The Economic Impact of the Saldanha Steel Project on firms in the Saldanha/Vredenburg/Langebaan Area

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(Abstract)

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This paper examines whether the Saldanha Steel Project has made a significant impact on firms in the Saldanha/Vredenburg/Langebaan area. The building of the steel plant is the anchor project of a government regional policy initiative called the West Coast Investment Initiative.

The paper's examination begins with a theoretical overview of regional industrial policy in general and Spatial Development Initiatives (SDI) in particular. It then contextualises the West Coast as a region earmarked as a SDI and describes the Iscor and Industrial Development Corporation's joint venture – Saldanha Steel Project (SSP). A questionnaire survey sought to establish the impact that the Saldanha Steel Project was having on firm's activity and economic prospects in the West Coast Area.

International experience as well as South Africa's previous experience points to key aspects of successful interventions in the space economy. Firstly, governments have to select areas and projects carefully. Projects chosen should reflect the market demand. Secondly, long term success will require that key or anchor projects not only succeed themselves, but that side-effects from anchor projects help promote the region's economic capacity, co-operation between economic players and the ability of the region to attract further investment. With this in mind, the process of constructing the steel plant and the SSP's procurement policy should seek to maximize the benefits to local firms.

A questionnaire survey of local firms involved with the Saldanha Steel Project was the means by which information was collected. The responses of local firms dealt with business prospects in the area, experiences with the Saldanha Steel Project in the construction phase and the impact the project had on firms.

The paper concludes that the Saldanha Steel Project did have some positive side effects for the local business community. Firms have adapted to become more competitive, learned how to deal with large industrial projects and the region has expanded the range of goods and services it is capable of delivering. The SSP's procurement policy supporting local firms had gone some way to improving local business' capacity. The paper identifies certain characteristics which make certain firms successful under the given circumstances, addresses problems local firms faced dealing with a large scale capital project and suggests measures to best help promote the prospects of local firms in future.

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INTRODUCTION

The much-needed economic development in South Africa must be sustainable. Spatial development programs are one measure the government has undertaken to address this priority. These regionally focused policy interventions have been named Spatial Development Initiatives (SDI's). The Saldanha Steel Project is the anchor project of the West Coast Investment Initiative. This joint venture between Iscor and the Industrial Development Corporation forms the main thrust of the SDI aimed at the West Coast region.

International experience, as well as South Africa's previous attempts at regional policy, provide useful information about the nature and the potential success or failure of regional economic initiatives. With the above in mind this paper looks at the economic impact that the Saldanha Steel Project has had on local firms in the Saldanha/Vredenburg/Langebaan area.

Chapter 1 begins with a brief overview of the theory of regional economic development. International and local experience are examined and provide some guide to successful regional policy. South Africa's past regional development policies are reviewed and the policy of Spatial Development Initiatives (SDI's) is defined.

Chapter 2 outlines the West Coast Spatial Development Initiative and provides a profile of the West Coast's geography, history, people and infrastructure. Chapter 3 describes the Saldanha Steel Project (SSP), the choice of site and technology as well as the SSP as part of West Coast Investment Initiative. Chapter 4 examines the Saldanha Steel Project's impact on the development of firms in the region. This impact is assessed using the results of a questionnaire survey conducted amongst local firms in the Saldanha/Vredenburg/Langebaan area. Chapter 5 gives the conclusions of the survey and makes some policy suggestions for large capital projects in the future.

CHAPTER 1

Outline of Regional Policy Issues and Spatial Development Initiatives

1.1 Introduction

Since the Second World War industrial and developing countries have devoted significant resources to industrial and regional policies. Through countrywide industrial policies, governments strive for goals which include the development of domestic markets, creation of key industries, import substitution, export promotion and others.

Apart from nation-wide economic concerns regional policies are also common. Renaud (1979:98-99) outlines the multiple objectives of urbanisation strategy or regional policy of developing countries. Different objectives may be emphasised by different governments or at various times in a country's industrial history. The objectives include:

1. Integration of peripheral areas into the national economy to increase the domestic market (raising national and regional demand).
2. Incorporating outlying areas to add resources to the economy and raise national output.
3. Reduction of interregional disparities (reflecting concerns of regional/spatial equity in addition to equity between households).
4. The development of outlying border regions for national security purposes.
5. Regional development to improve political integration and social cohesion. Also helping to avoid social or political splintering from the nation as a whole.
6. Improvement of the national system of cities or growth areas adds to a nations economic potential. In theory, medium sized cities with improving economies of scale should assist interregional diffusion of growth.

Currently South African policy-makers are concerned primarily with attracting new investment to previously disadvantaged areas and promoting employment and growth opportunities in these areas. South Africa's regional policy includes elements of almost all Renaud's objectives.
The macroeconomic strategy to target the inherent and under-utilised economic potential of certain areas of South Africa has been dubbed "Spatial Development Initiative" (SDI) by the Departments of Transport and Trade and Industry.

1.2 International Experience in Regional Policy

In general international experience stands as a firm warning to all governments attempting to manipulate the space economy. The agglomeration economies or simply the socio-economic attraction of established metropoles are very strong. The strong economic pull of established economic centres makes attracting new firms and investment to outer areas (whether to ease congestion or spread resources more evenly) very difficult.

Large metropoles offer established physical and social infrastructure as well as extensive inter-firm linkages. These large metropoles offer firms easy access to the services they require and access to markets to sell their own goods. For these reasons firms will be reluctant to move far from the advantages of an established centre. At the same time policy makers attempting to designate new areas of development nearer (but not in) existing metropoles must realise these new firms will face stiff competition from the established area.

Government attempts that encourage industry to establish outside of existing agglomerations have constantly struggled. Some strong trends are to be found internationally, not all will apply to every regional project, but their warning must be heeded (Lee, 1989:45).[1]

[1] Kyu Sik Lee's findings in Bogota and Cali confirmed stylised facts evident in North America as well as Seoul and other developing areas. The patterns of city growth he describes, he believes to be applicable to both developing and developed countries.

1. Firms will move, but not very far. "Far" in this sense is extremely relative. Lee (1991:4) describes a situation in Thailand of an attempted development only 23 kilometers from the major centre that was deemed "too far" by local entrepreneurs.
2. Firms respond differently to location attributes.
3. Firms will not generally move because of incentives, but rather to escape a constraint in their current area of operation.
4. Small firms are especially reluctant to establish outside of metropoles as they rely heavily on the agglomeration economies in towns or cities.

The international trends above suggest that implementing spatial policies effectively is difficult. Industrial metropoles located in Gauteng, Cape Town and the Durban/Pietermaritzburg area dominate South African Industrial activity. At the same time, however, these centres are not substantially overcrowded and/or congested and so-called diseconomies of agglomeration are not prevalent as in the case of some other nations. In short, this makes the task of "spreading growth" to other areas all the more difficult since the large metropoles remain attractive for industrialists. The goal in South Africa is, however, **not** to repel investment away from the cities, but rather to make positive strategic interventions in the chosen regions that would induce new investment in these regions (ISP, undated: 2).

1.2.1 The move to a new emphasis in regional policy

Any industrial policy action in South Africa has to focus on the alleviation of poverty, through sustainable development and job creation. Impressively a number of the East Asian countries have succeeded in doing what South African policy makers are now attempting. Two important criteria for successful spatial interventions are seen to be increasingly important. (1) The development of "social capital"[2] in the region concerned and (2) the provision of the "correct" kind of infrastructural investment based strongly on market demand.

[2] Morgan (1995:4) gives Putnam's (1993) definition of Social capital. It refers to:
"...features of social organisation, such as networks, norms and trust, that facilitate co-ordination and co-operation for mutual benefit. Social Capital enhances the benefit of investment in physical and human capital and is coming to be seen as a vital ingredient in economic development around the world".

1.2.1.1 Co-operative behaviour and Social Capital

Morgan (1995) emphasises that more important than the final product of a particular regional investment, is the process of building "collective learning capacity" which he terms social capital. The concept of social capital reflects the idea that innovation or development is an interactive process and that this process is shaped by the institutional routines and social conventions of an area.

With the relative success of some regional growth policies in the Newly Industrialised Asian countries, more attention has been given to the factors that make traditional centres or existing metropoles successful.

In a similar vein Bloch (1990) called for more study on the "interplay" between industrial organisation, technological change and labour markets in South Africa's large urbanised areas. If this interplay were analysed it could uncover further guidelines as to what government might do in targeted outlying regions. The interplay or co-ordination between economic agents in an area is also a part of the area's "social capital".

This idea of "collective learning capacity" is central to the success of any regional investment program. In any particular regional project the physical and infrastructural goals of the project are less important than the creation of the "capacity for action" (Morgan, 1995). The creation or development of social capital will mean an improvement in a region's "capacity for action". During an investment project, say for instance, the construction of a large steel mill like Saldanha Steel, does the State, corporate business, local firms, town councils, labour etc. learn and develop ways in which they can best co-ordinate their resources. The nature of many regional projects means that a large initial capital investment originates outside the targeted area, but the process of development i.e. the gathering and efficient utilisation of investments and resources, must be endogenized. Simply, local firms and authorities must improve their capacity to attract and sustain investment in the future.

The idea of endogenizing the growth process is emphasised by Lee (1996) when he talks about Hirschman's[3] notion of "the centrality of side-effects".

