THE DURBAN EDGE

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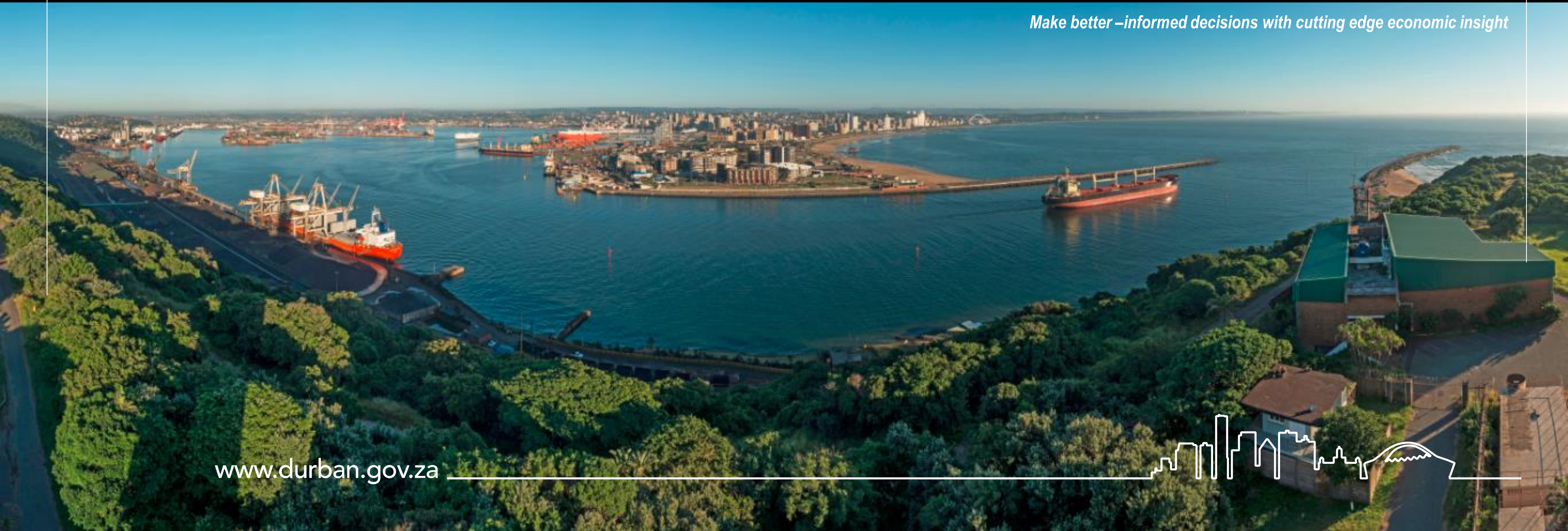
STATE OF THE DURBAN ECONOMY

