

An Assessment of the Factors that Promoted Industrial Growth in Richards Bay

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KwaZulu-Natal Industrial Restructuring Project

FOREWORD

The first phase of the Industrial Strategy Project commenced in 1992. The Project has its origins in the Congress of South African Trade Union's (COSATU) efforts to develop policy responses to the malaise afflicting South African manufacturing.

The first phase of the ISP submitted its final report in 1995. This comprised 11 sectoral studies, a number of cross-sectoral studies, and a synthesis volume that proposed an overall industrial strategy for South Africa.

The ISP is now in its second phase and comprises four research themes. One of these examines the relationship between industrial development and the environment, a second focuses on firm-level innovation, a third examines issues in human resource development, and the fourth is concerned with identifying mechanisms to strengthen manufacturing competitiveness at regional and local levels. Publications of the ISP are listed on the back cover of this paper.

This paper arises from a project established to provide policy support for a key industrial policy programme of the South African government, namely the Spatial Development Initiatives (SDI) or, as they are sometimes more popularly known, the 'development corridors'. This project is a joint effort of the ISP and a dedicated team of professionals based at the Development Bank of Southern Africa (DBSA). The ISP has undertaken work on the industrial aspects of the SDI programmes, while the DBSA-based team has focused on the agricultural and tourism sectors.

These are working papers intended to catalyse policy debate. They express the views of their respective authors and not necessarily of the Industrial Strategy Project or the Development Bank of Southern Africa

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INTRODUCTION

The research findings and policy recommendations presented in this report owe their existence to the Industrial Strategy Project (ISP), who commissioned the study as a mechanism for providing input into the Spatial Development Initiative (SDI) policy framework nationally. The reasons underpinning the ISP's desire for understanding the development of Richards Bay stem from two important assumptions:

- 1. Richards Bay appears to have experienced significant economic growth over the last two and a half decades, and
- 2. Richards Bay is considered to be one of the few localities in which government incentives targeted at industrial decentralisation have worked.

The principle objective of this particular study, then, was to present an understanding (based on in-depth research) of the factors that did facilitate growth in the locality. Some of the issues which necessarily had to be covered in order to complete this task, included an analysis of industrial policy as a growth stimulant for Richards Bay, as well as an analysis of the locality's natural advantages, and the role played by the various stakeholders in the locality - by way of an analysis of the types of institutional relationships prevalent within the greater Richards Bay area.

The central question underpinning the above analysis is whether the dynamic growth of Richards Bay could be replicated elsewhere; and consequently whether the lessons learnt from the locality could play an important role in informing decisions made for the Spatial Development Initiative? As will be highlighted in this report, such an hypothesis is not only simplistic, but also based on a number of misconceptions surrounding the rapid economic growth experienced in Richards Bay.

Richards Bay may be a success story at the broad aggregated level, but the analysis of the locality at a more in-depth level reveals a number of problems, as well as real gaps, pertaining to its economic development. In order to highlight in far greater detail, and in a more structured manner, the important findings that have emerged out of the research undertaking, it is essential to divide this report into a number of sections.

In Section One, the research methodology that was employed for the analysis of the locality is presented in some detail. The main purpose of this section is to outline the manner in which data was collected and the more general analysis conducted. A brief historical overview of the development of Richards Bay is then outlined in Section Two. Section Three attempts to deal with some of the more critical institutional issues surrounding the development of Richards Bay, with an analysis of the role played by various institutional structures being given in-depth consideration.

In Section Four, the critical issues pertaining to Richards Bay's development that emerged out of the stakeholder interviews are considered in some detail. This section forms the crux of the report, as it brings under scrutiny certain of the assumptions that have been made about Richards Bay's economic growth. Section Five is in many ways an appendage to Section Four, with a brief conclusion and various policy recommendations pertaining to the replicability of the Richards Bay experience being presented.

SECTION ONE: RESEARCH METHODOLOGY

The research methodology utilised for this study has been largely qualitative in nature. However quantitative information has been utilised for background purposes, and as a means of validating the assertions that have emerged from the analysis of the qualitative material.

Some of the primary material sources accessed for the writing of this paper included annual reports from companies located in Richards Bay, brochures from various organisations and institutions involved in the development of the area, newspaper articles, statistics generated by the municipality, and finally a number of detailed reports specific to Richards Bay. More general reports on the province's industrial development were used in order to contextualise the issues relevant to the study area.

The most important research method utilised for the sourcing of information was, however, the holding of informal interviews with key informants from the public, private and parastatal sectors¹. This method was chosen in order to (a) elicit different views on the development of Richards Bay, (b) document and critically analyse these diverse opinions, (c) identify the elements of the Richards Bay experience that could and should be replicated in other places, and (d) determine whether the development strategy utilised in Richards Bay should be modified in other areas. This research technique was deemed most appropriate since it allowed widespread consultation with people who had both extensive and relevant knowledge of the important issues pertinent to the development of the Richards Bay locality.

The interviews were conducted on a qualitative rather than a quantitative basis, with the questions posed depending on the area of the respondent's expertise. This coincided, in many instances, with Mann's

(1976: 95) definition of an informal interview:

"...One where the interviewer, having once started the interview off on the theme in which he (or she) is interested allows the informant to dictate the subsequent situation...Since [the] interview is essentially a stimulus-response situation this means that there is very little standardisation of either the stimuli or the recording of the responses."

However, since a relatively large number of interviews were held with private sector industrialists, and since the information required from each of these respondents were largely similar, the questions posed to members of this sector were more structured². The questions posed were, however, largely open-ended thus allowing the personal viewpoints of the respondents to emerge.

Given the sensitive nature of the information provided by the key informants, the information used in the writing of this report has not been personally referenced. Many of the key informants agreed to participate in the study only if the confidentiality of their views was assured. This was therefore deemed to be the most appropriate manner in which to treat the information elicited during the course of the interviews.

SECTION TWO: HISTORICAL OVERVIEW OF DEVELOPMENT IN RICHARDS BAY

Over the last 28 years Richards Bay has developed from a sleepy hamlet engaged mostly in fishing, sugar farming and sugar milling to a modern, growing port town with a vibrant economy and a diversified industrial base. This section of the report will briefly recount the history of that development over four periods: pre-1970; 1970-1980; 1980-1990 and 1990-1997.

PRE-1970: Before 1970 the economy in the Mhlathuze sub-region, of which Richards

¹ See Appendix One for a list of the organisations interviewed.

² See Appendix 2 for a list of these questions.

Bay is a part, was based primarily on the sugar industry with the region's industrial base geared towards sugar milling. In the 1960s it was, however, anticipated that the railway line between the Witwatersrand and Durban would be fully utilised by the early '70s. Studies showed that although the capacity of the line could be trebled or even quadrupled, the mountainous terrain in Natal made the cost prohibitive. Act No. 17 of 1966 was therefore passed in order to authorise the construction of a new railway line from Vryheid to Empangeni. It was planned that this line would serve as a junction for a possible new harbour at Richards Bay (Fair and Jones, 1991).

1970-1980: During the early 1970s the demands of an increasing export market, the periodical congestion at the Durban harbour, as well as continued industrial growth, made the construction of a new harbour in Natal necessary. In addition to these long-term developmental reasons, the decision to build the harbour was precipitated when the Transvaal Coal Owners Association (T.C.O.A.) struck a deal in 1971 for the supply of 2.5 million tons of coal per year to Japan (Fair and Jones, 1991).

Four possible sites for the new harbour were investigated: Kosi Bay, Richards Bay, St. Lucia and Sodwana Bay. Richards Bay was finally chosen as the new harbour site. The size of the bay, the ease of dredging operations, the ease of linking up with the existing railway network, the availability of sufficient freshwater and the existence of an adjacent town to stimulate the initial development process, were the apparent factors that swung the decision in favour of Richards Bay.

National parliament authorised the construction of the new harbour in terms of Act No. 28 of May 1972. Leading on from these developments, Richards Bay was officially opened as a modern deep water port in April 1976. The port consisted of 1,300m of general cargo berths, a small craft harbour with a repair berth and quay facilities and

800m of quays for the export of 3 million tons of coal per annum. In 1975 the National Physical Development Plan declared a growth axis between Richards Bay and the PWV area (now the Gauteng province).

The role of the state in the initial development of Richards Bay is evident from the shareholding of the large anchor projects that started in the early 1970s. One of the main anchor projects, Alusaf, opened for production in 1971, with the IDC, Genmin and Eskom as the major stakeholders. The IDC was also the driving force behind the discovery of the heavy mineral deposits in Richards Bay, and owned 51% of the pilot company that began mining the sand dunes in 1972. The remaining 49% of the company was then owned by an American company, KRC Resources; but this was taken over by QIT, an Australian company in 1974. Over the next few years the IDC reduced its shareholding in favour of two South African companies, until it eventually owned only 16,8% of Richards Bay Minerals (RBM) - which was established in 1976.