Lee notes that a policy, which attempted "project induced development", was successful when the project induced side effects that contributed to growth, expansion and sustainability. In Kyu Sik Lee's (1996: 23-26) evaluation of a very successful regional development in Cholla, South Korea, three "side effects" brought about by the public sector's anchor project investment were identified. Firstly, the development of backward and forward linkages. That is to say industrial development occurs around the "anchor project" on both the input and output side respectively. This has also been termed up-stream and down-stream development. Logically there would have to be some attractive qualities of the anchor project and/or the area to ensure that up/downstream industries established nearby.

Secondly, an "entrepreneurial" local public service which is active and instrumental in assisting industrial development – above and beyond the provision of basic services.

Lastly, and perhaps most importantly, the private sector becomes engaged in the development of the area. Be it from local or external sources, the anchor project "excites" continued private activity and investment in the area.

Storper and Walker (1989:95-96) believe that human and physical resources can be created in the process of regional industrialisation. It is industries and the growth in industrial activity that creates regional resources and not the other way around. This idea implies that the process of building a project or the process of growth in an area is more important that the chosen region's original resource endowments. There is scope for regional investment to induce an increase in a region's capacity.

[3] Hirchman, Albert O. (1995) Development Projects Observed. The Brookings Institution. Washington D.C. quoted in Lee (1995)

The key question will be: Has the project or investment induced improvements in the region's capacity for economic action? Chapter Three of this study looks at possible changes within local firms that may point to their improved "capacity for action". Have, for example, local firms increased in size, learned new skills, specialised or diversified?

A significant danger of regionally targeted investment, especially large capital projects or so-called anchor projects, is that the development simply becomes an enclave. A once off, stand-alone development should not be the goal of a regional project. The process of generating new investment must be endogenized within the region if the above is to be prevented. The sustainability of any initiated growth will, in part, be determined by the ability of the community to continue to attract new investment long after the initial policy intervention (Gore, 1984 in Lewis and Bloch, 1997:12).

The large public expenditures proposed for various SDI's will naturally have immediate economic impact on the regions, but the sustainability of this impact will require the refinement of co-operational capacity or "social capital" amongst all socio-economic players. The manner in which local firms, authorities and investors adapt or react to the initial investments will determine the ultimate success or failure of the project.

1.2.1.2 Large Infrastructural investment and SMME's

The kind of infrastructural investment that a government chooses if it decides to influence the space economy needs to be carefully considered. Lee (1991) points out that these investments should reflect market demand. This fact has particular resonance when we consider that infrastructural demand of firms of different sizes vary greatly.

Larger manufacturing firms, like a steel producer, will move to any area that best support their infrastructural needs. A good road and rail network, a suitable port if the manufacturer is an exporter and reasonable land and other factor prices will fulfil most of the needs of such a producer.

Needs are completely different for smaller firms. Small, medium and micro enterprises (SMME's) in particular have been recognized as having specific infrastructural needs. As was mentioned earlier, SMMEs rely heavily on the services that arise from the infrastructural characteristics of established major centres. Lee (1991:22) says small firms are not attracted by the same infrastructure that attracts large manufacturers. Land prices, bulk transport facilities and even lower labour costs are not good incentives for the re-location or establishment of smaller firms. Set-up cost for SMMEs are relatively high and they tend to avoid increasing delivery and employee commuting distances. Most importantly SMMEs locate close to other SMMEs because of their need to be close to local input and product markets. Lee (1989:45) believes the above point to be true of both developing and developed countries. The proximity to markets and short commuting distances for employees tend to compensate for higher rents and sometimes-congested costs in central areas.

The point is that industrial policy makers must realise that providing infrastructural investments of one particular kind, will attract firms of mostly one particular kind and they must make sure that their "planning for industries must be consistent with the locational needs of individual firms of different types" (Lee, 1991:22).

1.3 Decentralisation in South Africa

Decentralisation policies or attempts to manipulate the spatial economy are not new in South Africa. The South African government adopted a concerted policy of industrial decentralisation in 1956. This policy was an integral part of the broader policy of "separate development". The system provided incentives for industries locating in government declared growth points. In 1968 the Physical Planning and Utilisation of Resources Act was passed, this legislation limited further employment of Africans in manufacturing industries in the then Pretoria-Witwatersrand-Johannesburg region and other established metropoles. This was a further attempt to force industrial decentralisation (Maasdorp, 1990:128).

Incentive based decentralisation policies expanded through the 1970's and 1980's, focusing on the then homeland states and other designated regions. The rationale behind these policies should be seen in the light of the apartheid government's goals of the time. Visions of separate development, the growth of politically strategic industries and a general emphasis on import substitution overshadowed regional concerns of per capita income equality, revitalising stalled areas and reducing inter area growth differentials.

By 1990, economic pundits and the Development Bank of South Africa (DBSA), seemed to agree that the South African decentralisation policy was severely flawed and inefficient (Maasdorp, 1990:136). Merle Holden[4] concluded that development of growth points, together with the incentives given to firms to relocate were extremely expensive and inefficient. Bloch (1990:152) noted that industrial growth pole efforts had focused on political and ideological goals rather than economic ends. Furthermore the policies were changed too often and too many areas were undertaken for development to be successful.

Reviewing South Africa regional economic policies up to 1990, Tomlinson (1990) and Maasdorp (1990) suggested future policy guidelines.

1. Regions should be selected primarily on the basis of resource endowment and economic potential.
2. A small number of regions should be earmarked and sites should be of a size where "external economies" can begin to be realised.
3. A movement away form incentive-based approaches was advised especially long-term input-specific incentives.
4. Regional initiatives should under no circumstance involve the deliberate stiffling of economic activity in existing metropoles.

[4] Holden, M. (1986) in Maasdorp, 1990: pp133-135.

5. Care should be taken that national industrial, trade or monetary policies work in harmony with attempts at spatial growth.[5]

In summary, international experience says that regional decentralisation policies struggle against the strong agglomeration economies of established cities and that incentive based approaches have seldom succeeded. South Africa's experiences before 1990 bear this out, as incentive based approaches to regional development have been unsuccessful in generating significant growth in outlying areas. Regional policy has to focus on investments that improve the economic capacity of a chosen area. Selected projects must impact upon local firms and other institutions, enhancing the areas ability to attract further investment.

1.3.1 The Theory of Spatial Development Initiatives (SDI's)

Spatial Development Initiatives represent South Africa's current attempt at affecting the regional economy. They form part of the national government's effort to raise levels of industrial development, competitive performance and exports, but differ from other national industrial policy measures by their spatial (or regional) focus.

The driving mechanism behind the SDI program is that private investment be "crowded in" or attracted through selected public sector interventions in a chosen region. These interventions may include public sector and / or parastatal financial support for infrastructural projects and "anchor projects".

A selected staff is assigned to each SDI region and charged with identifying investment opportunities within the region as well as seeking out and encouraging potential private investors (Lewis & Bloch, 1997:14-15).

[5] Most of the above points are acknowledged in the current SDI framework, discussed later.

The key objectives or goals of the SDI process can be broadly defined as follows: (De Beer & Arkwright, 1996:2).

1. The generation of sustainable economic growth and development in designated underdeveloped areas, defined by the areas inherent economic potential.
2. The generation of sustainable employment for local populations in the chosen SDI area.
3. SDIs will attempt to maximise private sector investment accompanying public investments and joint ventures. The active drive to "crowd in" private investments will aid the already thinly stretched public development budget. The initiative's goal will also be to focus these "crowded in" investments on uplifting and empowering local communities and especially SMMEs.
4. The SDIs also wish to channel the areas inherent economic potential toward export oriented growth. With this in mind there is an emphasis on the provision of supply-side measures to encourage this.

De Beer & Arkwright (1996) describe "compelling reasons" for Government's support of SDIs. Firstly, through the SDI process Government demonstrates its commitment to mobilising public and private funds for the purpose of developmental investment. It also does this in areas which often have, both, inherent under-utilised economic potential and have been neglected or poorly developed in the past.

Secondly, the SDI goals are also clearly in line with many of the Government's stated objectives, especially with regards to sustainable employment creation, export oriented growth and efficient use of natural and economic resources.

Thirdly, the time frame within which SDI programs can be planned, prepared and mobilised is fairly short relative to other development type programs. This relatively compressed time frame is essential in building private sector excitement and helps "crowd in" investment often on the back of a high profile anchor project. Naturally the speed and visibility of SDIs also assist the Government's socio-political agenda.

Finally and perhaps most significantly from a South African perspective, it is the "redistributive character represented in the regionally-targeted industrialisation programs that accounts for the unusual degree of popular resonance associated with the SDI program".(Lewis & Bloch, 1997:1). The SDIs embody a commitment to investment in less favoured regions (LFRs) and to a slightly lesser extent encourage the progress of SMMEs, both of which underline the Government's focus on assisting the margianalised and disadvantaged.

1.3.2 Expectations for the SDI

SDI are expected to make considerable economic contributions at national, regional and local level. The following sections examine the west Coast SDI, focussing on the SDI anchor project's effect on local firms. The Saldanha Steel anchor project is by far the largest component of the West Coast Investment Initiative[6] and as such examining the economic impact of the project on local firms is important. To judge the success of policy, one must consider the experiences and reactions of local firms with respect to the theory set out above. The regional investment must improve the capacity, competitiveness and efficiency of local firms and industry. The process of building a SDI "anchor project" should assist and encourage these improvements as much as possible. Ultimately the public funds invested in SDI programs must culminate in sustainable growth and job creation for the country as a whole and for the region in particular.