2020: THE COVID19 EDITION

Make better –informed decisions with cutting edge economic insight



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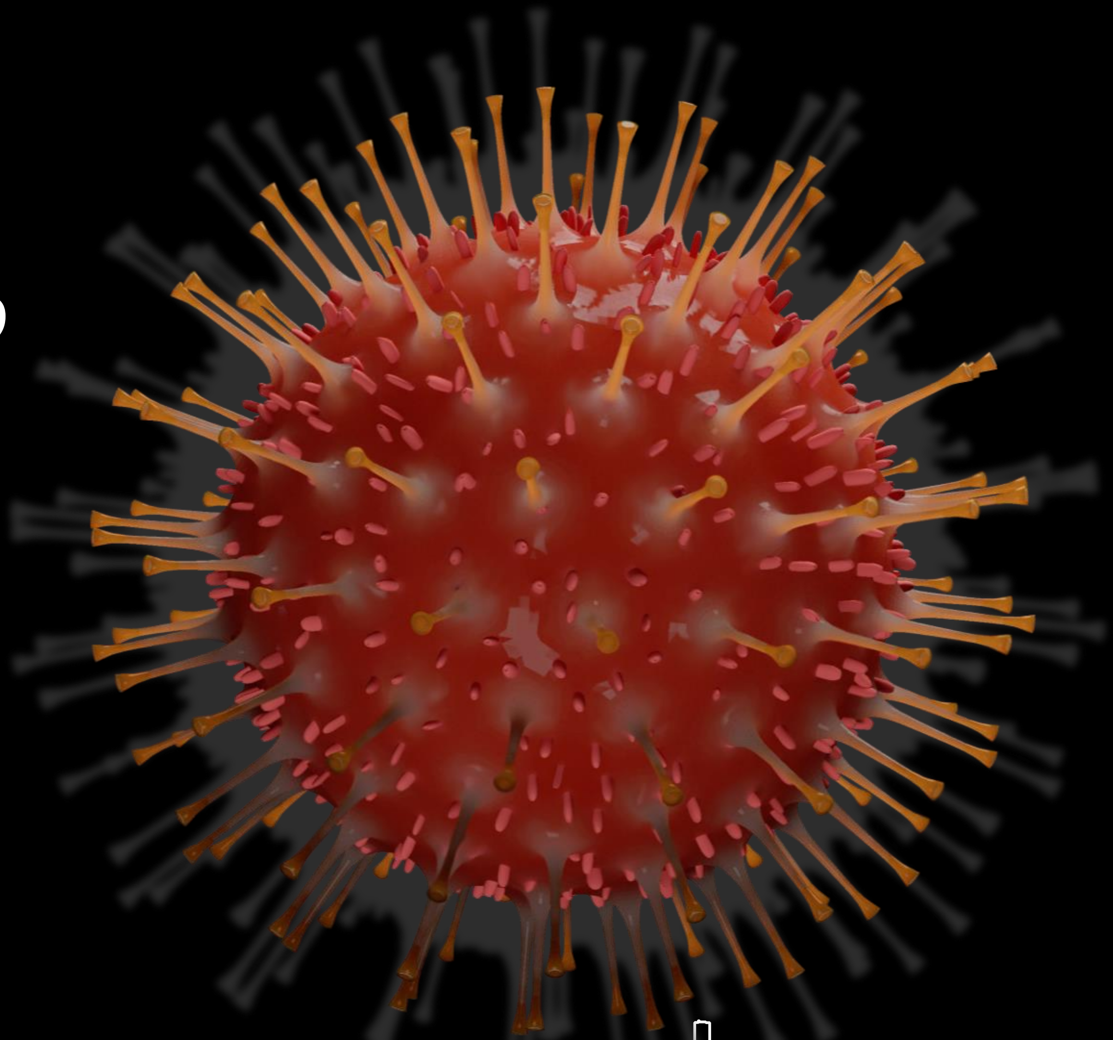
"Covid-19 is expected to lead to
the deepest global recession
in 8 decades"

The World Bank, 2020



"Covid-19 has moved us, almost overnight, into a new renaissance, a global reset."

EY, 2020

Foreword by His Worship the Mayor of eThekwini Municipality Cllr Mxolisi Kaunda

The purpose of the State of the Durban Economy presentation is to provide insights into the City's economy, in order to inform our economic strategies and policies and ensure that they are relevant and effective.

This year we are faced with a global pandemic. During this time, economic intelligence has been pivotal in ensuring that our responses make a difference to our business community, economy, and people at large. We have also launched and regularly updated our Economic Recovery Action Plan which was lauded by both the National Treasury and the World Bank's Global Practice of Urban, Resilience, and Land (GPURL). We are greatly encouraged by this and take it as a clear indication that we must continue to assess, understand, monitor and keep abreast of our economy.

There are five strategic issues emphasised by this presentation; the opportunity to green our energy sector, opportunities presented by innovation, the need to radically transform our economy, support high job creation sectors, and finally balance our social package with economic growth.

These are principles held simultaneously by our National Economic Reconstruction and Recovery Plan, and the Medium-Term Budget Policy Statement. We trust that you will find this annual publication beneficial, and that together we can use these insights to make eThekwini Africa's most caring and liveable city by 2030.