Triomf Fertilisers, now called Indian Ocean Fertilisers, was the third big company established in the 1970s. The major stakeholders in Triomf were OTP and Foskor, another South African government parastatal. The building of the Richards Bay Coal Terminal, the largest coal terminal in the world, coincided with the building of the port itself in the early to mid-1970s.

1980-1990: In 1982 Richards Bay was designated as an industrial growth point by the "Good Hope Plan: 1982-1990", and benefited from incentives designed to attract industrial development into the region. Industrialists choosing to locate their businesses in Richards Bay were therefore eligible for an incentive package that included the following short-term incentives:

- a wage incentive of either 80% or 95% of the average wage and salary bill,
- an interest concession for 10 years on 100% of the value of land and buildings

- an interest concession for 10 years on 50% of the value of other assets (up to a maximum of R7 million)
- a rental concession of 20-80% for a period of 10 years

The package also included the following long-term incentives:

- a transportation rebate of 40-60%
- training allowances of up to 125% of expenses
- subsidised housing for key personnel
- a relocation allowance
- a 4-10% price preference on government tenders
- subsidised electricity (Flaherty, undated: 5)

The 1980s saw the establishment of many new businesses in Richards Bay. The Central Timber Co-operative, attracted by the port and the raw materials available in Piet Retief and Melmoth, set up a chipping mill in the area in 1981. The same year saw, Suncrush, a company that produces and bottles carbonated soft drinks, establish itself in Richards Bay. Bell Equipment, in addition, relocated from Empangeni to Richards Bay in 1983. The Mondi Paper Company set up operations in the locality in 1984. It is important to note that *none of these companies were connected to the operations of the major anchor investments in any manner.*

1990-1997: The 1990s saw the removal of many of the incentives enjoyed by industry in Richards Bay as South Africa began to liberalise its economy. The export incentives and electricity rebates were some of the incentives that were cut during this period. The RIDP was, in addition, again revised in 1991. The incentives offered by this round of the RIDP were more spatially neutral, and sought to promote national industrial development rather than location-specific investment. Incentives were now designed to reward output and productivity and could be claimed only for a period of five years. These benefits included:

- an annual establishment grant of 70% of operational assets (up to a claim of R15 million) for the first two years of a project
- an output incentive for the following 3 years calculated on the basis of taxable profits, but where the claim cannot exceed the annual establishment grant, and
- a R1 million relocation grant for foreign firms (Seneque Smit and Maughan-Brown, 1993: 17).

This version of the RIDP also stipulated that all incentives under the 1982 Good Hope scheme would be terminated by 30 June 1993, with the exception of the ten year interest concessions and the seven year cash wage incentive which would run their full course. The benefits of the 1991 RIDP applied to all regions in the country with the exception of the core areas within the PWV, as well as Durban. Firms in these two localities were not eligible for any part of the RIDP benefits. In addition, the deconcentration area around the PWV, the Cape Peninsula and the Durban-Pinetown-Pietermaritzburg regions were eligible for only 60% of the incentives applicable for the first two years of projects situated elsewhere (Seneque Smit and Maughan-Brown, 1993: 17). Richards Bay has therefore been eligible for the entire range of the 1991 RIDP benefits, in addition to its preferred status in the 1982 Good Hope Plan.

Two of the larger companies that have settled in Richards Bay during the 1990s, are SilvaCel and Syncat. SilvaCel, a company that has recently been acquired by Mondi, located in Richards Bay in 1993, while Syncat, a producer of zeolite catalysts, set up operations in the area in 1990. The continued role of the government in the development of the area is again apparent in the sixty percent shareholding in Syncat by the Central Energy Fund. Again, neither of these two companies have direct linkages with the production processes of any of the anchor projects.

The largest investment in the area in the 1990s, however, came in the form of a second smelter built by Alusaf. The IDC was again a

key player in facilitating the building of the R7,2 billion Hillside smelter. The IDC was instrumental in arranging foreign export credit finance for the project, in addition to giving the project an R800 million loan facility itself. A deal between Eskom and Alusaf, linking the price of electricity to the aluminium price on the London Metals Exchange was also a crucial factor in securing the viability of the project. Moreover, Alusaf benefited from the accelerated tax allowances on beneficiation projects allowed by Section 37E of the Income Tax Act. This allowance was designed to benefit companies beneficiating local raw materials only, but an exception was made in the case of Alusaf which actually imports the alumina it uses as raw material.

Although commercial activities have historically been restricted to Empangeni, with industrial enterprises being directed to Richards Bay, there has lately been a blurring of this division. The last three years have seen a boom in the commercial sector in Richards Bay, with the construction of several new shopping centres containing a large range of chain stores and supermarkets. This flourishing of the commercial sector may, in part, be attributed to the influx of people into the area during the construction of the Hillside smelter that began in 1993 and ended in June 1995.

Having sketched in the historical development of the locality, it is now important to look at the manner in which the broader institutional environment (both in Richards Bay, as well as nationally) has impacted on its development over the last two and half decades.

SECTION THREE: THE IMPORTANCE OF INSTITUTIONAL STRUCTURES TO THE DEVELOPMENT OF RICHARDS BAY

Development theory and practice has increasingly revealed the importance of institutions as development facilitators. It has been argued, for example, that economic development is only possible when an

appropriate development-oriented institutional environment has been established. The ISP has, moreover, assumed that the institutional environment operative in Richards Bay has played a role in the development of the locality. This section consequently attempts to analyse the role played by the various institutional structures responsible in some way for the development of Richards Bay.

This analysis of the institutional environment in Richards Bay is broken up into three sections. The first section considers in some detail the role played by the public sector, whilst the second section looks at the role of the private sector. The last section then considers the role of the parastatals. The analysis, in addition, focuses on each of the more important institutions operative within each of the three sectors.

3.1. THE PUBLIC SECTOR

The analysis of the public sector's impact on the locality will attempt to disaggregate the effects of each of the three tiers of government. This sub-section will therefore begin with an analysis of the role of central government in the historical development of Richards Bay. The analysis then moves on to look at the effect of the provincial government on the development of the region before concluding with an analysis of the role played by the local authority.

3.1.1. THE ROLE PLAYED BY THE CENTRAL GOVERNMENT

On the face of it, the central government appears to have been instrumental in the development of Richards Bay, especially in the initial stages of development. Investment in the region was catalysed by the central government's decision to build a port in Richards Bay (Act No. 28 of 1972) and to lay a railway line from the Witwatersrand, the powerhouse of the South African economy, to Empangeni, just twenty kilometres away from Richards Bay.

Central government has also, over the past few decades, attempted to attract investment into South Africa through a range of incentives such as subsidies, allowances and tax holidays. As mentioned previously, the government also attempted, historically, to influence the spatial distribution of investment within the country through the use of industrial policy instruments, such as its decentralisation policy and the Regional Industrial Development Programme (RIDP). Richards Bay has benefited from the entire range of incentives offered under these programmes. However, the importance of the incentives provided by these programmes to the development of the Richards Bay locality appears to have been overestimated.

The stakeholder interviews suggested that the government had an even more prominent role in the planning of Richards Bay. In 1969 the national Department of Planning formed a Development Committee for the Richards Bay region. This Committee included representatives from the Industrial Development Corporation (IDC), the South African Railways and Harbour Administration (SARH) and the Department of Planning. The local Health Committee was then upgraded to the status of a Town Board, in anticipation of an increase in the local population with the building of the new harbour and the investments in the anchor projects. However, the Department of Planning sent down its own personnel to direct development in the capacity of acting councillors. The development of the area was therefore controlled by the national Department of Planning until 1982 when a Town Council was formed and town councillors elected. This mechanism of replacing a local authority with instruments from central government precluded the necessity of trying to co-ordinate the actions of the different tiers of government. This action might have been quite well advised since the newly formed Town Board was unlikely to have had the capacity to effectively plan and direct development or, for that matter, attract investment.

There appears to have been little co-ordination between local and central government in the transmission of industrial policy since the reinstatement of elected officials to the local authority in Richards Bay in 1982. The local government has, for example, generally been unaware of the various incentives offered by central government for which investors within their area would have been eligible at different times. This institutional gap has not, however, compromised the operations of the larger companies over the last decade and a half, since these companies have been able to hire personnel to fulfil this function.