[6] West Coast Investment Initiative (WCII) is the term used for the SDI situated on the Western Cape's west coast.

CHAPTER 2

The West Coast Spatial Development Initiative[7]

At the time of writing the West Coast Investment Initiative (WCII) is one of eight Spatial Development Initiatives in South Africa. The WCII is focused on the opportunities created by the building of a steel mini-mill at Saldanha as well as under-utilised opportunities in agriculture, tourism and fishing in the region (Appraisal document, 1997). This section gives an outline of the features of the West Coast area. The combination of these features made the area a candidate for the SDI program.

Profile of the West Coast Region

2.1 Geography of the Region

The area demarcated for the West Coast Investment Initiative[8] lies between Atlantis in the South and Vredendal in the North.[9] To the East it extends to the escarpment including Malmesbury and Citrusdal, and to the west it extends to the Atlantic coast. Within this region lie the West Coast sea belt and adjoining nature reserves, the Saldanha-Vredenburg urban and industrial areas, the Swartland agricultural area and the irrigation agriculture area along the Olifants, Verloren and Berg Rivers.

Climatically the West Coast region falls into the winter rainfall region of South Africa. Up to Saldanha Bay the climate is described as Mediterranean, but moving from Saldanha, northwards the climate is semi-arid with notable Summer drought. The cold Benguella current ensures a generally cool temperature with an annual mean of about 18°C. The cool ocean is also

[7] A general overview of the West Coast is acquired from various sources: Driver et al (1993), Fitschen (1996), Martin et al (1996), Provincial Development Document (1997), van der Merwe et al (1990), WCII Document (1996)
[8] The West Coast SDI has been named the West Coast Investment Initiative (WCII)
[9] Appendix B is a map of the West Coast Area – Source WCII Appraisal Document.

responsible for a high incidence of fog especially north of Yzerfontein and this fog is an important source of moisture for the coastal areas.

2.2 Historical Overview

The existing ownership of resources and control in the West Coast has its roots in the Eighteenth century. During this time the West Coast was the "northern frontier" of European settlement and the conflictual situation between white farmers and indigenous nomadic people is characteristic of the regions entire modern history. Nomadic stock farmers were gradually forced into wage labour as white farmers claimed more and more land, which later became officially privately owned white farmers land.

In the nineteenth century Malmesbury and Picketberg were established as towns which served the farming areas. The only exceptions to complete white ownership of land were "coloured reserves" at Ebanezer and Elandskloof, both of which have complex histories of marginalization. Besides farming land the West Coast has extensive marine resources which formed the basis for coastal communities. The establishment of large commercial fishing companies led to massive changes to small traditional fishing communities along the coast. Saldanha itself became an established fishing harbour and its significance increased during the Second World War when a pipeline providing fresh water was constructed from the Berg River. The West Coast road (R27) has been the main cause of further West Coast development since the war.[10]

2.3 Recent History

It is certainly the West Coast areas recent history that makes it a strong candidate for a possible SDI project. The allocation of mining rights, increased tourism and ambitious state industrial projects have left an area with inherent economic potential and at the same time an almost completely marginalized and disenfranchised "non white" community.

[10] Historical information drawn from Driver et al (1993) and Fitschen (1997)

For the purpose of this paper which focuses on the development around the Saldanha Steel anchor project the most significant feature of the years 1960-1980 was the then Nationalist Government's industrial policy of decentralisation. In the West Coast the focus of this decentralisation was the intention to create a large industrial centre around Saldanha-Vredenburg in the 1970's. Iscor had expanded its open cast, steel ore mine at Sishen and had decided to export steel. After some lobbying the harbour at Saldanha was proposed as the port of export. A railway line of some 860km was constructed linking Sishen and Saldanha. A smelting mill at Saldanha was also part of the original proposal, but was never constructed. This left Saldanha exporting bulk quantities of iron ore (Burman et al, 1974 in Driver et al, 1993).

The growing towns of Vredenburg and Saldanha were constructed very much according to apartheid policy blueprints. Racially seperated residential zones and the Coloured Labour Preference Act of 1955 limited the number of permanent black workers in the region. The relatively small percentage of permanent black residents in the West Coast Region is still very prevalent today, as is the continued separateness of white and coloured areas.

Without the smelter the West Coast region's industrial development remained secondary to the primary activities of agriculture and fishing. The establishment of the West Coast Nature Reserve led the way toward tourism growing as an important factor in the regional economy.

As a region the West Coast has been the focus of a number of plans, policy initiatives and investments. These included the Sishen Railway, the extension of the harbour, the buiding of a military base and military academy and others. Despite these attempts (which often caused spurts of development) the area has not grown to the extent that was hoped (Fitschen, 1997).

2.4 Demographics

The important demographic issues directly concerning the West Coast Investment Initiative are the following. The disparities in income and quality of life between white and both black and

coloured households, the loss of young skilled labour to major centres, educational vacuums and the lack of stable employment.

2.4.1 Population

1991 Population statistics show the entire West Coast region to number about 0.52 % of the national and 6 % of the provincial population. The coloured population amounts to 57.91% of the total, with whites about 25% and blacks, at a relatively low percentage nationally speaking, 16.63%. The low black population which is also 82 % male is mainly due to coloured labour practice laws mentioned earlier.

The dynamics of the population in the region reveal trends that are important to economic growth. Young people are leaving the region for further education or in search for jobs, this loss is balanced by relatively unskilled job seekers from less well off areas, skilled graduates taking up jobs with national companies or local government and the settlement of retired people.

2.4.2 Education

The West Coast Region has on average lower educational levels than the provincial average. Very low tertiary education percentages, with only 4,6 % of the population holding diplomas and 1,5 % holding degrees and a large 11 % percent of the workforce being uneducated were noteworthy and worrying statistics. Poor education levels and the tendency of young educated people to move to the cities are factors that could hinder industrial development in the area. In the longer term, establishing various educational institutions or upgrading those currently existing will form part of the solution. Presently, rapid industrial growth, if it occurs, will have to draw skilled personnel to the area from surrounding cities (Source:1991 Census in Appraisal Document,1997).

2.5 Infrastructure

As far as basic infrastructure is concerned, the West Coast area is relatively well off. With an eye on industrial development, the region has the following infrastructural features.

Electricity is adequately provided at costs that are relatively inexpensive in the country. The near-by Koeberg Nuclear Power Station supplies the electricity and Eskom is confident of meeting the electrical needs of the area in the future. Electrification of outlying rural areas will be completed over the next five years. The growth of large manufacturers significantly increases the electricity requirements for the area. Eskom could meet the expansion of the Namakwasands Plant with current capacity. The fully operational SSP will, however require a major extension of existing capacity. The construction of new lines from Koeberg to Aurora, building two new transformers at Aurora and the three feed lines to Saldanha Steel are currently underway. The building of further transformers and a substation are in the planning stage and Eskom believes they are in line with anticipated growth in the area and the needs of industry, agriculture and households will be met. (WCII Workshop – Mr Gopal: Eskom, 1997)

Roads in the area are generally good. The R27 and also the N7 link the main industrial area of Saldanha-Vredenburg to Cape Town.

Together with the road network the **PORT** and **RAIL** network make the West Coast and particularly the Saldanha-Vredenburg a SDI prospect. The Sishen Saldanha line connects the port to the iron ore mine, and is obviously central to the choice behind this area as site for the steel mill. A complete discussion of the reasons for selecting Saldanha Bay as the site of the steel mill is given in Chapter 3. Saldanha Bay is South Africa's largest natural harbour and has been used mainly as a bulk export port for iron ore. By the end of 1998, three general cargo quays will be completed, but currently the harbour is suited to bulk handling. Small boat and fishing harbours occur all along the coast. Portnet, the government or private agents own these small harbours.

Cape Town International airport is the nearest international airport. Use of the Langebaanweg military airport is under discussion and the dual use of the airport for military and commercial seems viable (15 km from Saldanha).

Industry in the area is focused around Saldanha and Vredenburg and consisted mainly of processing marine and agricultural products from the area as well as some small import replacement manufacturing further south in Atlantis. The Namakwa Sands project in 1990 marked a change in the nature of industrial activity in the area. This Anglo American processing plant which produces titanium slag and pig iron together with other mineral deposits for export, was the first large industrial manufacturer.[11] The implementation of the Saldanha Steel Project (the joint venture between Iscor and the IDC) and the identification of the West Coast as a SDI is the beginning of new industrial plans for the region.

Conducted surveys among industrialists on the perceived advantages of locating in the area give some indication of the West Coasts strengths as a SDI project (Taylor et al 1997).[12]

- a stable workforce
- located near raw materials (especially food product sector)
- available industrial buildings
- near a major harbour
- good climate
- relatively cheap municipal services
- good infrastructure
- low crime and labour unrest
- low land prices for expansion

[11] Sea Harvest was, however, involved in large scale fish product processing in Saldanha.
[12] Note: These are the perceptions of the West Coast and may also be "misperceptions" in some instances.