Mayor of eThekwini Municipality
Cllr Mxolisi Kaunda

CONTENTS

OVERVIEW OF THE GLOBAL ECONOMY

SECOND WAVES, INNOVATION, AND A GLOBAL RESET

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- Recovery sabotaged by second waves, only expected next year
- Calls for a global development reset as Covid19 exposes rich/ poor schisms
- African economies grapple with debt and ask for 4 year moratorium
- China emerges largest global economy & first to recover
- Innovation and greener development are increasingly the new normal

GLOBAL ECONOMY OVERVIEW
REAL GDP GROWTH FORECASTS

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	2019	2020	2021
World	2,8%	-4,4%	5,2%
Africa	3,3%	-2,6%	3,7%
Euro Region	1,3%	-8,3%	5,7%
China	6,1%	1,9%	8,2%
USA	2,2%	-4,3%	3,1%
South Africa	0,2%	-8,0%	3,0%

Global GDP is 6,5 points below initial forecast. But 2021 will see the highest growth rate in 5 years; 5,2%.

Source: IMF WEO, 2020; World Bank, 2020

MAJOR GLOBAL INDICATORS

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Growth and inflation: Global growth is 6,5% lower than initial forecast, inflation is on average 1,4% down on 2019.

Mobility: Flights are 43% down from last year and infection resurgences have forced mostly developed nations to reinstate lockdowns.

FDI: Publicly announced projects 29% down in capex values compared to the same time last year (Jan 2019 –Aug 2019).

Tourism: International tourist arrivals (overnight visitors) declined 65% in the first half of 2020 over the same period last year. Tourism remains sluggish, except for domestic tourism ↑ in economies which have curbed the virus (e.g. China).

Trade: Exports and imports of goods (in monetary value) fell by 14% in the first half of 2020 compared to the same period last year.

Government debts and fiscal balances: Public debt almost doubled as % GDP, when compared to 2008 Financial Crisis (10,5%/ 18,7% vs -4,9%/ -10%)

Global labour losses: 2020:Q1 compared to 2019:Q4 was equivalent to the loss of 130 million full-time jobs. The decline in 2020:Q2 is likely to be equivalent to more than 300 million full-time jobs lost. This is almost 9% of the workforce- from an average of 5%.

Recovery is slow and has been more gradual than previously forecast.

