the same	d¦Moderately decrease	e¦Significantly decrease
Year 1					
Year 2					
Year 3					

EE 19. During the current year, do you think your business suffered in any way from government inefficiency, lack of competence and or capacity constraints?

1¦ YES	2¦ NO

EE 20. If yes, in your opinion, what could have been the cost expressed in turnover to the business i.e. if it hadn't been for government tardiness…..

a¦Turnover could have been higher by 25% and more	b¦Turnover could have been between 20-25% higher	c¦Turnover could have been between 15-20% higher	d¦Turnover could have been between 10-15 higher	e¦Turnover could have been between 7-10% higher	f¦Turnover could have been between 6-7% higher
g¦Turnover could have been between 4-5% more	h¦Turnover could have been between 3-4% higher	i¦Turnover could have been between 2-3 % higher	j¦Turnover could have been between 1-2% higher	k¦Turnover could have higher but by less than 1%	l¦Can't say

EE 21. In your opinion, over the next 3 years, government efficiency will:

	a¦Improve significantly	b¦Moderately improve	c¦Stay the same	d¦Moderately decline	e¦Significantly decline
Year 1					
Year 2					
Year 3					

Customs and trade regulations

EE 22. In your opinion, in relation to the current year, customs and trade regulations generally were:

	a¦ Very intricate and difficult	b¦ Moderately intricate and difficult	c¦ Costs Affordable/ Acceptable	d¦ Moderately easy	e¦ Quite easy to traverse
Current year					

EE 23. In your opinion and in relation to the current year i.e. compared against the current year, customs and trade regulations for your sector/ company will:

	a¦ Become far more difficult	b¦Become moderately more difficult	c¦Remain the same	d¦Become moderately easier	e¦ Become much easier
Year 1					
Year 2					
Year 3					

Conflict resolution/ enforcement of contracts

EE 24. In your opinion, in relation to the current year, the enforcement of contracts and the conflict resolution process is:

	a¦ Very intricate and very costly	b¦ Moderately onerous and costly	c¦ Fair and costs acceptable	d¦ Moderately easy, moderately expensive	e¦ Quite easy to traverse and cheap
Current year					

EE 25. In your opinion, over the next 3 years in relation to the current year, the legal system/conflict resolution will:

	a¦ Improve significantly	b¦ Moderately improve	c¦ Stay the same	d¦Moderately deteriorate	e¦Significantly deteriorate
Year 1					
Year 2					
Year 3					

Labour regulations

EE 26. In your opinion, in relation to the current year, compliance with and to labour regulations proved generally:

	a¦Very costly and very difficult	b¦ It proved moderately costly & difficult	c¦ Costs Affordable/ Acceptable	d¦Moderately easy	e¦Quite easy to traverse
Current year					

EE 27. In your opinion and in relation to the current year i.e. compared against the current year, compliance with and to labour regulations will:

	a¦ Become far more difficult	b¦ Become moderately more difficult	c¦ Remain the same	d¦ Become moderately easier	e¦ Become much easier
Year 1					
Year 2					
Year 3					

EE 28. In your opinion, in relation to the current labour laws, the ability to fire workers generally is:

	a¦ Too time-consuming and difficult	b¦ Moderately difficult and does not take too much time	c¦ Costs Affordable/ Time acceptable	d¦ Moderately easy and not too costly	e¦Quite easy to traverse
Current year					

Business costs

Telecommunications:

BC 1. By my estimate, in relation to the current year, telecommunication costs as a share of operating cost is our:

	a¦Highest cost	b¦2nd highest	c¦3rd highest	d¦4th highest	e¦5th highest	f¦6th highest	g¦7th highest	h¦Any after
Current year								

BC 2. By my estimate, in relation to the current year i.e. compared against the current year, the costs of telecommunications as a % of your operating cost will:

	a¦Increase significantly	b¦Increase moderately	c¦Will be inflation-linked	d¦Reduce moderately	e¦Reduce significantly
Year 1					
Year 2					
Year 3					

Electricity:

BC 3. By my estimate, in relation to the current year, electricity costs as a share of operating cost is our:

	a¦Highest cost	b¦2nd highest	c¦3rd highest	d¦4th highest	e¦5th highest	f¦6th highest	g¦7th highest	h¦Any after
Current year								

BC 4. By my estimate, in relation to the current year i.e. compared against the current year, the costs of electricity as a % of your operating cost will:

	a¦Increase significantly (20-35%)	b¦Increase moderately (15-20%)	c¦Will be inflation-linked	d¦Reduce moderately (less 3%)	e¦Reduce significantly (less 10%)
Year 1					
Year 2					
Year 3					

Transportation:

BC 5. By my estimate, in relation to the current year, transport (including fuel) costs as a share of operating cost are our:

	a¦Highest cost	b¦2nd highest	c¦3rd highest	d¦4th highest	e¦5th highest	f¦6th highest	g¦7th highest	h¦Any after
Current year								