It has been the smaller industrialists who have suffered the brunt of the institutional gap in government operations. Historically, accountants who were retained to audit the operations of the smaller firms, have offered their services in accessing the industrial incentives. However, these services were merely incidental to their main auditing function and one is uncertain of their efficacy in negotiating the complex incentive schemes offered by government over the years.

The relationship between these two tiers of government is still characterised by significant distance today. Employees at the Transitional Local Council (TLC) are themselves unaware of the incentives that investors may now access. One respondent at the TLC stated that he had only recently found a contact person within the Department of Trade and Industry to whom he could direct investors. This indicates the persistence of co-ordination problems between the various tiers of government in transmitting industrial policy. This failure in the institutional functioning of government has recently been taken up by private consultants who are attempting to fill the institutional gap by acting as go-betweens for the DTI and private investors who wish to apply for industrial incentives.

Interestingly, the large industries report a much closer working relationship with central government presently than does the local government. However, this relationship

assumes the form of lobbying government for their own sectoral interests. Respondents from the large industrial projects in Richards Bay reported that the new government is aware of the developments in the industrial sector and have been ready and willing to talk to big business. Government, apparently, has an 'open door' policy - where large industries, individually and as a pressure group, have access to central government at their own discretion. However, this access to government has been an aspect of the new government alone. Before 1994 the relationship between big business and the central government was not nearly as close.

3.1.2. THE ROLE PLAYED BY THE PROVINCIAL GOVERNMENT

None of the respondents interviewed mentioned the provincial government as a role-player of any importance in the development of Richards Bay, making this tier of government quite conspicuous by its absence. One respondent complained that the provincial government had focused its attention and resources on the development of Durban, to the exclusion of other areas within the province; the respondent therefore called for the greater involvement of the provincial government in the economic development of Richards Bay³.

The non-involvement of the provincial tier of government in the development of Richards Bay in the past is however, quite understandable, particularly given the concentration of power within central government during the last administration. Notwithstanding this fact, respondents reported no increase in the activities of the provincial government within the industrial sector of Richards Bay since the change of government. This is disconcerting given the present government's commitment to devolving responsibilities and line functions to the provincial level.

3.1.3. THE ROLE PLAYED BY THE LOCAL GOVERNMENT

A Health Committee was established in Richards Bay in 1954, since its population was then too small to warrant the establishment of a Town Board. The anticipated construction of the harbour and the growth in the region's population that this was expected to encourage, led to the upgrading of the Health Committee to the status of a Town Board in 1969. The interviews indicated little consensus about the role played by the local authority in promoting and facilitating growth in Richards Bay, both presently and historically.

Whilst the local government appears to overstate its own role, citing its ongoing participation in land development and its aggressive marketing campaigns, nationally and internationally, as the prime reasons for the high growth rates within Richards Bay, other respondents were far more ambiguous in their response to the role played by the local government. Whilst respondents from the private and parastatal sectors agreed that the local government had actively marketed the area and had been efficient in providing basic services, they noted, for example, that the spatial layout of Richards Bay had been badly planned with long distances being evident between the commercial, residential and industrial areas (Claude, 1997).

The problems associated with this poor planning are clearly obvious today, with the long distances between workplace and home being exacerbated by the continued inability of the local government to provide an efficient transport service. The bus service between the residential areas and the commercial centre is infrequent, while the public transport service between the industrial and residential areas is non-existent. This gap has been filled by private sector entrepreneurs who run taxi services within Richards Bay, as well as between Richards Bay and its surrounding areas.

The central government donated all

³ The respondent appeared to be specifically referring to the provincial government's involvement with the development of the Durban harbour at the cost of Richards Bay harbour.

municipal lands to the local authority in the 1970s. The local government in Richards Bay has thus been in the unique position of owning all the undeveloped land within its administrative boundaries since that time. The municipality has developed this land in parcels of 0.5 hectares and less (small sites) or in parcels of 1-2 hectares (medium sites), although larger parcels of land have been made available on demand.

Respondents in the private sector complained that despite its availability, the price of land in Richards Bay has always been artificially high, and that this has acted as a deterrent to the locality's development. Respondents attributed the relatively high land prices to the long-standing monopoly of the land market by the local authority. The local government has apparently been reluctant to negotiate land prices with potential investors over the years, and has reportedly hindered the development of the area because of its insistence on securing the highest prices possible. One of the respondents in the private sector attributed Richards Bay's recent loss of the Iskor project to Empangeni to this reluctance on the part of the local government.

It has, in addition, always been the policy of the Richards Bay municipality to add a clause to the sale of its land to investors, stipulating that the new business must buy its water and electricity from the municipality itself. Although respondents agreed that the municipality had always been an efficient provider of these utilities, private sector respondents complained that the clause had increased the price of water and electricity for industries that are often large users of these inputs⁴. Industries asserted that they would have been able to negotiate more favourable terms on the supply of these utilities if the local government had allowed them to deal directly with the suppliers of these utilities. Private investors cited the increased price of electricity and water from the municipality as a major deterrent to development in the area over the years.

In summary then, the local government has been very efficient in its attempts to support industrial development in the region over the last two decades. It has proven to be an efficient supplier of roads, services, utilities and serviced development land. It has also been proactive in aggressively marketing the area to national and international investors. However, these are all very much the usual duties of a municipality and cannot therefore be seen as the driving force behind the development of the locality - although the Richards Bay municipality may arguably have been more efficient in the provision of these services than other municipalities. Several aspects of the municipality's operations have, moreover, been cited as deterrents to private investment in Richards Bay. These factors include (a) the badly planned spatial layout of Richards Bay, (b) its monopolisation of the market in undeveloped land and (c) its insistence on supplying water and electricity to private investors, thereby pushing up the price of these utilities.

Even those respondents who were most critical of the role played by the local government within Richards Bay failed to suggest any additional services that they would wish to see the municipality provide, except to 'free up the land, water and electricity markets' in the region. Respondents also believed that the rates collected by local government should be decreased in order to attract investors. They saw the realm of the local government as being restricted to the provision and maintenance of roads and social infrastructure such as schools, housing, sanitation services and the supply of residential water and electricity. These functions were, at the most, extendible to environmental monitoring services and the marketing of the region in order to attract investment.

3.2. THE PRIVATE SECTOR

The first part of this sub-section analyses the role of the Zululand Chamber of Business,

⁴ The municipality adds a surcharge to the basic tariff at which it buys these utilities from Eskom and the water suppliers.

while the second part investigates the developmental role assumed by the larger industrial firms within the region.

3.2.1. THE ZULULAND CHAMBER OF BUSINESS

The Zululand Chamber of Business (ZCB) has been effective in representing the interests of its members within Richards Bay. Members reported no problems with regards to the services offered by this organisation. However, despite the efficiency with which the ZCB fulfils its functions, members did maintain that the organisation offered no extraordinary services that might possibly account for the accelerated development of the area.

The Chamber was set up in 1926 and was therefore well established within the area by the early 1970s, when Richards Bay first started on its phenomenal road to industrial success. The ZCB is the largest institution of organised business in the region. Other business organisations which are relatively new in the area, include the Black Management Forum and the National Industrial Chamber. The Zululand Chamber of Business reports a close working relationship with these two business organisations since their inception a few years ago.

The Zululand Chamber of Business has a rather involved institutional structure, with four divisional committees representing different areas within its constituency. Richards Bay is itself served by two Divisional Committees, one for large businesses and another for smaller commercial and industrial concerns. The Chamber explained that this division was meant as a mechanism to avoid the sidelining of the issues concerning small businesses in an area dominated by large business concerns.

This divisional breakdown within a regional Chamber of Business is quite unusual. The respondent from the Zululand Chamber of Business maintains that these

divisions have been responsible for the unusual efficacy of the Chamber in the region. Although most respondents in the private sector believed that this complex institutional structure had increased the ability of the Chamber to represent and develop private businesses in the region, there were some dissidents (two respondents) who believed that it had actually hindered the ability of the Chamber to properly serve its members. However, it appears as if the divisional distinctions within the ZCB facilitated the functioning of the organisation by ensuring that each division had a clear function and a small enough constituency to ensure that the smaller interest groups within each constituency were not marginalised.

The Zululand Chamber of Business consequently appears to have been quite capable in its functioning as a representative body for business in the Richards Bay region. Moreover, one respondent from the private sector maintained that the Chamber had been proactive in promoting linkages between firms, thereby promoting the knock-on effects of the establishment of large industries. The Chamber also issues certificates of origin for exporters based in the area. This is a service not usually offered by a Chamber of Business, and indicates that the ZCB has been quite innovative in its attempt to serve businesses within Richards Bay. However, respondents did not believe that the ZCB had offered any extraordinary services that might have accounted for the locality's dynamic growth.