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GLOBAL MOBILITY IS RECOVERING; BUT STAGNANT

GLOBAL COMMERCIAL FLIGHT MOVEMENTS, 7 DAY AVERAGE

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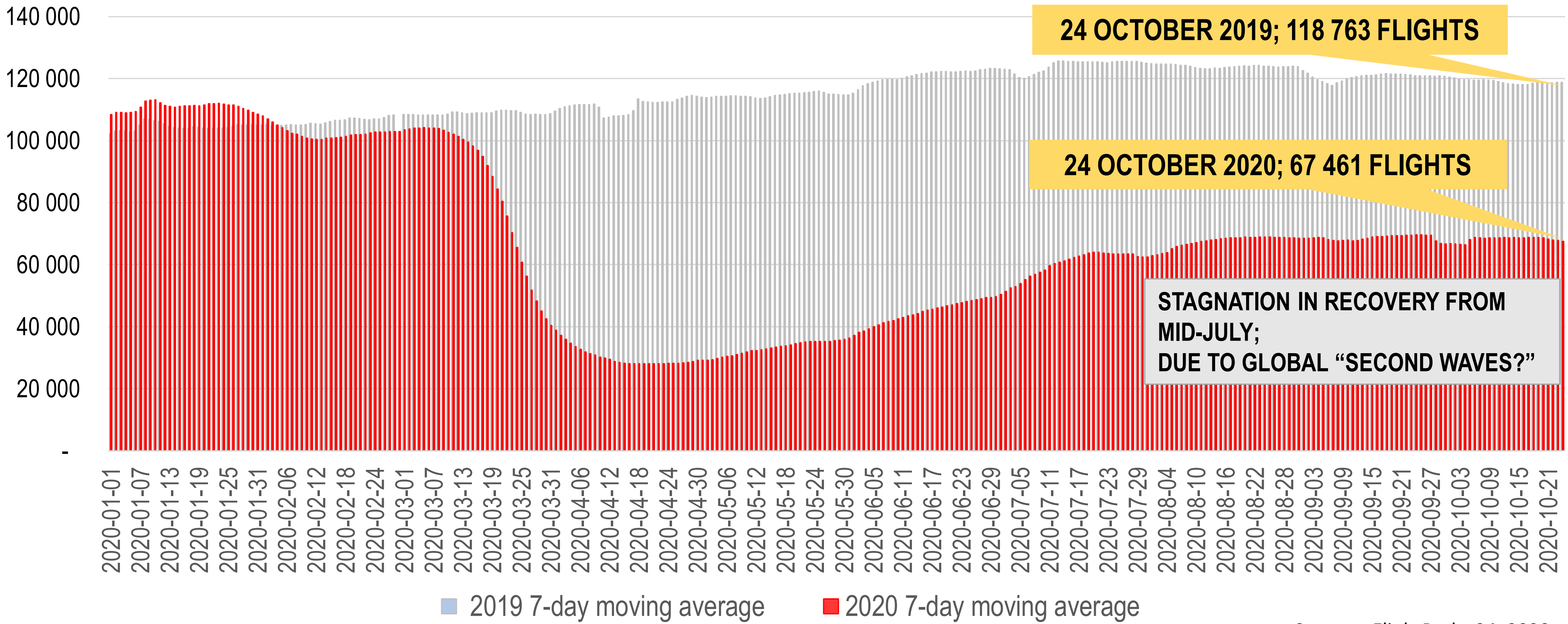