BC 6. In your opinion in relation to the current year i.e. compared against the current year, the costs of transport as a % of operating costs will:

	a¦ Costs will increase significantly	b¦ Costs will increase moderately	c¦ Costs will increase/decrease (no major impact)	d¦ Reduce moderately	e¦ Reduce significantly
Year 1					
Year 2					
Year 3					

Labour cost

BC 7. In your opinion, in relation to the current year, labour cost as a % of operating costs, is our:

	a}Highest cost	b}2nd highest	c} 3rd highest	d} 4th highest	e}5th highest	f}6th highest	g}7th highest	h} Any after
Current year								

BC 8. In your opinion and in relation to the previous year labour costs will:

	a} Increase well beyond inflation-linked rates	b} Become moderately more than inflation	c} Inflation-linked costs increases	d} Moderately cheaper/lower than inflation	e} Much cheaper/much lower than inflation
Year 1					
Year 2					
Year 3					

BC 9. In my estimation, the majority of the employees are: (Choose any two)

1} Unskilled	
2} Semi-skilled	
3} Skilled	
4} Professional	

BC 10. In the past financial year, our labour force has overall

1} Increased	
2} Decreased	
3} Remained the same	

BC 11. If there has been a decrease, how many employees were retrenched?

1.	Less than 5 workers	7	Between 76-100 employees
2	Between 5-10 employees	8	Between 101-150 employees
3	Between 11-20 employees	9	Between 150-200 employees
4	Between 21-30 employees	10	Between 201—500 employees
5	Between 31-50 employees	11	Between 500- 1000 employees
6	Between 51-75 employees	12	More than 1000 employees

BC 12. If there has been an increase, how many employees do you estimate were additionally hired in the last financial year?

1.	Less than 5 workers	7	Between 76-100 employees
2	Between 5-10 employees	8	Between 101-150 employees
3	Between 11-20 employees	9	Between 150-200 employees
4	Between 21-30 employees	10	Between 201—500 employees
5	Between 31-50 employees	11	Between 500- 1000 employees
6	Between 51-75 employees	12	More than 1000 employees

Access to land:

BC 13. In your opinion, in relation to the current year, access and cost of land for business expansion was:

	a} Significantly high	b} High	c} Affordable/ Acceptable	d} It was low	e} It was significantly low
Current year					

BC 14. In your opinion and in relation to the previous year access to and cost of land for business expansion will:

	a} Access will become far more difficult and costly	b} Access moderately more difficult and costly	c} Remain the same	d} Costs will reduce moderately/ access will improve	e} Costs will reduce significantly/ access will improve greatly
Year 1					
Year 2					
Year 3					

Company tax rates

BC 15. In your opinion, in relation to the current year, your experience of company taxes was:

	a} Unfair/ punitive	b} Very high	c} Fair/Affordable/ Acceptable	d} It was low	e} It was quite low
Current year					

BC 16. In your opinion compared against the current year, company tax rates will:

	a} Increase by 5% or more	b} Increase by 3-4%	c} Increase by 2-3%	d} Increase by between 1-2%	e} Stay more or less the same	f] Decrease by between 1-2%	g} Decrease by between 3-5%	h} Decrease by 5% or more
Year 1								
Year 2								
Year 3								

Skills and education of workers

BC 17. In your opinion, in relation to the current year, the skill levels of your employees proved overall:

	a} Poor thereby negatively affecting efficiencies	b}Weak-moderately affecting efficiencies	c} Generally acceptable/able to meet demands	d} Moderately Available	e} More than sufficient
Current year					

BC 18. In your opinion and in relation to the previous year the skills and education which will be demanded from employees will become:

	a} Much more demanding (greater skills needed)	b}More demanding	c} Unchanged / status quo	d} Less demanding	e} Far less demanding
Year 1					
Year 2					
Year 3					

Service quality

SQ1. What are the three biggest obstacles to doing business in KWAZULU NATAL?

	1. No hurdles		2. High collateral requirements
	3. Ownership regulations		4. High interest rates
	5. Tax regulations and/or high taxes		6. Insufficient demand for my products
	7. Skilled labour shortage		8. Competition from imports
	9. Labour regulations and labour costs		10. Crime and theft
	11. Obtaining land and buildings		12. Official corruption
	13. Foreign currency regulations		14. Regulations for starting a new business, new operations or expansion
	15. Lack of business support services		16. Bureaucratic burdens
	17. Inadequate supply of infrastructure		18. Rand weakness
	19. Utility prices		20. Rand strength
	21. Inadequate access to credit		22. Official incompetence
	23. Import regime		24. High rental costs
	25. Export regulations		26. High costs of innovation (R&D)
	27. Poor access to markets		28. Over-traded industry (too much competition)
	29. High cost of maintaining standards/ quality		30. High capital equipment costs and lack of or inefficient administration of incentive schemes
	31. Poor external investor perceptions		32. Political uncertainty
	33. High incidence of worker HIV		34. None of these

SQ2. How would you generally rate the efficiency of <u>local government</u> in delivering services (e.g. public security, education and health etc.)?

a} Very inefficient	b} Inefficient	c} Somewhat inefficient	d} Somewhat efficient	e} Efficient	f} Very efficient

SQ3. Do you anticipate that this will improve or not?