3.2.2. LARGE INDUSTRIES

The large industries in Richards Bay appear to have played a significant role in promoting the social and economic development of the area over the last two decades, through their social responsibility programmes, as well as other initiatives. The initiatives from big business have included the establishment of a Business Advice and Training Centre by one company.

The Business Advice Centre has provided

managerial training for employees with skills gained through practical and job-related experience but who required managerial skills in order to set themselves up as entrepreneurs in their own right. The services of the Business Advice Centre have also been available to other companies or private individuals who required the skills taught at the Centre.

Another company invested in the construction of modular housing units for workers during the construction of a new plant. At the end of the construction phase of the project the company donated the buildings for re-erection as educational facilities in local communities. The same company had 10,000 wooden crates that were used to deliver equipment to the new plant, made into crèches, classrooms and saleable products through the Zululand Chamber of Business.

One respondent reported that his company has long been engaged in a scheme to help its employees establish themselves as sub-contractors to the firm. Employees have, for example, been encouraged to use the expertise gained from their experience with the company to set up as entrepreneurs and service contractors. The truck-drivers working for the company were the first employees targeted by this scheme. The scheme was divided into three phases. During the first phase, the drivers were allowed the use of the trucks free of charge, on condition that they were responsible for the maintenance of the vehicle. This phase allowed the drivers to save money and build up capital so that they could start repaying the company for the trucks in the second phase. During the first two phases the drivers were obliged to work only for the company in question. By the third phase of the programme the drivers owned the trucks themselves and were then able to sub-contract their services to other clients as well.

The big industries in Richards Bay were also responsible for founding the Chamber of Business Foundation in 1994. The

Foundation is committed to the promotion of small businesses in the area. Business is also a partner in the Business-Education Network, which has attempted to integrate and match the needs of the business and education sectors through the formulation of innovative curricula.

The TLC agreed that the big industries have been quite proactive in their 'social responsibility' programmes and conceded that their involvement in schemes that promote small businesses might have accelerated development in the area. However, the small business sector in Richards Bay is still patently under-developed, so the efficacy of these initiatives cannot be accepted without further investigation. Moreover, large industries have not been proactive in their relationships with other institutions in the area. The large companies have no relationship with the local authority, except as consumers of the services provided by the municipality. These companies have not attempted to co-ordinate their development initiatives with the TLC's vision for Richards Bay. In addition, there has been little co-ordination between the initiatives of the various companies within the industrial sector itself. The impact of this sector on development within the area would undoubtedly have been increased if they had formed closer relationships with one another and invested jointly in social development programmes.

3.3. THE PARASTATALS

This Section explores the role of the Industrial Development Corporation, the KwaZulu Finance and Investment Corporation, the KwaZulu-Natal Marketing Initiative, Eskom and Portnet in the development of Richards Bay.

3.3.1. THE INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

The IDC was established in 1940 and was charged with the promotion of national industrial development. The IDC has, since

its inception, focused on identifying and developing key sectors and on promoting the economic development of under-utilised resources (Flaherty, undated: 4).

The IDC was instrumental in ensuring the establishment of Alusaf, one of the primary anchor projects in Richards Bay in 1971. However, the IDC decided that an aluminium smelter would be a good investment for South Africa long before Richards Bay was targeted as an important development node. Three possible sites, Pietermaritzburg, Woodbank and Durban were considered for the erection of the smelter. Each of these three sites were ruled out after due consideration. The cost of transporting the raw material to Pietermaritzburg was discovered to be prohibitive since transporting the imported inputs from Durban to Pietermaritzburg offset the advantage of being close to the point of consumption⁵. Woodbank was also ruled out because of the associated transport costs, while Durban had no vacant land available around the harbour. Richards Bay was finally settled upon as the site for the new smelter because the government was by then talking about building a new harbour there. The IDC would therefore have invested in Alusaf no matter where it was set up in South Africa.

The IDC was also the driving force behind the discovery of the heavy mineral deposits in Richards Bay, which led to the establishment of Richards Bay Minerals, another anchor project in the locality. Here again, the IDC prospected for minerals all along the KwaZulu-Natal beaches, not just in Richards Bay, and would have invested in a mining project wherever it found minerals, even if the deposits were not situated in an area identified as a growth point by the government.

It appears then, that the crucial factors in attracting these projects to Richards Bay was not IDC intervention, but the existence of the harbour and the natural mineral resources of the area. However, an important distinction must be drawn here between attracting

investment and supporting industrial development. These are two vastly different, but equally important facets of the economic development of a locality. The IDC played an instrumental role in supporting the development of the industrial base in Richards Bay by initiating and financing enterprises in conjunction with private sector partners. It would therefore appear that the development of Richards Bay was not the end result of a deliberate attempt by the IDC to develop the locality. Rather, the harbour and the natural attributes of the region lent itself to development, in which the IDC was a major role-player merely because it was fulfilling its mandate to promote national industrial development.

The above argument does not question the undoubted importance of the IDC in facilitating the growth of Richards Bay. It attempts merely to establish the relative importance of the IDC on the one hand, and the natural attributes and the harbour on the other hand, in attracting investment to Richards Bay.

As mentioned earlier, the IDC was part of the Development Committee formed by the Department of Planning in order to direct the development of the Richards Bay area. This would indicate that the IDC had strong links with the other members of the Committee (the SARH and the Department of Planning) in terms of their dealings with Richards Bay at that point in time. However, it appears as if the IDC's relationship with the government or the port authority in Richards Bay was not sustained after the suspension of the Committee. The local government official interviewed was, for example, quite unsure of existing links with the IDC; while Portnet reported very little interaction with the IDC in more recent times. There appears to have been more sustained links between Eskom and the IDC, since both institutions have often participated in large industrial projects together, including the initial Alusaf investment in Richards Bay, and the new

⁵ Hullefts, which was then the largest consumer of aluminium in the country was situated in Pietermaritzburg.

Hillside smelter. However, these links do not appear to be particularly close, since Alusaf had to negotiate deals with each of these organisations separately.

3.3.2. THE KWAZULU FINANCE AND INVESTMENT CORPORATION (KFC)

The KFC was established in 1968 as the development arm of the KwaZulu government. It was established as a mechanism for promoting the development of business enterprises and projects within the KwaZulu homeland. The KFC therefore had very little involvement in the development of Richards Bay itself, since Richards Bay was still designated a 'white' area at the time. This was especially true of the initial stages of development in Richards Bay. The KFC did, however, lobby to have its mandate increased to include the promotion of businesses within both KwaZulu and Natal in the late 1970s (Seneque Smit and Maughan-Brown, 1993: 34).

The town clerk of Richards Bay is presently a member of the Board of the KFC as is a representative from Portnet, so one must assume that the present links between the town and the KFC are quite strong. However, a proper assessment of the KFC's involvement in the area can only be undertaken by an examination of the organisation's exposure in the region. This information has not been forthcoming.

3.3.3. THE KWAZULU-NATAL MARKETING INITIATIVE (KMI)

The KMI is an association of different institutions, including local authorities, businesses, Spoornet, Portnet and the KFC who decided to pool their energies into marketing KwaZulu-Natal to potential investors in 1992. The Richards Bay municipality is also a member of the KMI.

The KMI was reluctant to participate in the study, claiming that their involvement in Richards Bay had been too superficial to yield any useful information. The respondent

insisted that the KMI had rendered no exceptional services to Richards Bay and had, as such, no special involvement with the area.

The respondent was, additionally, unable to describe the relationship between the KMI and the Richards Bay local government, which in itself indicates that their working relationship has not been very close. Moreover, the respondent was unaware of the role played by the central government and the Small Business Development Corporation (SBDC) in Richards Bay, which indicates that the KMI's involvement with these institutions in the region has also been minimal.

3.3.4. ESKOM

Eskom supplies electricity to the local Richards Bay borough, which in turn sells the electricity to industrial, commercial and residential users. The relationship between Eskom and the local authority is limited to this level only. Eskom provides electricity directly to Alusaf which is the biggest consumer of electricity in Richards Bay. Although Eskom has always supplied Alusaf directly and even though Eskom was a major stakeholder in the first smelter, it has until recently, charged the company the standard tariff for its electricity.