Sources: FlightRadar24, 2020

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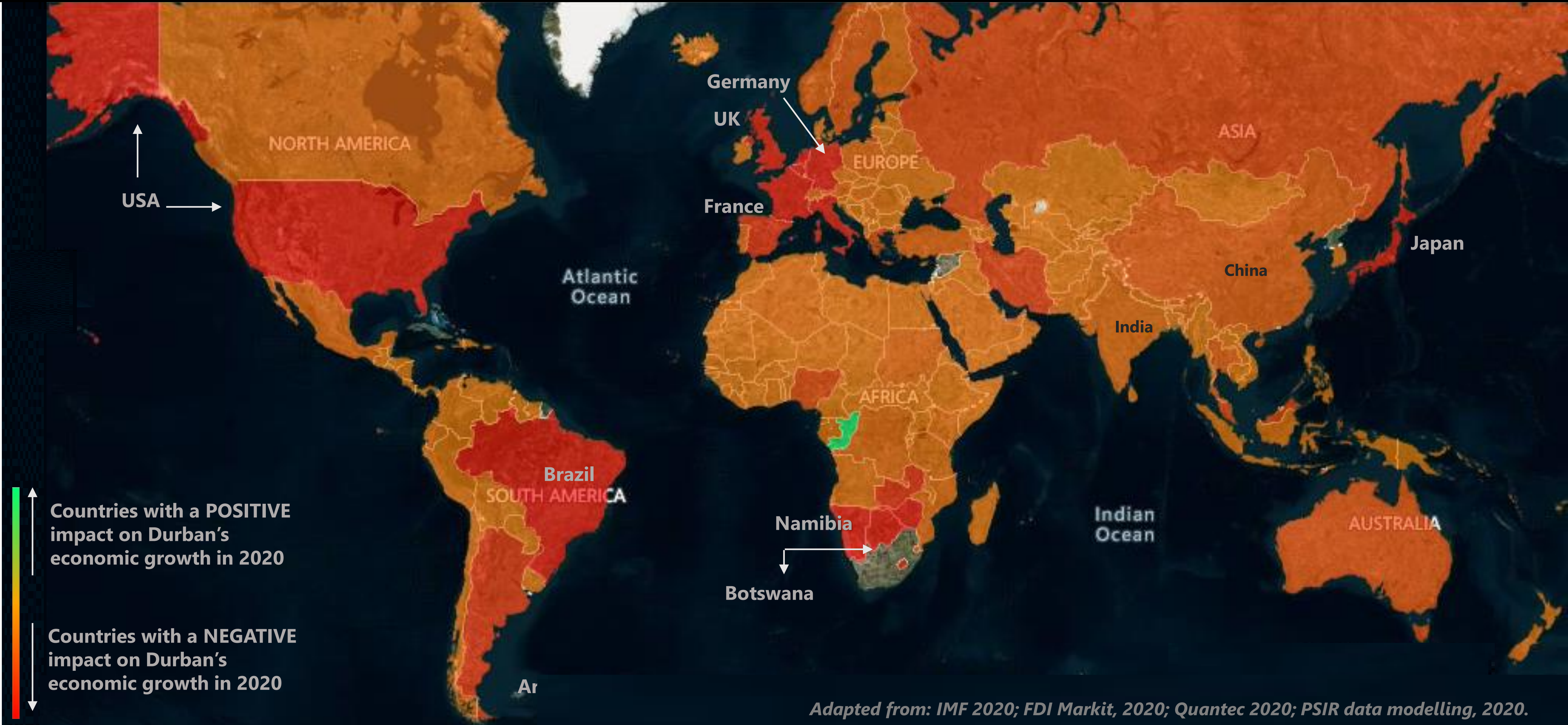
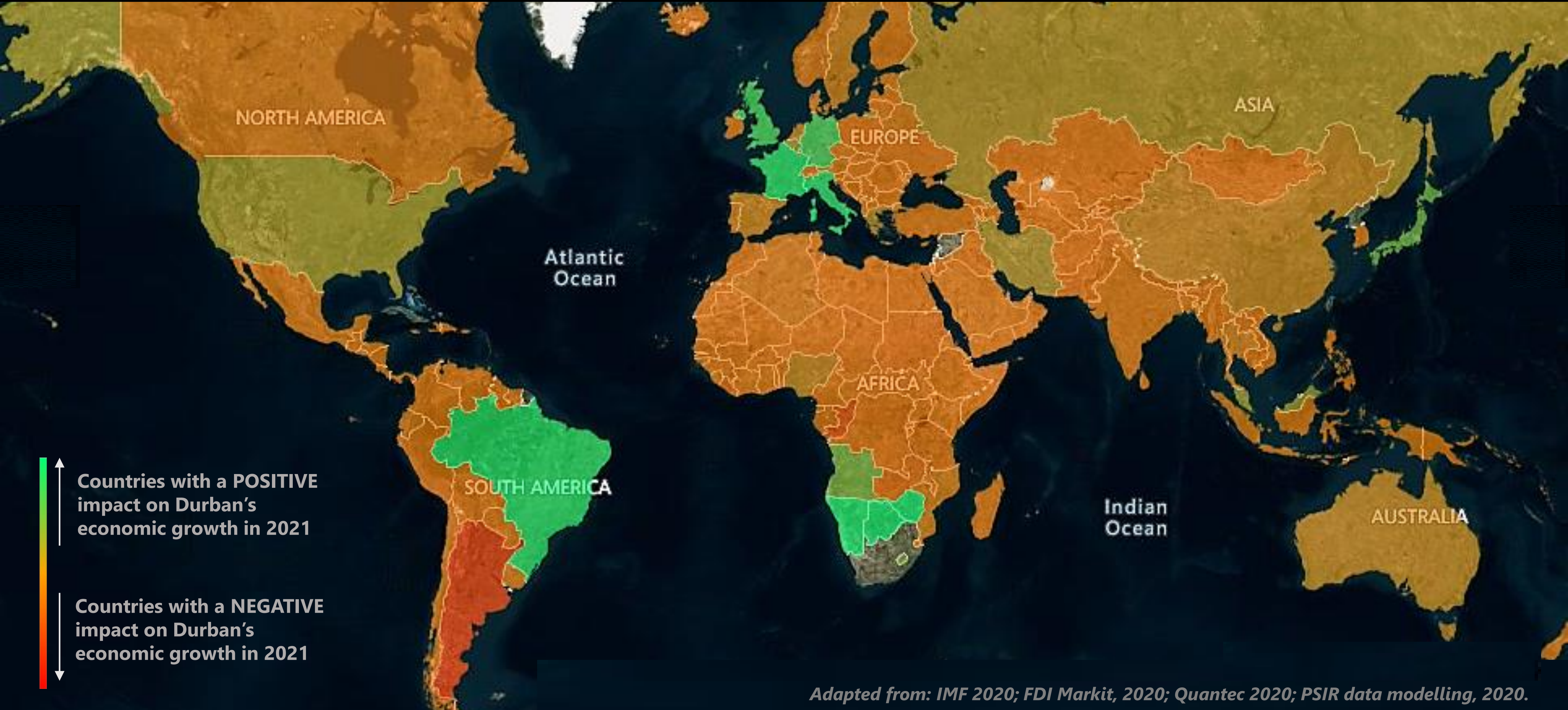
Between the end of April and mid July, a rapid surge in global mobility was evident;
but growth has since been stagnant, likely owing to second waves, reinstated lockdown restrictions, resulting in battling economies.
Pre Covid level recovery is only likely mid 2021.