1} YES	2} NO

SQ4 How would you generally rate the efficiency of <u>provincial government</u> in delivering services (e.g. public security, education and health etc.)?

a) Very inefficient	b) Inefficient	c) Somewhat inefficient	d) Somewhat efficient	e) Efficient	f) Very efficient

SQ5. Do you anticipate that this will improve or not??

1} YES	2} NO

INNOVATION, CAPACITY, LEARNING

I.1 Has your firm undertaken any of the following initiatives in the last two years? Please indicate.

	Undertake	
	Yes	No
1. Developed or acquired a major new product line		
2. Upgraded an existing product line		
3. Introduced new technology that has substantially changed operations		
4. Discontinued at least one product line		
5. Opened or acquired a new plant or new business unit or representative office		
6. Closed at least one existing plant or business unit or representative office		
7. Agreed a new joint venture with foreign partner		
8. Obtained a new licensing agreement		
9. Outsourced a major operational activity that was previously conducted in-		
10. Brought in-house a major operational activity that was previously outsourced		

I.2 Thinking of your main product line or main services and comparing the process with that of your closest competitor, which of the following best summarises your position:

1} Our firm's technology generally is less advanced than that of our main competitor	
2} Our firm's technology generally is about the same as that of its main competitor	
3} Our firm's technology generally is more advanced than that of its main competitor	

I.3 Over the last two years, what were the leading ways in which your establishment acquired technological innovations?

a)	By hiring key personnel	g)	Developed in co-operation with client firms
b)	Licensing from international firms	h)	Developed with supplier
c)	Licensing from domestic firms	i)	With a business, industry association
d)	Transferred from parent company	j)	Trade fairs/ Study tours
e)	Developed or adapted within the firm	k)	Consultants
f)	Through buying new machinery and equipment	l)	Universities, public institutions

I.4 Does your firm plan to in developing new capital equipment or technology in 2010?

1} YES	2} NO

HIV/ AIDS

H1. Has HIV/AIDS adversely impacted on your firm's fixed investment decisions?

1} YES	2} NO

H2. If yes, indicate the seriousness of the adverse impact of the HIV/AIDS epidemic on your firm's fixed investment decisions

A} No impact	B} Very little impact	C} Moderate impact	D} Strong impact	E} Prohibitive impact

H3. Indicate, if any, the share of profits has been lost due to the impact of HIV/AIDS epidemic

A} None	B} 0 -5% decline	C} 5 – 10% decline	D} 10 – 20% decline	E} 20 – 50% decline	F} More than 50%

H4. Indicate what percentage of your workforce has been affected by HIV/AIDS

A} 0 – 5%	B} Between 5 and 10%	C} Between 10 and 20%	D} Between 20 and 30%	E} > than 30%

Government support programmes

GS 1. Are you aware of any support programmes for your sector?

1} YES	2} NO

GS 2. Of these programmes, have you accessed any in the last two years?

1} YES	2} NO

GS 3. If you have accessed these, what has been your experience generally?

A} Excellent	B} Very good	C} Fair	D} Poor	E} Very bad	F} No comment

What would you put as the main problems associated with the programme/s you accessed?
(Choose only 3)

a)	Turnaround time too long from submission to approval	g)	Support in areas I don't need or are not a priority
b)	Too many statutory requirements to qualify	h)	Support in areas I need but inadequate for my needs
c)	Complicated process	i)	Support brings interference in my business
d)	Weak administrative support from sponsor	j)	Too many reporting requirements after grant/assistance is given
e)	Weak technical support from sponsor	k)	Too little time given for support to be used
f)	Support limited	l)	None of these

What specific initiative/s do you think should be undertaken by government (local/ provincial) to assist your firm/ sector?

Please complete:

NOTES:

1. BEE Scoring

A BEE score is a rating a company achieves via an accredited verification agency for compliance with BEE. Scores are calculated in ownership, management, employment equity, skills development, procurement, enterprise development, corporate social investment and compliance with industry charters. Below is a chart that sets out scores against contributor status.

	Total BEE Score	**BEE Contributor status**
Ratings	Above 100%	Level One Contributor
	85%~100%	Level Two Contributor
	75%~85%	Level Three Contributor
	65%~75%	Level Four Contributor
	55%~65%	Level Five Contributor
	45%~55%	Level Six Contributor
	40%~45%	Level Seven Contributor
	30%~40%	Level Eight Contributor
	0%~30%	Non Compliant Contributor

2. Way forward

a) Please indicate if we can contact you for verification of any information.

YES	NO

Please indicate if you wish to be part of a focus group discussion. We intend having focus group sessions in mid-February 2001. It will be had over two hours and individuals, government officials and other interested parties. The session provides individuals to give air their views, learn from other sector etc.

YES	NO