However, Alusaf has recently renegotiated its deal with Eskom and has now had the price of its electricity linked to the price of aluminium on the London Metals Exchange. This deal was crucial in enabling Alusaf to start up the new Hillside smelter. However, Eskom maintains that the commodity-linked pricing mechanism is an option open to use by any industry within the country if a suitable commodity can be agreed upon. Eskom has therefore had no special relationship with Richards Bay itself and has played no extraordinary role in the development of this area, as compared to any other area in the country.

3.3.5 PORTNET

The port in Richards Bay was previously owned by the South African Rail and Harbour Services (SARH), but it is now owned and operated by Portnet. Portnet is a division of Transnet which registered as a company in 1990, after the decision to commercialise the transport parastatal. Transnet is nevertheless still owned by the state.

The importance of the harbour in attracting investment into the locality has been alluded to throughout this report. Since the harbour has been instrumental in attracting investment into the region, the importance of the SARH in promoting the development of Richards Bay cannot be doubted. The present Portnet also maintains a close relationship with the local government which has included Portnet's 'Master Plan for Richards Bay' in the recent "Richards Bay Structure Plan" prepared by the TLC. This indicates a laudable attempt to co-ordinate future plans for the development of the port with the development vision for Richards Bay itself.

3.4. THE RELATIONSHIP BETWEEN THE VARIOUS INSTITUTIONS

There appears to have been very little exceptional co-ordination between the various institutions in the historical development of Richards Bay, except in the initial phase when central government formed a Development Committee, with the IDC and the SARH, in order to direct development in Richards Bay. The various organisations all appear to have functioned quite efficiently in fulfilling their own functions, however, there have been no innovative institutional relationships underpinning development in the area historically.

However, there have lately been some attempts to establish greater co-ordination between the various institutions. For example, the local government is now a member of the Zululand Chamber of Business. However, the Chamber reports that

the local government has not played a particularly proactive role in facilitating development.

Portnet, on the other hand reports a close historical relationship with the local government. The local government provides Portnet with water, electricity and services and makes land available to Portnet when necessary. Moreover, the local government is willing to co-operate in establishing private investors who require the use of the port facilities close to the port itself, thereby facilitating the transport of cargo from the port to the various industries and vice versa.

There also appears to be a rather innovative relationship between local schools, the University of Zululand and local businesses in Richards Bay. These players recently met at a conference to discuss closer working relationships between the business and the education sectors. Issues discussed included (a) how partners in business could contribute to the process of developing schools rather than just sponsoring development, (b) how schools and businesses could together develop new curricula and outcomes based education that equipped students with life skills and skills for the job market, (c) what schools could offer to business, and (d) how to restructure the Business-Education Network in Richards Bay.

However, the strength of the institutional structure in Richards Bay appears to have resided not in any special links between the various institutions, or in the particular efficacy of a single institution. Rather, each institution has been efficient in the execution of its own duties without offering any extraordinary services to industries in the area. It is quite probable that greater co-ordination between the various institutions would have accelerated development within the locality.

SECTION FOUR: CRITICAL ISSUES

This section builds on the information presented in the previous section and analyses

in some detail the critical issues that emerged during the course of the research undertaking. The section is consequently sub-divided into those critical issues which we believe have either impacted on, or played some role in, the development of Richards Bay over the last two and a half decades.

4.1. IMPORTANCE OF INCENTIVES IN FACILITATING GROWTH IN RICHARDS BAY.

The Spatial Development Initiative appears to assume that central government intervened effectively in the spatial structuring of development by directing investment to Richards Bay through investments in infrastructure, anchor projects through the IDC; as well as the offering of incentives to companies who settled in Richards Bay. Whether this is really the case, however, is highly contentious. The representative of one parastatal suggested, for example, that the government did not have sufficient foresight to plan the development of Richards Bay to the degree that is often assumed. This respondent argued that the benefits usually assumed to have been instrumental in directing investment to Richards Bay did not, in fact target Richards Bay specifically, but applied to a range of other areas to a larger or lesser degree.

In 1982 Richards Bay was, for example, designated as an industrial growth point and benefited from incentives designed to attract industrial development into certain regions. The RIDP was revised again in 1991 with Richards Bay once again being eligible for the entire range of RIDP benefits, indicating a consistent preference for the area in terms of the central government's industrial policy. However, the interviews with the private sector investors in Richards Bay suggested that the incentives had merely been the 'cherry on the top' for industries and that they had not been instrumental in attracting development to Richards Bay. Eight of the nine firms interviewed cited reasons other than the incentives offered by government as their reason for settling in Richards Bay, and

all eight stated that they would have settled in Richards Bay even without the government benefits.

Moreover, only one of the nine private sector members thought that government incentives were unqualifiedly necessary for the promotion of industrial growth in the locality. Two respondents thought that incentives were necessary for small businesses rather than for the large businesses that have benefited from them. Another respondent believed that the incentives were useful only to marginal investment projects. The other five respondents maintained that government incentives changed far too often, in any case, to be a major factor in the locational decisions of any firm. A respondent from the TLC contended that Richards Bay would have developed successfully even without the initial incentives offered to the anchor projects by central government. This respondent believed that the strategic advantages of the area in addition to the building of the port would have been sufficient in initiating and sustaining its development.

However, the incentives do appear to have contributed to the profitability of the companies, although it is unlikely that any of the firms interviewed, with the exception of one, would have had their operations endangered if the government had not offered them incentives. The benefits offered did not significantly change the profitability of even the one exceptional firm; this firm was liquidated in 1985, despite the help it received from government through the border development incentives, the decentralisation assistance and the labour and capital related allowances of the General Export Incentive Scheme (GEIS).

One company did, however, maintain that the tax allowances and the benefits received from GEIS were instrumental in allowing it to develop its offshore operations during the era of sanctions against South Africa. This company utilised the export benefits to offset the infrastructural costs of developing its

markets in Asia and Africa, a developmental objective that would have been considerably delayed without the benefits from government.

In retrospect then, the incentives offered by government cannot be seen as the prime mover in the decision of firms to locate within Richards Bay. This conclusion is corroborated by the research among the smaller manufacturing firms that have benefited from the 1991 RIDP incentives. In the majority of the cases, the private sector used the incentives merely to prove a greater degree of profitability. The incentives did not play a dynamic role in the locality, although in at least one case, they did allow an export-oriented firm to expand its market base by ensuring that it had access to additional resources.

4.2. IMPORTANCE OF THE HARBOUR

Richards Bay has the biggest deep water port in South Africa and it is also currently the country's major port for the handling of mass freight. It handles approximately 74 million tons of cargo per annum, 53% of the total tonnage handled by South African ports. The harbour is used primarily for the export of bulk goods and is larger in area than all the other South African harbours put together. Moreover, only 35% of the port's land capacity is presently being utilised, while both the Durban and the Cape Town harbours are presently working at 90% of their capacity.

The port presently consists of 2,2 kilometres of quay for the bulk and combi terminals, and an additional 1,4 kilometres for the private activities of the Richards Bay Coal Terminal (RBCT) which exports 51 million tons of coal per annum. These figures show a significant increase in size from the 1,300 metres of general cargo berths and the 800 metres of quay for the export of coal when the harbour was first established in 1976. In addition, the harbour now includes 445 hectares of dredged basins and

navigation channels.

The harbour has undoubtedly been a key determinant for the location of firms in Richards Bay. Private sector respondents were, for example, asked to rank the factors that impacted on their decision to locate at Richards Bay. Five of the nine respondents cited the port as the single key factor in their company's decision to invest in the locality. Moreover, two of the nine respondents mentioned the port as the second most important factor. Of the nine respondents, only two failed to mention the port as a major factor influencing their decision to settle in Richards Bay.

One of these last two companies exports 50% of its output, but has to have the product transported by road to the Durban harbour because the Richards Bay port does not have a container facility. This shortcoming of the Richards Bay harbour also has an important effect on a second company interviewed. This company has its product transported to Durban in the following manner: 40% of its product is transported by rail, 50% by road and 10% by air. However, 90% of this firm's inputs are imported through the Richards Bay harbour, thereby accounting for the importance of the harbour in its locational decision.

It is quite possible that the omission of a container handling facility from the Richards Bay harbour has had a negative impact on the economic development of the region. A container facility would have had a significant spin-off effect on employment generation in the area since its operations are relatively labour intensive. Moreover, it is usually the industries that are involved in the export/import of high value-added products that require container facilities. These industries have failed to develop in Richards Bay, as discussed in a later section.