WHICH COUNTRIES' PERFORMANCE IS MOST AFFECTING DURBAN'S GROWTH THIS YEAR?



Adapted from: IMF 2020; FDI Markit, 2020; Quantec 2020; PSIR data modelling, 2020.

WHICH COUNTRIES WILL ASSIST WITH DURBAN'S RECOVERY NEXT YEAR?



Adapted from: IMF 2020; FDI Markit, 2020; Quantec 2020; PSIR data modelling, 2020.

GLOBAL TRENDS TO WATCH OUT FOR

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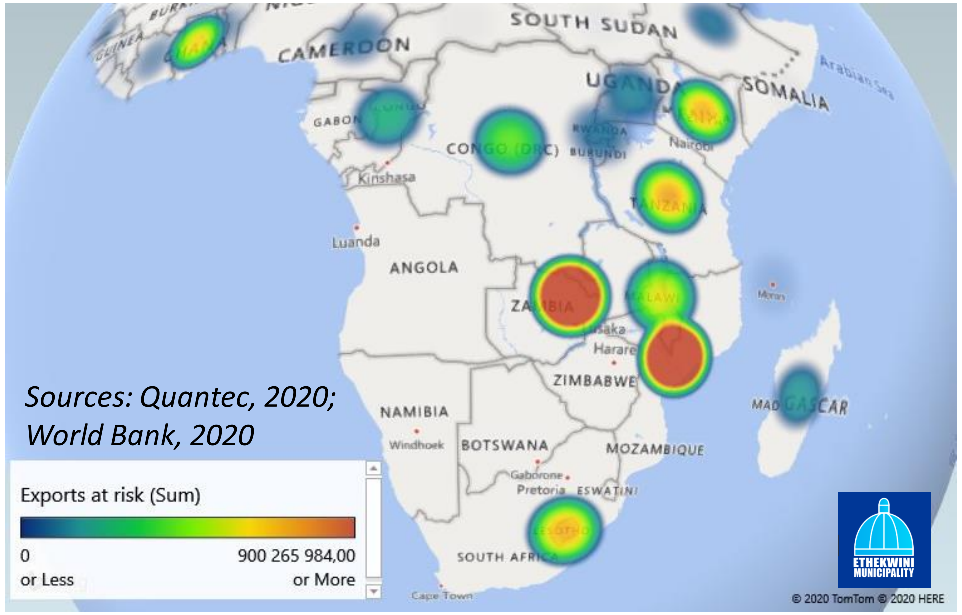
- According to the UN, **50 million people are expected to be at risk of extreme poverty** due to the pandemic.