Perceived weaknesses of the area were also surveyed and they reflect some observations made above. Potential investors noted a shortage of skilled labour, distance from local markets, transport costs and lack of entertainment facilities as some disadvantages of the area. The following section focuses on what will be the crux of the West Coast SDI's success, the impact that the Saldanha Steel Project has on the local economy.

CHAPTER 3

The Saldanha Steel Project

3.1 Introduction

One of the underlying properties of SDIs is to maximise private sector investment by concentrating limited state resources on the provision of hard infrastructure in areas with growth potential. In the West Coast Investment Initiative the Industrial Development Corporation collaborated with Iscor to build the Saldanha Steel Mill. The Saldanha Steel Project thus formed the anchor project in the regions development, and as the anchor project it is the heart and soul of the WCII. Although the WCII includes improving prospects in tourism, agriculture and region wide infrastructure – the SSP with a value of approximately R7.2 billion, extensive media coverage and high profile overshadows all other developments in the region.

The construction of the mill and its location were controversial. The steel industry in the past has been characterised by a fight for survival internationally and Iscor's two other plants at Vanderbiljpark and Newcastle are consistently struggling with low international steel prices. Adding to this is the fact that the Saldanha location had, as mentioned earlier, a poor history of industrial development. These observations make it questionable whether the Steel Project would be successful in its own right not to mention it's ability to spur local economic activity (Fitschen, 1997).

Iscor and the IDC have defended the decision on the following grounds: (1) the SSP's use of new technology makes it viable and (2) that Saldanha Bay with its port is by far the best location in South Africa for such a project.

3.2 Technology

The mini-mill at Saldanha gave Iscor the chance to keep abreast with the world trend of "thin slab casting" using COREX smelting technology. COREX technology has the dual benefit of being a

relatively clean technology (environmentally speaking) as well as having the ability to utilise locally produced lower grade coal as opposed to the imported coking coal needed in blast furnaces. The use of COREX technology would in fact enable the mini-mill to produce in the bottom quartile of world steel prices. In the unpredictable steel industry knowing that three-quarters of the world's steel producers would be less price competitive than Saldanha, is reassuring.

Two other factors may have contributed to Iscor's decision to come aboard on this project. Firstly, if they did not, the IDC would more than likely have attracted an international steel producer that would compete locally and abroad in the already competitive market. Secondly Iscor felt it necessary to break away from its image as a producer established in the 1930's upholding Apartheid principles. With new technology, new people and a radically adjusted view of workers in the workplace Iscor was undergoing a technical and social facelift.

3.3 The Choice of Saldanha Bay

In choosing the site for the mini-mill a number of locations were considered. They included the expansion of existing Iscor plants at either Newcastle, Pretoria and Vanderbiljpark; or the building of a new plant at Sishen, Richards Bay, Port Elizabeth, East London or Saldanha. The position of the mill had to be carefully considered. First and foremost the site chosen should enable the mill to be competitive, secondly the site chosen should show some potential for overall economic growth, since the large capital investment was a joint venture with the IDC.

The three existing mills were completely unsuitable. Pretoria has been criticised for being environmentally unfriendly and in the process of downsizing. The technical layout of the Newcastle mill and their product profile does not lend itself to the incorporation of COREX technology and the production of hot rolled steel. Vanderbijlpark was similarly unsuitable.

A new site at Port Elizabeth or East London had the positive attribute of being near two well established industrial centres which would intuitively lead to backward and forward linkages with

the steel output, thus promoting spin-off growth from the steel investment. Unfortunately very high electricity prices in the region (electricity being a large cost component in the production of hot rolled steel) do not make these locations viable. Furthermore a distance of 14km between the proposed site and the port added further costs. A location near Richards Bay, near the Natal coalfields was also rejected. Since coal is of secondary importance visa vies iron ore, it did not make sense to ship ore from Saldanha (and Sishen) all the way to Richards Bay. (Fitschen 1997).

These eliminations left Sishen and Saldanha as the main contenders. A mill at Sishen would be located at the source of the mined ore. The finished product could be railed to Saldanha's port on the rail road constructed in the seventies. Problematically, iron pellets, essential to the production process, needed to be imported from Brazil and would have to be railed up to Sishen along with coal from the port at Saldanha. The fact that electricity prices are also higher in Sishen than in Saldanha coupled with the point that Sishen is very undeveloped and would offer very few spin-off growth prospects, made Saldanha look more and more like the best choice. The decline in the quality of the ore mined at Sishen was also a potential problem. If the quality declined to the point where further ore had to be imported, the positioning of the steel mill at Saldanha would again be the most viable.

The infrastructure in place in the Saldanha/Vredenburg/Langebaan area was well suited to the large manufacturer. Good road and rail links access to a bulk-export port, low land prices and low electricity prices makes Saldanha attractive to large manufacturers.

3.4 The Sustainability of Saldanha Steel

Even in the highly competitive and volatile steel market, it appears that the Saldanha Steel mill itself, with its use of new technology, will be sustainable. Its location at Saldanha certainly enables it to keep certain costs low. From a national perspective the fact that the project's processing of raw materials adds tremendous value to exports and that it hopes to earn an estimated R1.8 billion per annum in foreign exchange has good implications for the wider

economy. The long run sustainability of Saldanha Steel will be dependent on market demand, which in turn will be determined by the **price** and **quality** of Saldanha's Steel.

The **quality** of the steel produced at Saldanha seems assured. The iron ore mill using COREX technology produces "clean" steel which is important when buyers need the steel for the cold forming (e.g. metal pressing). Also Saldanha Steel will be able to produce Ultra Thin Hot rolled Coil that can replace more expensive cold-rolled steel of similar thickness. The quality advantages of Saldanha's Steel bode well for local and foreign demand.

The **price** at which Saldanha Steel will be supplying the local and international markets is also critical to the sustainability of the plant itself. Two main factors dominate the price of steel in South Africa. They are the variable world price and excess capacity of world and South African steel producers. Excess capacity in the steel industry (a problem added to by the establishment of the SSP) leaves Iscor with two alternatives. Either, close down sections of production (incurring financial and job losses) or sell the excess production in other markets. The price at which Iscor sells steel for export is lower than the price it sells steel for domestically. The lower export prices compensate overseas buyers for longer wait times as well as the additional costs of import tariffs which buyers must pay. Thus the discrepancy between Iscor's local and export prices. Since other world steel producers are in similar predicaments, imported steel prices are also low and Iscor must compete with these lower import prices if they want to sell steel locally. Local producers will buy local steel because of certain factors:

- Iscor provides free technical advice and service to local customers
- Importing steel means carrying more stock to compensate for slower delivery times
- Credit and currency cover (insurance against depreciation) mean higher implicit costs of imports

Iscor claims that it will follow a market strategy that incorporates maintaining flexible prices in line with import parity. Local producers buying steel to process for export can do so at export parity. As a rule Saldanha will set prices in line with Vanderbijlpark's hot rolled prices. This

means that prices at the plant itself will not be much cheaper than anywhere else in the country. Since Saldanha will not offer significantly lower steel prices, downstream firms will locate in Saldanha for perhaps the following reasons:[13]

- It is near the port and thus good for downstream exporters or for transport to other South African ports
- It is closer to other markets (e.g. Cape Town) than the Gauteng mill
- Specialised product of Saldanha Steel (limited)
- Producer may simply want to live in Saldanha/Vredenburg/Langebaan (SVL) area.

Overall the quality and price factors of the new mill seem to point to it being the most sustainable steel mill in South Africa. The mill's position at a suitable port with good access to its raw material needs suggests Saldanha is an economically efficient locational choice.

The Saladanha Steel project must not, however, be judged only as a stand-alone success or failure. We must remember that it is the "anchor project" in the wider context of the West Coast Investment Initiative. The IDC has made a large investment (approximately half the total) and it is looking to the SSP to be the catalyst of sustainable economic growth in the region. If the SSP is to be an unqualified success it has to lead to the achievement of the SDI goals.

[13] The incentive for downstream development are essential to achieving the goals of the SDI as noted previously. Essentially it means that producers will locate in the SVL region not just because of the SSP's prices (which will be unspectacular), but because of a combination of the mill and the area other attributes.

CHAPTER 4

Questionnaire Survey

4.1 Introduction

Two stated objectives of SDIs are the generation of sustainable growth in localities with inherent economic potential and the creation of sustainable employment for the local inhabitants of the chosen area. For these objectives to be achieved the theory outlined in Chapter 1 draws attention to two fundamental attributes of successful regional programs.

- Key infrastructural or capital projects must be carefully chosen and reflect market demand for such projects.
- The development of the project must build social capital or economic capacity in the region.

The study focuses on the second of these attributes.

Lewis and Bloch (1997) state that due to the Saldanha region's weak industrial capacity and the nature of the Saldanha steel mill – in particular the characteristics of its inputs and outputs - it is unlikely that the construction of the mill will comprehensively alter the industrial capacity of the region. They do mention, however, that the impact of the large-scale capital investment (approx. R7.2 billion) should not be underestimated.

It is clear, for the goals of the SDI to be achieved, the exogenous investment of 7.2 billion should be conscientiously channeled toward local firms and households. The study examines whether firms have grown in the region and whether this growth might be sustainable beyond the construction phase.