In 1995 the port employed 2,500 employees⁶. This figure is set to increase

⁶ This figure probably includes the people employed by the Richards Bay Coal Terminal (RBCT), since the interview with Portnet indicated that the port presently employs approximately 1,500 people, of whom about 500 are directly employed by RBCT. The respondent indicated that employment figures have decreased over the last 5 years.

should several projects that are presently in the pipeline come to fruition. These projects include a finger jetty for the dry bulk terminal, another coal terminal, a dry dock, as well as additional quays. Portnet anticipates that these projects would generate a total of 1,650 temporary jobs during the construction phase, 1,950 permanent jobs after construction and 13,650 permanent jobs of an indirect nature⁷.

The construction of the new dock has been initiated by Rowley Morgan Engineering, a Richards Bay based engineering firm that provides support services to the large industries. The dry docks will be constructed on 27 hectares of land that the company has leased from Portnet for a period of 50 years. The new dry dock will allow vessels to enter the harbour for repair and maintenance services. This development could possibly lead to the growth of a range of shipbuilding and maintenance enterprises. Portnet anticipates that these industries will in turn attract more basic metal and fabricated metal producers into the area.

The harbour has therefore been crucially important for attracting investment to the locality, ranging from the initial anchor projects to some of the newer industries that were established in the 1980s and early 1990s. Moreover, further development of the harbour is likely to have far-ranging knock-on effects, particularly since the developments are likely to be labour absorbent.

4.3. IMPORTANCE OF INFRASTRUCTURAL INVESTMENTS (IN TERMS OF ROADS AND RAILWAYS)

Infrastructural investments in the transport networks around Richards Bay have promoted the development of the locality by increasing access to and from the area. This has facilitated the movement of raw materials to, and the transport of the finished products from, the site of production.

Since Richards Bay is the closest South African port to the Gauteng area, the acknowledged powerhouse of the South African economy for the last few decades, it has also benefited from the traffic of imported inputs and export goods to and from that area.

A railway link between Richards Bay and the Gauteng was established in 1976. Spoornet is the division of Transnet that owns and operates the national railway grid. Most of the cargo to and from the Richards Bay harbour is transferred by rail. In order to compete with road transport, Spoornet offers rebates or reduced rates on products like manufactured goods and timber - although the effectiveness of certain of these mechanisms are open to question (Seneque Smit and Maughan-Brown, 1993: 17).

Richards Bay is also linked to the Gauteng, Ulundi and Vryheid via the national road. This road is used by heavy vehicles involved in the transport of industrial and manufactured goods and inputs. The Zululand Chamber of Business is, however, concerned that the quality of this road will be compromised if an upgrade is not conducted soon. The Chamber is afraid that the deterioration of this road will impact negatively on development within Richards Bay (ZCB, undated: 4).

Whilst the importance of the harbour in promoting development within Richards Bay has already been explored, it needs to be noted that the developmental impact of any harbour is seriously limited without the establishment of proper links to its hinterland. Three of the nine respondents mentioned the road and rail infrastructure as an important factor influencing their decision to invest in Richards Bay. All respondents from the private sector did, however, mention that the government should undertake the provision of an improved transport and services infrastructure (or it should alternatively facilitate the ability of the private sector to provide the services and infrastructure) if it

⁷ This last figure is calculated by multiplying the number of direct permanent jobs created by a multiplier of seven.

wished to promote additional private sector investment within the area.

4.4. NATURAL ADVANTAGES OF RICHARDS BAY

Several natural factors have contributed to the accelerated growth of the Richards Bay region. The harbour itself, whose importance is analysed above, was largely a natural port, and was therefore relatively easy to establish. As also mentioned earlier, the beneficial location of Richards Bay as the nearest port to the Gauteng has also promoted the development of the region.

In addition to these natural benefits, Richards Bay also enjoys a number of other natural advantages. It is, for example, part of the Coastal lowlands and thus has a bioclimatic profile that renders it very suitable to diverse agricultural production. The region's rich agricultural lands have been used mainly for the production of sugar cane and for timber. These agricultural crops have, in turn, led to the development of agro-processing industries, some of which are located in Richards Bay, e.g. Mondi Paper Company, the Central Timber Co-operative and SilvaCel.

Richards Bay is also rich in mineral resources. These minerals include ilmenite, rutile, zircon, monazite and magnetite. The mining of these minerals allows Richards Bay to meet 100% of South Africa's demand for titanium and zircon and almost all of the country's pig iron requirements. Richards Bay is, in addition, poised to overtake Australia as the world's largest producer of titanium (Seneque Smit and Maughan-Brown, 1993: 61). The locality's rich mineral resources have led companies like Richards Bay Minerals (RBM) to establish themselves in the area.

Companies' locational decisions are often influenced by their proximity to markets or raw materials and it is clearly apparent that the firms in Richards Bay are no different. Four of the nine private sector respondents,

consequently, cited the proximity of raw materials and other natural resources as an important factor in their decision to locate in Richards Bay.

4.5. IMPORTANCE OF LARGE INDUSTRIES IN RICHARDS BAY: MULTIPLIER EFFECTS

The development of Richards Bay can still largely be characterised as being dependent on the large industries in the area. These large industries, which initially gave Richards Bay its growth dynamic, have, for example, encouraged the growth of associated support and service industries around their own operations. One respondent from big business did, however, suggest that the importance of the large firms in the Richards Bay economy has been decreasing over the years as more support and service industries have established themselves and diversified their clientele. However, this process is clearly still in its embryonic stage.

The knock-on effects of the anchor projects and other large industrial investments in Richards Bay have been significant. A 1991 report by the IDC maintains that the 'Big Five' companies (Alusaf, RBM, Bell, Mondi and Indian Ocean Fertilisers) have been responsible for the creation of 12,711 first order indirect job opportunities in the supply and service sector within Richards Bay, and for 5,367 second order indirect job opportunities in the commercial and social infrastructure sectors. The social infrastructure sector includes personnel in schools and municipal and medical services (IDC, 1991: 5-8).

The large firms are reported to have attracted smaller service and support industries into the area. This argument is illustrated by distinct bursts of growth around large investments like the Alusaf Hillside smelter. The TLC reported a boom in the economy that coincided with this period. The boom extended from the construction and engineering sectors to the housing, land and commercial sectors. However, the TLC reported that the huge growth phase observed

for a short period at the beginning of the project soon levelled off and started declining after the construction phase was completed. The end of the project saw an outflow of people from the locality, indicating that a large proportion of the contractors and construction workers were, in fact, brought in from outside the area. These contractors merely set up branch offices in the locality during the construction phase and then closed them down at the end of the project. Benefits to the local economy from the large investments may therefore be overstated.

The support industries that have settled within Richards Bay have also often been merely branch offices of firms from outside the locality. One respondent argued that there had actually been no significant changes to the supply aspect of the Richards Bay economy because of this. Although professional consultants had moved into the area, Richards Bay therefore still lacks a strong local workshop and engineering support sector. The respondent attributed the failure of this sector to the ability of the bigger companies in Durban and Johannesburg to cut prices in the face of competition from new service and support companies.

In conclusion then, the large industries have played a significant role in the development of Richards Bay, through their multiplier effect on the local economy. However, the effect of these industries on the Richards Bay economy has been limited by the fact that the support and service industries that have set up within Richards Bay in response to demand from the big industries have often been branch offices of firms from outside the region. These bigger suppliers have often enjoyed the patronage of the large industries at the expense of the local small entrepreneurs.

4.6. NO INDEPENDENT DEVELOPMENT IMPETUS IN THE REGION

The majority of the input suppliers into, and

the customers of, the large industries in Richards Bay have failed to move to the locality and one has consequently not seen the emergence of a strong local manufacturing sector. So although the knock-on effect of the large industries has been significant in attracting investment to Richards Bay, the full potential of the multiplier effect has not been realised. The big industries in Richards Bay are still largely processors of raw materials, thereby ensuring that they are positioned relatively low down in the value-added chain. The presence of a large range of processed raw materials within Richards Bay offers manufacturing industries the opportunity to benefit from these raw materials, thereby allowing the private sector in the locality to move further up the value chain. Manufacturing industries involved in beneficiating the products of the big factories in Richards Bay could potentially enjoy lower cost structures by cutting down on the transport costs involved in transporting inputs into their production processes.

There, moreover, does not appear to be any vibrant growth dynamism independent of the large industries in Richards Bay. Manufacturing firms that are not directly related to the large projects have, by and large, failed to move into the area. A member of the TLC suggested that this phenomenon is still to occur, particularly as the benefits of the conglomeration of people is increasingly realised.