- As of October 2020 **China is officially the world's largest economy**, when GDP is measured taking purchasing power parity into account. China's dominance is significant for Africa as it is the continent's biggest trading partner, and accounts for 20% of all African debt.

- **Countries in Africa have been forced to borrow heavily-** some economies on which Durban is highly dependent had external debt to GDP ratios of 100%; before the pandemic (Mozambique, Angola). However most are eligible for debt deferral (DSSI) by G20 for 2020.

- President Ramaphosa as Chairperson of the AU is petitioning global leaders to **extend this debt holiday to at least 4 years**, and in some cases cancel the debt altogether. The cost of debt is so high that the African Union has also called for rating agencies to freeze downgrades during the pandemic.

(The graph shows the countries on which Durban is highly dependent based on the average of 3 years of exports, crossed against the level of risk/ external and internal indebtedness)



GLOBAL TRENDS TO WATCH OUT FOR

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- The pandemic has forced the world into a new normal; **higher emphasis on digital innovation**, human augmentation technology, internet of things, big data and APIs. The new normal include an increase in virtual learning, remote working (with longer working days and increased or equal productivity), online shopping.

- **Governments need to facilitate access to online infrastructure;** increasingly, access to development (speed and efficiency of delivery) is along digital lines. Free Wi-Fi and zero-rated websites, data for APIs, facilitation of 5G infrastructure, next generation-lithium-ion batteries.

- An increase in the **schism between rich and poor;** the pandemic has exposed the fault lines of economic inequality, with the poor lacking safety nets; including developing vs developed nations. Marginalisation of communities has not gone unnoticed (by communities)- **social contracts must be drafted which include communities.** Redesigning of procurement systems and **involvement of communities** needs to be given more priority.

- **Non- tariff barriers** are becoming more important. For example, developed nations are gradually placing restrictions on products allowed into their borders, demanding greener, more sustainable goods (e.g. electric vehicles). Digital and internet technology are becoming critical platforms to reach growing markets.

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HIGHLIGHTS OF THE SOUTH AFRICAN ECONOMY

CONTEXT TO DURBAN'S PERFORMANCE

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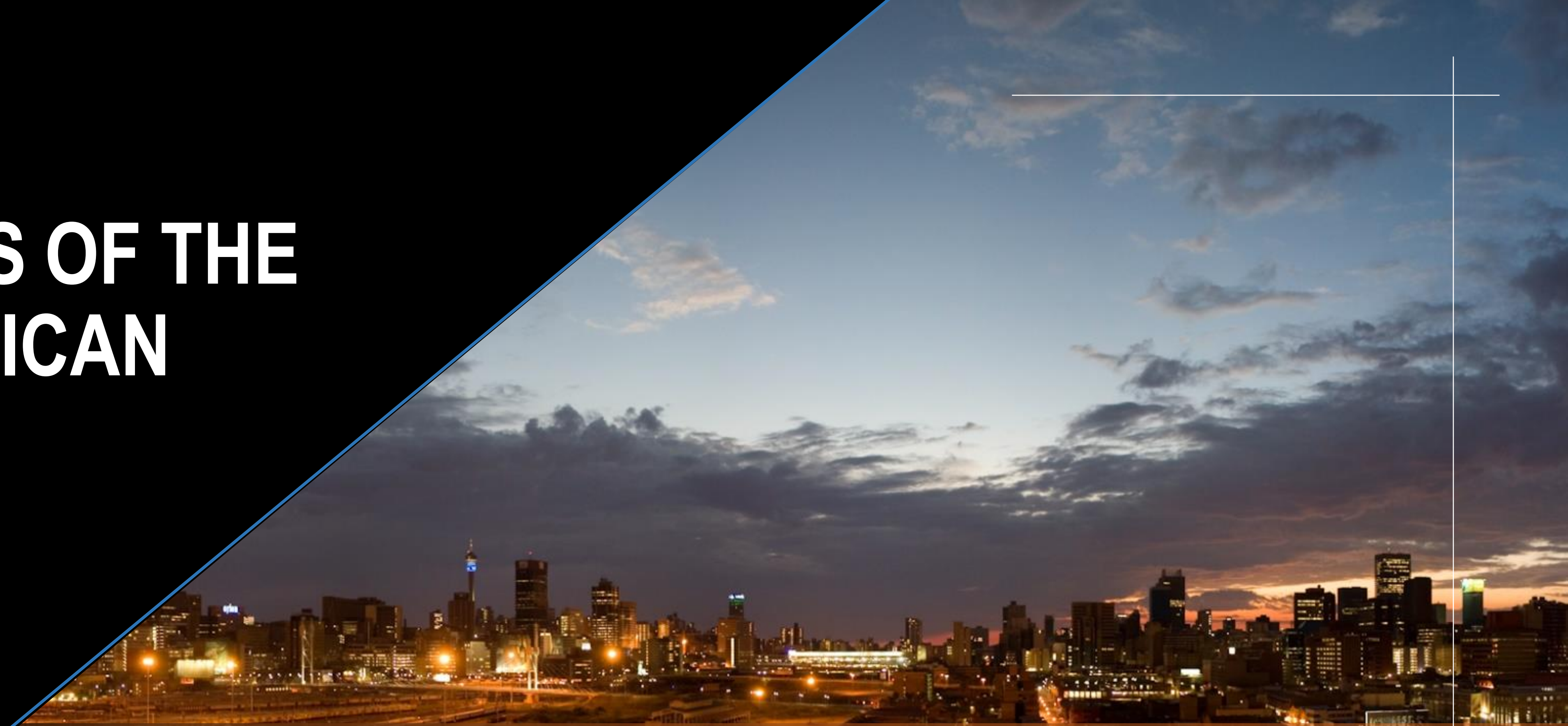