Has the SSP as the anchor project of the West Coast Investment Initiative resulted in any characteristic "side effects" as identified by Kyu Sik Lee?[14] Has the Procurement Policy and the manner in which SSP have dealt with local firms assisted in increasing "social capital" in the region? In order to evaluate the economic impact of the SSP on the region, a survey of firms in the Saldanha-Vredenburg-Langebaan area (SVL) was conducted.

4.2 The goals of the survey

By judging the reaction of business during the construction phase of the project it was hoped that potential future growth could be estimated. That growth would be based on whether local firms believe that the SSP and large on-site contractors had acted in a way consistent with uplifting local business[15] and how the local firms changed or altered their behaviour since the arrival of the SSP. The question of whether the local upliftment and growth is sustainable underlies both the above ideas. Anchor projects are judged by their influence on the area's growth capacity. By looking at local firms as some representation of local prospects in general, is it likely that the SSP has made an impact on economic activity that can be sustained?

4.3 Defining the population

As with any sample there is a balancing act between complete thoroughness and practicality. The population is defined as the complete list of firms from which a sample would be randomly chosen. In attempting to establish a population from which to draw a sample, two populations were initially identified.

a) The entire list of all registered firms in the SVL region (as identified by local municipality registration) and
b) The list of local firms who had actually supplied or had done business with SSP (as identified by invoice records from SSP and major contractors).

[14] Kyu Sik Lee (1996: 23-26) quoted in Chapter 1.
[15] The commitment to local business is clearly laid down in the SSP Procurement Policy.

Neither of these populations seemed suitable. It was likely that because of the diverse nature of the firms on the first list that even if a large sample was drawn from this list, it was probable that very few firms would have done significant business with SSP. Since many questions in the survey were about the actual business practices of SSP and major contractors, a large proportion of replies from firms with no direct dealing with SSP would not address the aims of the survey.

The second population did not present the same difficulties. The population was smaller, they were contractable and the list was up to date. All firms on the list had also obviously supplied SSP and/or major on-site contractors and so any sample would have relevant comment. Since, however, the survey was evaluating the SSP's impact on local firms and analysing the affects of procurement policy, this population seemed severely biased. It was biased because it excluded all firms who, for whatever reason, had not done business with SSP or contractors even though they might have wanted to. For these reasons the two initially proposed populations were rejected.

A third listing of local suppliers as compiled by Project Services at Saldanha Steel was judged most representative of the population from which to sample. Prior to the commencement of the construction phase of Saldanha Steel, information meetings were held in towns in the SVL area. These community forums, as they were known, provided information about many aspects of the Project, including general information about the kinds of materials, goods and services that would be required during the project. Local businesses, which believed they could offer any service to the SSP at any stage, submitted their names and their various lines of service to the SSP procurement officials. Including all submissions, The Project Services Team at Saldanha Steel compiled a supplier's list from all submissions. The suppliers on the list all operated in the so-called "Area 1". SSP Procurement Policy stipulated the awarding of contracts in part according to geographical preference. Preference Area 1 was the local SVL area (within 60km of the SSP). Preference Area 2 incorporated the Western Cape, and Preference Area 3 included the rest of South Africa. The list was to be used by SSP and all contractors and sub-contractors to ensure optimal use of local resources. The list was updated regularly as new firms submitted their names.

Drawing the sample from this list ensured representivity. The list was compiled by SSP, there were no conditions for getting onto the list except that the firm had to be local and that the firms believed that they had some goods or service that may be required at some stage. Appearing on the list involved little effort and simply meant a firm had to notify SSP of its presence. The existence of the supplier's list was well known and the community meetings were highly publicised.

4.4 Drawing a sample from the Supplier's List.

Stoodely et al (1980) state that it is important to select a sample that adequately represents both the population and the characteristics under examination.

The goal of the survey was to evaluate the impact that the SSP had on local firms. It seemed probable that the SSP would impact differently on different sectors amongst local firms, that is, for example, the business from the SSP may have been excellent for engineers and yet poor for retailers. To ensure that the results from the survey would reflect these differences the initial supply list was divided into sectoral categories and the number of firms in each category was noted. The table below details the division of business activity into categories.

Table 1: Supply List Categories[16]

	No. of firms	Sample Drawn
1. Accommodation, Hotels, Restaurants and Caterers	20	3
2. Building, construction, plant construction.	47	7
3. Engineering Supplies/Equipment and service	48	8
4. Electrical systems and Plant maintenance and Operations	37	6
5. Waste removal, Laundry, Gardening and Sanitation	37	6
6. Motoring, Transport and Fuel	20	3
7. Professional Services (Accounts, agents, planners etc.)	28	4
8. Retail and Service (Shops, Hardware, Pharmacies etc.)	50	9
9. Office supplies and refurbishment	24	4
TOTAL	311	50

A sample of 50 firms was drawn from the list of 311 businesses. To ensure that a representative proportion of each sector/category was selected the percentage of each category drawn in the sample equalled the percentage each category represented on the full list (311). 20 out of 311 were Group 1 firms representing 6.4 % of the total and therefore 3 businesses from Group 1 were included in the sample.

In total 50 firms were randomly chosen from the suppliers list. 31 full replies were obtained. Five of the selected firms refused to be interviewed or said that they did not have the time. Four firms had either closed down or stopped operating, this information was discovered during an interview with a local estate agent. The agency had been renting premises to these firms and knew that they had stopped operating in the area. Finally, ten firms could not be contacted.

[16] Category 2, 3 and 4 are all involved directly in plant construction and were separated to show more clearly the variance of experience local firms had.

Repeated telephone calls and visits to stated addresses were unsuccessful, but it is not known whether or not these firms still operate in the area.

4.5 The method of Survey

The questionnaire used in the survey is included as Appendix A. To ensure that all interviewees answered the questions in similar situations and that different interpretations of the questions were avoided, all interviews were conducted by myself. Conducting all the interviews in person had the added advantage of me being able to see the premises. As the only interviewer I believe I was able to maintain consistency especially with regard to the tone, manner and nature of answers to the questions that required comment. Apart from answering the questions on the questionnaire, I encouraged any comments about their business, the town or the SSP. Interviewees were informed that I did not work for Saldanha Steel and that the survey was part of an independent report for the Industrial Strategy Project (ISP), on the impact that the Saldanha Steel Investment was having on local firms. All interviewees were made aware of how they had been selected for the survey.

4.6 Survey Questionnaire

The Survey questioned various aspects of local firm's dealings with SSP and the major contractors. The interview collected data on:

1. Information about the firm and its existence in the SVL area;
2. The impact that SSP had on firms – turnover, employment, growth etc;
3. The impact that the SSP had on market conditions in their field e.g. competition, prices etc;
4. Questions as to whether the business environment had altered since the arrival of the project;
5. Questions about product, process and service adjustments since the arrival of the SSP
6. The question of tendering and quoting on SSP contracts;
7. Perceptions, comments and experiences with SSP and major on site contractors and
8. The firm's expectations and future prospects in the area.

4.7 The Results from the Survey

4.7.1 Background of firms

The surveyed businesses had operated in the area for on average just over 13 years. Twelve firms had been in the area for twenty or more years. Three firms had been established more than 30 years ago. Six firms had been in business for less than two years. Of these six firms, three said that they had moved to the area because of the Saldanha Steel Project.[17] One was a new building company and the other two were new branches of national firms.[18]

The large number of long established firms added an interesting angle to the survey. During discussions, many of the interviewed people could reflect on the large capital projects embarked upon previously in the West Coast area, and how these projects compared to the SSP. One case in particular was rather ironic. A general manager at a construction supply company with national links was originally transferred to Vredenburg because of the proposed steel mill that was to accompany the Sishen railway line. The businessman said, "I have been waiting literally twenty years for this project!"

4.7.2 Business activity and the Affect of SSP on Business Practice, Goods and Services

It seemed probable that the SSP would cause both increased competition and increased business activity in the area. Certain survey questions investigated firms' reactions to these changes.

In Question three firms were asked if the influx of new firms into the SVL area had added to competition in their line of business. 16 firms said that competition in their field had increased. Of these, nine said that they had reacted to this competition in some way. The nine firms who said that they had reacted to the influx of competition were asked to explain how they reacted.

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[17] Firms had to be officially established in the SVL region to be allowed on the SS Suppliers list.

[18] An industrial air company and car rental company moved to Saldanha at the very early stages of the SSP. Their managers attended community meetings and got on the list as local firms, which they were entitled to do.

Table 2: Reaction to Increased Competition

Number of firms that altered their prices only	5
Number of firms that altered their products and/or services only	1
Number of firms that increased their stock levels only	1
Number of firms that altered prices and increased stock	1
Number of firms that altered prices and products/services	1
TOTAL	**9**

Giving further consideration to product and services, firms were asked if they *improved* any of their products and services specifically to meet SSP standards or acquire contracts. Nine out of 31 firms said that they had improved their product and service. The comments from these nine firms suggested they improved mainly the speed and efficiency of their service. Interestingly in cross-question analysis, seven of these nine firms had stated that there was increased competition in their field (Question three) and six of these seven had made other adjustments to be more competitive. Since the arrival of the SSP increased competition prompted greater efficiency and price adjustments from local firms.

In Question five firms were asked if their turnover, number of employees, amount of capital equipment, service support equipment or premises had changed since the arrival of the SSP.