It is also possible that the ancillary investments (both input suppliers and output purchasers) related to the large industries, have been based in nearby Empangeni rather than Richards Bay itself. This question however, falls outside of the brief for this study and has therefore not been explored in any detail. However, none of the nine industrial concerns interviewed mentioned customers or suppliers based in Empangeni. Moreover, Empangeni's Town Council appears, in deference to aesthetic ideals, to have pursued a development strategy based on establishing the town purely as a commercial centre to service Richards Bay,

the industrial hub of the region, as well as other surrounding areas. This development strategy was revised only in 1995, when Richards Bay began to develop its own commercial enterprises which threatened Empangeni's status as the commercial centre of the area. Empangeni has therefore lately vied for and won the Iskor project. However, this history makes it unlikely that a significant number of industrial and manufacturing concerns, which are related to the large industries in Richards Bay, have been located in Empangeni.

4.7. MISSED OPPORTUNITIES FOR EMPLOYMENT CREATION

Most industries in Richards Bay are highly capital intensive. Whilst the locality accounted for 9.1% of KwaZulu-Natal's GGP, it provided only 4.2% of the province's total formal employment in 1988. Even the port is capital intensive in its operation, as exhibited by the statistics in the table below:

	Richards Bay (Million Tons)	Durban (Million Tons)	Cape Town (Million Tons)
Total Tonnage handled	72,2	26,5	7,8
% of Total Tonnage handled by S.A. ports	53%	19%	6%
Number of people employed	2,500	18,000	5,000

Four of the nine respondents reported a decrease in the size of their workforce. Three of these four firms reported that they were shedding labour because they were presently mechanising further. The other respondent cited the 'rightsizing' of their organisational structure as the reason for the drop in employment. Two of the four respondents who reported an increase in the size of their workforce attributed the increase to the extension of their existing operations, as well as investments in new projects.

Given the scale of the unemployment problem that afflicts South Africa in general and Richards Bay in particular, one could question whether the capital-intensive

production methods chosen by the industries in Richards Bay are justified. The TLC, for example, reports that 30% of the workforce in the Richards Bay/Empangeni region is unemployed.

It would appear, however, as if the industries within Richards Bay are justified in their choice of capital-intensive production methods because of the nature of the business they are in and because a large number of them produce mainly for the highly competitive export market. These companies have no choice but to use production methods that ensure competitiveness on the world markets. This often means that more capital intensive, rather than labour intensive, production methods have to be employed.

Despite the capital intensity of the larger industries in Richards Bay, one finds that employment is concentrated within this sector since the absolute number of people employed in these companies is quite large⁸. Respondents from the TLC, the SBDC and the private sector asserted that employment creation opportunities lie in the promotion of a diversified manufacturing sector involved in the preparation and beneficiation of products; as well as through the location of secondary and tertiary industries in the area (Lang, & Hooyberg-Smuts, 1996: 120-2). Entrepreneurial activity in the form of small service, support and manufacturing industries, as well as small-scale agriculture also appear to be possible answers to the problem of unemployment in the locality.

4.8. THE IMPORTANCE OF THE PRIVATE SECTOR IN FACILITATING DEVELOPMENT IN RICHARDS BAY

The large industries in Richards Bay have played a significant role in promoting the development of the area, through their social responsibility programmes, as well as other initiatives. One of the initiatives from big business is the establishment of a Business Advice and Training Centre by one company. The Business Advice Centre provides

⁸ This situation might be changing slowly given the recent increase in commercial activities within Richards Bay.

managerial training for people who have practical skills gained through experience in a particular job or sector but who require managerial skills in order to be able to set up as entrepreneurs in their own right. The services of the Business Advice Centre are also available to other companies or private individuals who require the particular skills taught at the Centre.

Another company invested in the construction of modular housing units for workers during the construction of a new plant. At the end of the construction phase of the project the company donated the buildings for re-erection as educational facilities in local communities. The company also had the wooden crates that were used to deliver equipment to the new plant, made into crèches, classrooms and saleable products through the Zululand Chamber of Business.

The larger industries in the Richards Bay region were also responsible for founding the Chamber of Business Foundation in 1994. The Foundation is committed to the promotion of small businesses in the area. Business is also a partner in the Business-Education Network, which attempts to integrate and match the needs of the business and education sectors through the formulation of innovative education curricula. The Zululand Chamber of Business and the local government representatives agreed that big business had been quite proactive in promoting community welfare, education and small business development within the area.

The large firms also reported that they supported the development of local suppliers by giving them preference over suppliers from outside the region. However, the interviews with people from the other sectors indicated that the growth of the local supply and service industry has been inhibited by the larger supply firms from outside the region who have set up branch offices in Richards Bay. The flourishing of these branch offices at the expense of the local entrepreneur seems to indicate that the big industries have given

their contracts to these 'outside' firms at the expense of the local entrepreneurs.

4.9. THE PRICE OF LAND AND UTILITIES

The central government donated the municipal lands to the local authority in the 1970s. The Richards Bay local authority has thus been in the unique position of being the sole owner of all vacant land within its administrative boundaries (Seneque Smit & Maughan-Brown, 1993: 41).

The price of land in Richards Bay has therefore historically been very high compared to other areas. Respondents in the private sector complained that the local government has monopolised the market for undeveloped land, thereby creating artificially high land prices. The local government has apparently been reluctant to negotiate land prices with potential investors, and has reportedly hindered the development of the area because of its insistence on securing the highest land prices possible. One of the respondents in the private sector attributed Richards Bay's recent loss of the Iskor project to Empangeni to this reluctance on the part of the local government.

Moreover, the local government has historically included a clause in the sale of land to investors, that obliged the new industry to purchase water and electricity from the municipality itself. This aspect of the municipality's operations has remained unchanged from the 1970s. Respondents complained that this clause increased the price of water and electricity to industries that are often large users of these inputs, with the municipality adding a surcharge to the basic tariff at which it purchases the utilities from Eskom and the Mhlathuze Water Board. Industrialists asserted that they would have been able to negotiate more favourable terms on the supply of these inputs if they bought them directly from the suppliers.

The competitive pricing of utilities such as land and water are essential for the development of any area. Eskom is itself very

critical of the Richards Bay Municipality's insistence on supplying electricity to the larger companies. There appears to be a consensus between these stakeholders that the municipality should provide residential water and electricity only, rather than industrial utilities. These aspects of the municipality's operations have obviously deterred investment in the area.

4.10. LACK OF SKILLED LABOUR

Most respondents in the private sector reported a historical lack of skilled labour in the area, especially within the engineering and managerial professions. Companies in Richards Bay have therefore been forced to offer very high salary packages in order to attract skilled labour from outside the region. One company reported that this was a huge problem, especially for attracting black engineers to Richards Bay, for whom the negative aspects of residing in a "peripheral" area are compounded by the legacy of apartheid housing. The more affluent housing districts in Richards Bay have been traditionally white. Although there have been some changes in this phenomenon, changes have been sufficiently slow to act as a deterrent to the settlement of black professionals in the area.

This shortage of skilled professionals has impacted negatively on the development of industry within the area, in two important ways. Firstly, certain firms have been reluctant to settle in the area due to the fact that requisite skills have not been readily available and secondly, the profit margins of those companies that did settle in the area have been eroded by the high salary packages that have had to be offered in order to attract the necessary personnel.

However, an innovative education project in the area now offers some hope that the shortage in skilled personnel might be relieved in the future. The project involves an innovative relationship between local schools, the University of Zululand and local businesses in Richards Bay that has been

institutionalised as the Business-Education Network. The Network hopes to include partners from business in the process of developing schools. They hope to gain active participation from the business sector in more than just a funding and sponsorship capacity. The network is also committed to fostering the partnership between schools and business by way of developing new curricula that better meet the requirements of the business sector.

SECTION FIVE: CONCLUSIONS AND POLICY RECOMMENDATIONS

As has been highlighted throughout this paper, much can be learnt from the Richards Bay experience. Whilst the locality has indeed experienced significant economic growth since the early 1970s, much of this can be ascribed to the fortuitous natural advantages of the area - its natural harbour, mineral deposits, and proximity to good agricultural lands. Apart from these natural advantages there have, however, been a number of additional mechanisms that have pushed forward its development. The IDC's initial investments in the locality were obviously critical, as were the continual upgrades to the harbour. The local government also appeared to play a competent role in most instances, thereby ensuring that the developmental needs of business in the area were met.

Richards Bay's development does not offer us a blueprint for development elsewhere, however. There are two important reasons for this: (1) Richards Bay has developed because of its distinct natural advantages, and also because of the massive influx of funding from the central government and its parastatal, the IDC. Whether South Africa can afford to pour in billions of rands to other potential growth areas is highly questionable; (2) Richards Bay's development is characterised by the predominance of large firms. Not only is the locality completely dominated by a few large firms, there appears to be a stunted multiplier effect in many instances, with very few independent firms establishing themselves in

the locality. Certain ancillary investments have taken place because of the large firm investments, but one does need to question the adequacy of their level, with many service firms only operating for short periods in Richards Bay before relocating back to the Gauteng or Durban.

Bearing in mind all of these critically important points, a number of meaningful policy issues have clearly emerged from the research which could be used to inform the establishment of a successful industrial locality through the Spatial Development Initiative:

▪ **INVESTMENT IN TRANSPORT INFRASTRUCTURE**

A properly functioning network of roads and railways is essential in order to attract investment into an area. Government should therefore invest in the construction of such transport infrastructure itself or it should promote private sector investment in these transport networks. Where appropriate, investment in a harbour should be considered since the presence of a port is likely to promote the development of a region. This will be especially true if the government's attempts at promoting an export-oriented industrial structure proves successful in the future. The possible returns from infrastructural investment should be properly researched with the undertaking of comprehensive cost-benefit analyses, before investment decisions are taken.

▪ **PROVISION OF WATER AND ELECTRICITY AT COMPETITIVE RATES**

Industrial development requires a reliable supply of water and electricity at competitive prices. Industries should be given the choice of buying their utilities either from the borough or directly from the supplier wherever possible, in order to avoid the situation that emerged in Richards Bay. In Richards Bay, the borough's insistence on selling these

utilities to industries at a price that included a surcharge over and above the tariff charged by the supplier appeared to be detrimental to the region's development.

▪ **PROMOTE EFFICIENCY OF LOCAL GOVERNMENT**

The efficiency of local government in providing engineering and technical facilities, developing land and controlling the zoning of land use areas is instrumental for promoting development within an area. Investments in the institutional capacity of local governments should therefore be undertaken. Personnel should be properly trained and organisational development programmes undertaken in order to promote a corporate culture that focuses on efficiency and the proper use of resources. The organisational development programmes should focus on creating an identity for local authorities as service providers with a developmental orientation.

▪ **PROMOTE INSTITUTIONAL LINKAGES**

A proper institutional environment that is proactive in initiating and supporting industrial development should be encouraged. The local authority should provide leadership to the other organisations that impact on the economic development of a particular locality. The local authority should actively seek to set up linkages between the various institutions in an area. This might be accomplished through the establishment of an Economic Development Forum. The process of establishing a vibrant and dynamic institutional structure should begin by developing a common development vision for the area. All institutions and stakeholders should be included in the process of negotiating the common development goals, in order to ensure the commitment of all role-players.

• **OFFER INTERNATIONALLY COMPETITIVE INCENTIVES**

Whilst government should offer internationally competitive incentives in order to try and attract investment, the experience of Richards Bay suggests that the sustainable locational decisions of firms are usually made on the basis of economic or developmental factors, like the availability of infrastructure or proximity to raw materials and/or markets. Industrialists moreover, indicated that South African government's incentives are usually too uncertain to play a major role in the decision to invest within a particular area.

• **PROMOTE THE DEVELOPMENT OF HIGHER VALUE-ADDED MANUFACTURING**

The growth of manufacturing industries that are involved in high value-adding activities should be encouraged and supported via local institutional support. South Africa's industrial base is far too focused on the processing of raw materials and the production of intermediate goods that are situated relatively low down in the value-added chain.

• **PROMOTE AN INVESTMENT-FRIENDLY ENVIRONMENT**

Government should provide an enabling environment that is conducive towards investment in the various areas identified by the SDI. A concerted effort to curb the crime rate and to end the violence that characterises the less developed parts of the country should be made. In addition, the provision of social infrastructure such as schools and hospitals is necessary, in order to make an area attractive to potential investors.

• **ENGAGE IN TOWN AND DEVELOPMENT PLANNING EXERCISES**

The local authority should engage in town planning and zoning activities before investment begins. Proactive planning is more likely to avoid the pitfalls of bad zoning and development control, than

reactive planning after the initial spate of development. Proper planning should ensure that towns and cities are not sprawling and do not require that long distances be travelled to and from places of work, as in most South African cities. At the same time, proper planning should ensure that residential areas are not too close to industrial areas as in the Southern Industrial Basin of Durban.

• **PROMOTE TRAINING AND THE DEVELOPMENT OF HUMAN RESOURCES**

The human resource base in South Africa needs to be developed in order to ensure that productivity increases. Training and education initiatives that are better suited to the demands of local businesses need to be encouraged. The generation of linkages between the business and education sectors should be encouraged in order to ensure that the education sector answers the needs of industry. As far as possible, this co-ordination should occur at the local level, thereby ensuring that the local population has the skills base required by the businesses investing in that particular area. This will maximise the beneficial impact of private investment on the local population.

The nine recommendations presented above are not, however, meant to be all encompassing. Depending on the particular development level and needs of each of the areas being studied as part of the SDI, other issues may become more pertinent. The policy recommendations are based purely on the Richards Bay experience, although it would appear as if their validity extends beyond this specific geographical locality in many instances.

As highlighted throughout this paper many, but not all, of these factors are evidenced in the Richards Bay experience. Whilst the Spatial Development Initiative does therefore need to bear in mind the many good points of Richards Bay's development, it also needs to be cautious of replicating certain of its weaker features.

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Appendix One

Stakeholders Interviewed

1. Alusaf Hillside Smelter
2. Richards Bay Minerals
3. Indian Ocean Fertilisers
4. Mondi Paper Company
5. Bell Equipment
6. Central Timber Co-operative
7. Suncrush
8. Silva Cel
9. Syncat
10. The Richards Bay Municipality
11. Transitional Local Council of Richards Bay (TLC)
12. Zululand Chamber of Business (ZCB)
13. National Union of Metalworkers (NUMSA)
14. Small Business Development Corporation: Richards Bay Branch (SBDC)
15. Portnet
16. Eskom
17. KwaZulu Finance and Investment Corporation (KFC)
18. KwaZulu-Natal Marketing Initiative (KMI)
19. Indevco
20. Industrial Development Corporation (IDC)
21. Retired Personnel from the IDC.

Appendix Two

Questions: Richards Bay Study

Private Sector Respondents

When did the company set up in Richards Bay?

How important were the following in influencing your locational decision:

- the port?
- other infrastructure (i.e. the railway)?
- local government?
- the beneficiation tax allowance?
- the parastatals (IDC, KFC, Eskom)?

Does the company have factories elsewhere? If so where? And why were those locations chosen?

If the government had not offered the incentives it did, would the company still have located in Richards Bay? If not, where would they have located and why?

What are the **links/relationships** between the company and:

- local government?**
- the Zululand Chamber of Business?**
- the Small Business Development Corporation?**
- central government?**
- other firms?**

And how have these **relationships** changed over time?

Has the **local government** played a significant **role** in the development of Richards Bay? Describe the links between local government and:

- (a) central government in implementing industrial policy
- (b) the **provision of core infrastructure**
- (c) **private sector investors**

How could **changes in the role of the local government** have **enhanced the development** of Richards Bay?

Have the **changing nature of government benefits** impacted on your business decisions? How?

What is the **position of the company** in the **regional, national and international market**?

Number of employees? How did this figure **change over time**? How does this figure compare to employment in **other firms in the same sector/ other sectors: regionally, nationally and internationally**?

What are the **key products** manufactured by the company? And how did these **change over time**?

What are the **output figures** for this company? How did this figure **change over time**? How does this figure compare to output other **firms in the same sector/ other sectors: regionally, nationally and internationally**?

Changes in the company's value added over time and how does it **compare** to value added figures for **other firms in the same sector/ other sectors: regionally, nationally and internationally**?

Position of the company in the value chain? **Key input suppliers and key customers?** Their **geographical location and changes/trends over time?** What were the **reasons behind the locational decisions** of these firms?

Do you think that the **infrastructural investments** (i.e. the port) was **important** in attracting investment into Richards Bay? If so, do you think that the **decentralisation benefits** were an **unnecessary measure**?

Do you think that investments in the **anchor projects** (like mineral processing, the chemicals and the paper and pulp processing sectors) '**crowded in**' **downstream customers and input suppliers**? If yes, did you recognise any particular **time frames** in operation, i.e. was there a sudden boom in activities un/related to the core industries at a particular period?

Could the development of Richards Bay have been speeded up if the **government had taken other action**? If so, **what sort of action**?

Has development in the Richards Bay area been **equitable**? If not, why not? How could government intervention have promoted a more equitable growth strategy?

Do you think that the **government's role** in the development of Richards Bay, should be **replicated elsewhere**? How should the **government's role be modified** in other areas?