Table 3: Changes in capital, labour, turnover and premises

	Increased	**Decreased**	**Unchanged**
Turnover	21	0	10
Number of Employees	16	0	15
Capital equipment	6	0	25
Service Support	9	0	22
Premises	4	0	27

A large portion of sampled firms (21 of 31) stated that turnover had increased since the arrival of the SSP. This was hardly surprising considering the project costs amounted to R7.2 billion and employed more than 5000 people during the construction phase. Fewer firms increased their number of employees and other indications of permanent physical expansion were not prominent.

The arrival of the SSP in the SVL area marks a significant change in the industrial character of the region. For local firms to be successful they would have to cope with the demands of the massive construction project or they would lose out to firms based in larger centres like Cape Town. Firms were asked in Question 18 if they had adjusted their range of products and services to deal with the needs of the SSP. The survey asked if firms had (1) expanded the range of products and services they were providing (2) diversified into new products and services (3) specialised in certain products or services (4) increased their general stock levels. Firms answered as is shown in the table below:

Table 4: Firm's adjustments to deal with SSP

Number of firms which expanded product range or services	6
Number of firms which diversified products and services	8
Number of firms which began to specialise	5
Number of firms which increased general stock[19]	7

Table 4 showed adjustments firms had made to products, services and stock during the construction of the SSP. Question 19 asked if any of these changes were permanent (i.e. seen as continuing after the construction phase). 22 out of 31 firms had claimed to have made at least one adjustment.

[19] 22 of 31 firms replied that they had made at least one adjustment.

Table 5: Sustainable Adjustments

	No. of firms
Adjustments were seen as permanent	10
Adjustments were seen as temporary	8
Were not sure if they were permanent	4

The result showed a fair proportion of local firms willing and able to adapt to the new demands of the changing local economy. Three of the five firms that specialised said that they had specialised so as to improve their supply of goods and services needed in large construction projects. The changes will enable firms to cope with the construction of the proposed Duferco and PPC plants. Significantly, two of these three are firms with national links or are branches of nationally based firms.

The success of firms with national links/branches or franchise links was notable. Irrespective of the category, local firms with national links (i.e. branches or franchises) had generally been very successful since the arrival of the SSP. Eight of the 31 firms were of this type. All eight had increased turnover in the period. Six out of eight had increased the number of employees.

The results of the survey point to firms with national links adapting more easily to the kind of business conditions that arise from a large capital intensive project like Saldanha Steel. Discussions in the interviews shed some light on why these firms may have advantages in the area. Firms with national links appear to have an advantage over other local firms for the following reasons:

a) Such firms have national depots and can meet the huge quantities and short delivery times often required by projects like SSP. A material supply firm, for example was able to draw on Cape Town branches to meet massive short term quantities.

b) Nationally based firms have pre-existing contact with major contractors throughout the country. Major contractors operate nationally and do business with many other nationally based firms. If these firms have branches in the SVL area this obviously has tremendous advantages when it comes to acquiring contracts.

c) This type of firm could invariably draw on national experience with large contracts. For example, one industrial air supplier's branch in Saldanha was staffed by employees who had previously worked for the Mosgas project.

d) Additional staff and expertise could be temporarily shifted from other branches. To cope with the sudden boom in business a car rental company transferred an employee from a Cape Town operation. Staff training is also less of a problem, the company above said that they trained new employees at large branches all over the country and drawing on these new employees was not difficult.

e) Access to financial capital, if needed for expansion, was not listed as a problem for any of the national firms, whereas for other business's surveyed it was the most commonly mentioned growth inhibiting factor.

f) In most cases, if local firms wished to take advantage of the boom created by the SSP they needed to expand. There is great risk attached to such expansion, especially since the end of the construction phase is likely to cause business to slow down. For nationally based firms the cost of down-scaling after the massive construction phase is less. Employees can transfer back, unused stock can be returned to national depots and capital equipment can be absorbed. Firms without national links cannot expand and shrink so easily. The risk of expanding is higher and so many of these firms cannot take full advantage of short term booms or are at least reluctant to do so.

When assessing the impact that a large-scale investment like the SSP will have on a local economy, policy makers should note the advantage nationally based firms have. These firms possess certain characteristics, which support their success.

If SDI projects wish to assist local firms in best using the opportunities afforded by large anchor projects then the success of nationally based firms provide some guidelines. Assisting local firms

in mimicking the advantages nationally based firms have, is a good place to start. Provision of access to capital for expansion is important. Having experience in dealing with large projects is an advantage, so attempting to provide advice for local firms on how to handle large projects could be looked at.

4.7.3 Saldanha Steel's Procurement Policy and the Tender Process

As has been explained Saldanha Steel has committed itself to making maximum use of local labour and other resources. It was also clear that major on-site contractors were required to do the same (SSP Procurement, 1996). It was hoped the SSP's arrival would spark growth and competitive improvements in local firms. For its part, Saldanha Steel's procurement policy should have helped maximise the positive spin-off effects of the large investment. Furthermore assessing the impact of SSP's procurement policy on firms, lessons could be learned and applied to anchor project investments in future. It was also hoped that tender and quoting procedures would be clear, uncomplicated and also reflect SSP's commitment to local suppliers.

The perception of the local firms of the procurement process at Saldanha Steel was examined by asking eight questions about the tender and/or quoting procedures of SSP and major on site contractors. Suppliers were asked if they had tendered or quoted on any SSP contracts and whether they had been successful in their bid.

There were two ways to get a contract at Saldanha Steel. Firstly, official sealed bid tendering took place for any contracts above R50 000. This process required that a contract is advertised by SSP or major on-site contractor and those interested firms submit their tender. All tenders should be considered, one chosen and the rest receive some feedback as to why their tender was unsuccessful.

For contracts less than R50 000 a normal quotation practice applied. SSP would contact a number of suppliers off the supplier's list and ask them to quote on a contract. The "best" quote acquired would be awarded the contract. The sample answered as follows:

Table 6: Quotations

Number of firms who quoted on contracts	19	61 %
Number of firms who quoted successfully at least once[20]	18	58 %

Table 7: Tenders

Number of firms who tendered[21]	10	32 %
Number of firms who succeeded in any tender bid	7	23 %

Question 11 established that five firms who at some stage were unsuccessful with *official tenders* claimed they received no feedback as to why they had failed. The lack of feedback created uncertainty for local firms.

When firms were asked in Question 16, if they had complaints about the tender or quoting procedures at Saldanha Steel, eight firms replied in the positive. Some firms saw the process as too informal and creating feelings of unfairness. Some firms believed contractors bought from outside the SVL area without asking for quotes from local business.

In an attempt to ascertain how local firms stood competitively the survey asked if they knew why they did not get a contract they sought. Question 13 asked whether the lack of success was attributed to price, quality, quantity, delivery time or any other reason. Four firms believed they lost contracts because their prices were too high, but they did not know for certain, as they had not received feedback from SSP or major contractors. No firms believed they did not get contracts because of inferior quality goods, and quantity as well as delivery time did not feature strongly as a reason for lost contracts.

[20] Some firms quoted on a number of contracts, some were both successful and unsuccessful. If firms quoted successfully at any stage they were listed.
[21] Some firms won and lost tenders, even if they only won one tender they are listed as successful

The belief that contracts were lost for reasons other than those above came out quite strongly. Six firms believed that Cape Town and Johannesburg firms got contracts because of links with Iscor and/or contractors elsewhere in the country - these feelings were fuelled by the lack of feedback to unsuccessful tenders. A number of local firms that believed they quoted very competitively on contracts lost out to Cape town firms with no explanation. This induced feelings of scepticism about the handling of some contracts.

The tender process seemed to be completely understood since none of the 31 firms said they had learned anything new about the actual tender process (Question 17). Eight firms said they had learnt about their competitive position in the market, realising that they had to improve their service or lower their prices. Small local firms get exposed to nation competition and with a bit of support from a liberal procurement policy, they can hopefully step up and meet the challenge and simultaneously improve the economic prospects in the area.

4.7.3.1 Conclusions on Procurement, Tenders and Quoting at SSP

With regards to tendering and quoting the survey questionnaire addressed the fairness and effectiveness of the tender/quoting system used as well as the behaviour of the SSP and major contractors in the tender /quote process. The results point to both strengths and weaknesses in the way Saldanha Steel and major contractors handled tendering procedures.

a) Formal Tendering and Quoting

A number of firms suggested that the quoting and tendering system should be more formal and more rigorous. No firms said that they did not understand the tendering process or that it was too complicated. It was clear that the more formalised the tendering and feedback procedure was, the greater the feeling of fairness would be. On the positive side most firms believed that the SSP had co-operated better with local firms than previous large capital projects, notably the harbour expansion and Namakwa Sands.

b) Community forums were useful but not sufficient.

Decentralisation policy as conducted by the previous government was far from an interactive process. Massive capital projects were centrally decided upon with little to no local involvement. The people of the SVL area can attest to this and many did mention this point during the survey. One interviewee stated that he had been in Saldanha for thirty years and seen the development of the Sishen railway line, the harbour, the military academy and recently the Namakwa Sands project. He said, "There was more consultation with the local community on the SSP than all the other developments put together".

The community was involved right from the beginning as the environmental debate over the project raged and the SSP followed this up with community meetings. These meetings were very useful and awareness of various aspects of the project was raised. A number of interviewees said, however, that these meetings were not totally sufficient and the needs of local firms could have been still better served. SSP and major contractors could have held meetings/forums where the topics discussed were more industry specific, i.e. separate meetings for say heavy construction, financial services, plant maintenance etc. The impression received was that the community forums were useful in providing initial details about the project, but that the large number of topics under discussion meant that information was not as thorough as it could have been. Local firms could have explained what they were capable of doing and could have prepared specifically to meet the needs of SSP. This practice could have been repeated at various industry specific meetings, but was obviously not possible to do at every community forum. The point seemed valid since the forums had to deal with social problems, labour disputes as well as all significant tendering/quoting opportunities. This left the perception that the meetings were disorganised. Industry specific meetings held fairly regularly appear to be a good idea and considering Iscor and the IDC's commitment to uplifting local firms, the idea appears logistically and financially viable.

c) Tender Feedback

The lack of and inconsistency of tender and quote feedback is a major cause of distress. This comment was common in connection with Saldanha Steel and its major contractors. Information about the reasons for unsuccessful tenders or quotes are essential especially for local business who at first may not fully appreciate their competitive position in relation to outside firms. Local firms need feedback with respect to price, quality, delivery times and general service levels, because if their quote/tender is unsuccessful local firms need to know how much to improve prices or service etc. Lack of feedback makes future quoting difficult and as a result locals believe outsiders get future contracts. Worse still, a lack of feedback may result in local firms not submitting further tenders or quotes.

The lack of feedback also adds to local suspicion and discontent. A number of surveyed firms believe that their quotes were not given a fair chance. Two small engineering firms, an alarm company and a computer firm were amongst those that received no feedback on quotes that they had put forward. Fuelling their discontent was the fact that they later learned they had lost out to Cape Town based companies. If SSP and major contractors provided adequate feedback explaining why firms had been unsuccessful, this could have removed suspicions of unfair treatment. In a small community perception is very important. The perception that local firms are being unfairly treated by SSP could mean, less support for industrial projects in future. Part of developing "social capital" is the construction of a community, which works together, supports and learns to deal with industrial projects.

Once again a large benefit can be given to local firms by the introduction of simple and consistent practice. After all SSP does have to consider all their tenders and quotes to make sure it gets the best prices, so consistent feedback to these firms seems easily plausible. Local firms should be given every opportunity to take advantage of the initial capital investment. Successful regional policy relies on the region improving its capacity for economic development and for the emerging regional economy to attract further investment. An easily rectifiable problem such as inconsistent tender feedback could jeopardise this success.

d) Entry onto the SSP site

A problem specific to the Saldanha Steel Project seemed to be the difficulty of getting on to the site. Once a contract was secured and a firm gained access to the construction site they gained the inside track to any further contracts. The necessarily tight security on site led to a distinct insider-outsider situation. Some local firms believed this hindered their chances of doing work since they could not get on to the site to see what contractors needed or what work could be contracted for. Only after a number of months of construction did a local toilet hire company get access to the construction site. When they did they found other sanitation contracts which they had not got a chance to quote on in the past. Once on site they found they could better a Cape Town based firm's prices and thus secured further contracts. This situation could be rectified by regular, industry specific meetings about what exactly is going on and what is needed on the site.

e) Procurement Policy Issues

The Procurement Policy at Saldanha Steel states:

- Preference to local labour, suppliers and services
- Meaningful involvement of Sabtaco[22]
- Inclusion of emerging contractors on non-critical elements of the project.

Local firms were preferred but with no cost, quality or delivery-time concessions. Perhaps the policy could have done more to promote local firms. The Department of Public Works, The Department of Trade and Industry and the State Tender Board have been working since 1995 on Public Sector Procurement reform.[23] The goal of these reforms is to promote smaller firms and previously disadvantaged groups. A system has been adopted where tenders will be awarded on point systems where price and product form part of a formula that incorporates preferential targeting of selected groups.

[22] Sabtaco - South African Black Technical and Allied Careers Organisation
[23] A Green Paper on Public Sector Procurement Reform has been released (1997).

Unlike the SSP Procurement policy the aforementioned system could allow a local firm to win a tender even if they were slightly more expensive. Local firms would have benefited more from the SSP. One can argue about the efficiency of preferential targeting, but if the state tender board can adopt such measures surely a joint venture between the IDC and Iscor should also.

In the interviews some firms said that they believed the procurement policy was not adhered to. For example, an official franchise motor dealership quoted on new cars for SSP officials. The dealer offers nationally standardised prices for particular car models. Days later he saw SSP employees driving new cars of his model purchased in Johannesburg at what could only be standardised prices. He saw this as a breech of the procurement policy. Saldanha Steel also used a Cape Town courier service when more than one local courier would meet any price and offered the same services, once again an apparent breech of the procurement policy.

4.7.4 Sustainable Growth and Barriers to expansion

Questioning the sustainable nature of the interaction between local firms and the steel mill, firms were asked in Question 9 if they supplied a product or service that would be required by Saldanha Steel in the operational phase, that is, the normal operation of the mill after construction.

25 of the 31 firms surveyed said they supplied goods and services that would be required for production at the mill after the construction phase. Four firms said they did not supply products and services that would be required by the SSP after the construction phase and a further two said that they were uncertain. These results can certainly be viewed in a positive light since it appears that the SSP will potentially still be providing opportunities to local firms when the construction phase is over.

A number of questions were asked in an attempt to uncover the perceptions of local firms about the prospects for growth in the area and how these prospects had been affected by the SSP.

The questions were as follows:

Question 4: What affect has the SSP had on your business prospects in the region?

Question 22: Have your expectations of Saldanha Steel's impact on growth in the area been fulfilled? The answers were generally very positive:

26 firms said that the SSP had improved their business prospects in the area. Three firms said that their business prospects were harmed. The reason they gave was that they were struggling to compete with new firms who had arrived because of the project.

16 firms said that their expectations of the SSP's impact on growth had been fulfilled. Seven firms said that their expectations were fulfilled to some extent.

Some firms had thought there would be more work for local firms when the SSP was originally announced and others were disillusioned by the fact that Cape Town based firms got many of the contracts. In these respects some firms felt their expectations were not fulfilled.

Question 21 asked what firms perceived as the factors limiting their business growth in the region. The firms are given a choice of some possible factors and asked if any there are other factors they could think of:

Table 8: Possible factors limiting a firm's growth in the SVL

Factors Limiting Growth	Yes	No
Size of SVL area	10	21
Distance from major centers	1	20
Lack of skilled labour	5	26
Lack of financial capital	9	22
Other	6	25

Among the "other" limits to expansion was the increasing competition from Cape Town firms and the lack of appropriate housing especially for higher wage earners. Generally the firms were very positive about the business prospects in the region and many stated that the SSP had done more for local business than any other major projects.

Lack of financial capital was the most stated reason. Underlining the importance of access to capital is the already mentioned success of the nationally based firms who almost always have access to capital and are able to fulfill growth potential (Section 4.7.2). Being able to finance the major anchor projects of regional policies is often the focus of government attention. The ability of local firms to finance their own expansion in response to such anchor projects should also be considered a priority. Again, international experience reminds regional policy makers of the importance of a large initial investment in sparking-off local industry. Small local firms may not have access to short term profits to fuel their expansion and high interest rates and volatility make large loans extremely risky.

The lack of skilled labour was not commonly mentioned, but significantly three engineering firms, an accounting firm and an estate agent listed this reason. The attraction of skilled persons to the West Coast area does appear to be a problem as the level of skill required increases. This problem was picked up in the profile of the area, largely low levels of skilled labour and an exodus of educated young people were noted in the population profile.

The reason for this may be exasperated by property prices in the area. Both estate agents noted the housing situation in Vredenburg/Saldanha as a problem. They said that many potential employees were being interviewed in the area and at the same time were looking at prospective accommodation. The agents spoken to said they already knew of a few people who were happy with potential work opportunity, but the high cost and relatively very low value for money in accommodation especially compared to the Gauteng area, made the move to the West Coast unattractive. One would think that the premium prices in the area would encourage developers to

rectify this problem, but from what agents say, building costs are also extremely high because of the already extended local construction sector.[24]

The shortage of low cost housing which the area shares with South Africa as a whole, coupled with insufficient residence for higher-skilled and higher paid employees in the area, makes the housing situation in the area one of the least documented, but potentially more serious problems. For regional intervention to be sustainable the chosen area must endogenise the growth process. That is the area should develop the ability to attract new investment and continue to do so after the original investment. Improvements in the areas industrial capacity will have to be backed up by suitable housing for all income groups if the area wishes to continue to attract new investment.

Despite the problems mentioned, firms' comments were positive about their prospects in the area, especially those firms with national links. An industrial air firm, a national car rental firm, and a communications firm all saw the need for expansion in the near future. Most of these firms are service or support firms. They rely on the growth of larger manufacturers who in turn use their services. The ability of local firms to support larger manufacturers has improved. Firms also saw their distance from other major centres like Cape Town as an advantage rather than factor limiting growth.

[24] Similar to a case of Dutch Disease where a boom in economic investment pushes up construction and input prices in itself negating many positive side effects of the boom period.

CHAPTER 5

Conclusions and Policy Implications

5.1 Indications of Sustainable Growth

International experience points to an improvement in "social capital" being an essential ingredient for successful regional development. If the SSP is to be a successful anchor project then it would have to impact on the area's economic capacity and the region should show signs of improved social capital.

An improvement of the region's capacity would be realised if (1) existing firms expanded to become more productive and competitive and/or (2) if new firms established themselves in the area permanently. Both developments would be an investment in the area's economic potential, above and beyond the production of steel for export. If at all possible in this SDI, local resources must be boosted. The procurement policy initiated by the SSP had a specific role to play. It should have facilitated the large investment's filtration into the local economy to as greater extent as possible. Contracts awarded to firms from areas outside the demarcated development area do not necessarily forward the goals of the SDI process.

5.2 The Growth of Local Firms

In Chapter 4 we outlined the success and the failures that the SSP has had in its attempt to support local firms. Results from the survey suggest that local firms have made significant changes in order to meet increased business opportunities.

Many firms adjusted prices to be competitive in relation to "outside firms". The large scale of the SSP made it necessary for local firms to compete with other firms based in larger economic centres like Cape Town and in Gauteng. More competitive pricing and general improvement in the services provided by local firms can be seen as a result or "side effect" of the SSP.

Firms gained experience and new skills working on large capital projects and there was some degree of expansion of services and products associated with large industrial projects. There was also evidence that some firms improved their ability to supply larger quantities in shorter periods.

Upstream or supply-side firms have made these improvements which can be seen as the "side effects" of a successful anchor project. The firms are generally support or service firms providing products and services to the SSP. These improvements bode well not only for the growth prospects of the firms themselves, but also for the prospects of attracting further industrial development. The ability of local firms to cater for the needs of larger industries has been greatly improved. The new effectiveness of local firms adds to the West Coast's good infrastructure and can be seen as an improvement in social capital. This is to some degree a realisation of one of the SDI goals. That is, for the area in question to endogenise the process of attracting new investment.

Besides the local firms that were on the SSP supplier's list other new firms (especially those concerned with the construction and maintenance of large industries) have moved into the area. The accessibility and competitiveness of services is an additional pull for the large manufacturers who might link backwards or forwards with Saldanha Steel. The arrival of new firms also improves the area's capacity for economic action.

The announcement of a number of downstream developments had further improved growth prospects in the region. Duferco, a Swiss company, in another joint venture with the IDC, is establishing a cold rolling facility. This represents the first forward linkage with the Saldanha Steel Project. The cold rolled steel facility will use SSP's product for further refinement. The construction of the Duferco plant will also help maintain a degree of business momentum that will inevitably slow somewhat with the completion of the SSP construction.

Pretoria Portland Cement (PPC) has also announced its intention of establishing a R150 million processing plant near the SSP site. The PPC project involves both backward and forward links

with SSP. Slag waste from SSP will be used in the production of cement and PPC will also process some limestone and dolomite for use by the steel mill.

5.3 SSP Procurement Policy

Evidence from local business suggests that the SSP's procurement policy did play a role in the improvements made by local firms. Certainly without the policy stipulating local preference, many more contracts would have been given to firms outside the SVL area. Local firms could, however, have been given additional assistance. Access to capital was a problem for many firms, in a time when expanding their operations seemed feasible. Confusion over tender feedback may have inhibited the ability of some local firms to grow just when the SSP should have been having its largest impact. The survey results suggested that the more formal and explicit tendering and quoting procedures were, the greater the perception of fairness would be. Adhering rigidly to tender feedback procedures would also reduce uncertainty and allow local firms to adapt more quickly to increased competition.

If the government intends to initiate large anchor projects in future to boost underdeveloped regions, the firms in the chosen area must be given every chance to expand during the construction of such projects. Rigidly defined procurement policies supporting local firms and assisting these firms in acquiring capital for expansion must feature in the plans for any regional intervention. Nationally based firms with multiple franchises or branches are able to expand and contract their regional operations easily; they are thus well equipped to deal with large, short-term projects.

Long-term supply contracts could be reviewed occasionally so those firms with unsuccessful tenders can attempt to meet outside prices and services. Naturally it is beneficial for the SSP to contract certain companies for the duration of the project. Established relationships save time, money and effort. However, one of the important goals of a SDI program and consequently any anchor project, is to improve the capacity of local firms. Initially local firms may be uncompetitive in relation to city based firms and may lose contacts. If these contacts could be

reviewed at certain periods it might give local firms the chance to make competitive adjustments and acquire contracts. Local firms will in this sense have been given time to learn about their competitive position in their field and advance themselves. It must be remembered that a competitive and efficient community of local firms will be an incentive for future investment in the area.

A lesson for future large capital projects is perhaps that procurement policies supporting local firms are a necessary, but not sufficient accompaniment to such projects. Local firms could benefit from further support. As much information as possible should be provided to local firms about possible contracts and tender and quote feedback. Past regional policies warn against incentive or subsidy-based approaches, but policy makers must find a way to help firms acquire capital for expansion.

5.4 Maximising Government Policy Effects

The establishment of the SSP impacted on the West Coast Region and the R7,2 billion investment has improved the economic capacity of the area. To ensure Government policy has a wider impact we also need to transfer knowledge acquired in one region's development to another. Learning from the SSP experience could improve the impact of Government finance on regional development in future. The study undertaken has highlighted issues, especially with regards to large capital investments, which could be addressed to ensure that sustainable development results from Government financed regional development initiatives.

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APPENDIX A

The West Coast Spatial Development Initiative: Procurement at Saldanha Steel Project

Company Name: _____

Telephone number: _____

Postal Address: _____

_____

_____

_____

Respondent: _____

The West Coast Spatial Development Initiative: Saldanha Steel Project

Evaluation of Procurement Policy: Saldanha Steel Suppliers Questionnaire.

1. Did your firm come to the Saldanha\Langebaan\Vredenburg (SVL) area because of the Saldanha Steel Project (SSP)?

YES NO

If YES: Did your firm :

Establish a new branch\ franchise	
Relocate from West Coast	
Relocate from Western Cape	
Relocate from another other Province	

If NO:

How long have you been in the SLV area? _____

How do you see the impact of the Saldanha Steel Project on existing firms?

_____

_____

3. Has the influx of new firms into the SLV area added to competition in your line of business?

YES NO

How has your firm reacted ?

Adjusted prices	
Range of products\services	
Increased Stock Levels	
Other	

4. What affect has the SSP project had on your business prospects in the area?

IMPROVED NO EFFECT HARMED

5. How has you business been affected by the arrival of SS?

	Increased	Decreased	Unchanged
Turnover			
No. of employees			
Capital production equipment			
Service support equipment			
Premises			

o Apart from the SSP directly which of the following have impacted on your business?

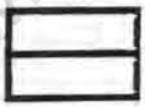
Improved infrastructure in SLV area
Increased General Business Activity
Spin-offs from Service/Supply to other
Businesses involved with SSP

7. Have Management and \or employees gained learned new skill as a result of increased business activity?

YES NO

8. If YES. were these skills obtained by?

Formal training courses
On the job training

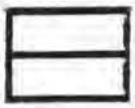


9. Does your firm provide any product and \or service that will be required by Saldanha Steel in the operational phase?

YES NO

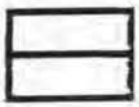
10. Did you propose business with Saldanha Steel in the form of ?

Official Tender Contracts (Sealed Bid R50.000-)
Fax Quote\Enquiry basis (less than R50.000)



11. Were you successful in your:

Sealed Bid\Tender Bid
Fax \Enquiry quoted Bid



12. If your Tender Bid or Quote Bid was unsuccessful:

Were you given feedback from Saldanha Steel?

YES NO

13. What was the reason for your unsuccessful Tender\quote?

Price
Quality
Quantity
Delivery time

14. Besides the above, is there any reason in your opinion that your Tender\quote was unsuccessful? _____

_____

_____

_____

15. Did you ever miss the opportunity to Tender \Bid due to the lack of timeous information?

YES NO

16. Do you have any complaints about the Tender or Quote Enquiry System of Saldanha Steel?

YES NO

If Yes : What Were They? _____

_____

_____

_____

_____

Did you voice these complaints?

YES NO

To whom did you voice your complaints? _____

_____

What response did you receive? _____

_____

_____

_____

_____

17. While quoting or tendering on SS contracts did you learn anything new about ?

The Tendering process
Your competitive position in the market

Explain your experiences _____

_____

_____

_____

18. Did you adjust your range of products and\or services because of Saldanha Steel contracts?

Expanded product range or services
Diversified
Specialised

Could you explain these changes? _____

_____

_____

_____

19. Do you see these adjustments as permanent? i.e. Remaining beyond the building phase of the Saldanha Project?

YES NO

20. Did you improve your products or service to meet SSP standards or acquire the contract?

YES NO

Comment! _____

_____

_____

21. What do you perceive as the factors limiting your businesses' growth potential?

Size of SLV
Distance from other major centres
Lack of skilled labour
Lack of capital
Other

Comment on other factors! _____

_____

_____

22. Have your expectations of Saldanha Steel's impact on growth in the area been fulfilled?

YES	TO SOME EXTENT	NO

23. In addition to what has been done, what do you think could still be done to improve business prospects in the area?

APPENDIX B

EST COAST

stment Initiative

Magisterial Districts	Map 8

– Reference –

- Towns
- Magisterial Districts
- West Coast Investment Initiative Area

Prepared by:	Prepared for:	Map Number:
		WCM12