- An already ailing economy, pre-Covid
- National output expected to reach pre-Covid levels in 2024
- Significant tax increases and reduction of wage bill expected; #MTBPS2020
- Green energy production through IPPs present new growth opportunities
- A desperate need to grow the economy to fund social spending

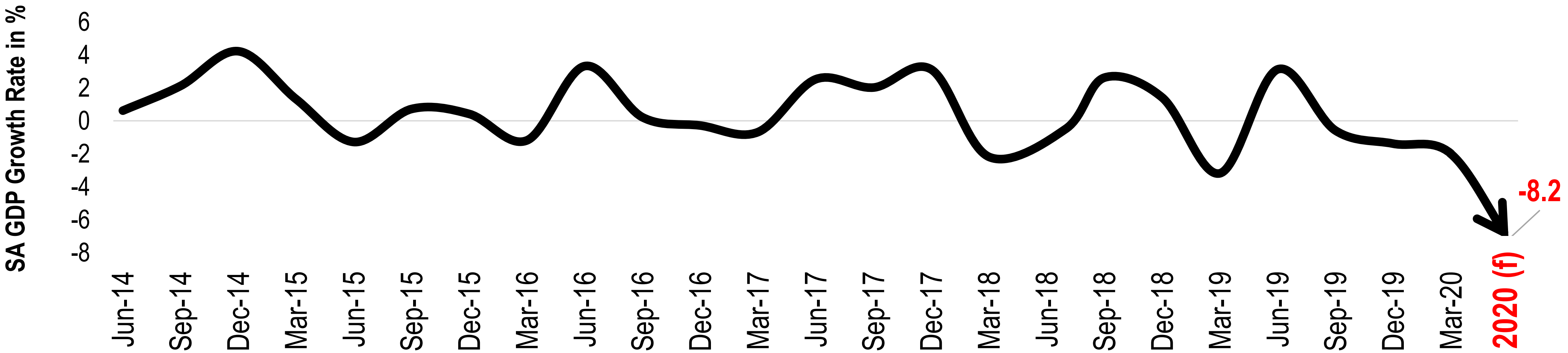
“Our economy was in recession pre-Covid... The Covid crisis has exacerbated our economic situation.”

BUSA
BUSINESS UNITY SOUTH AFRICA

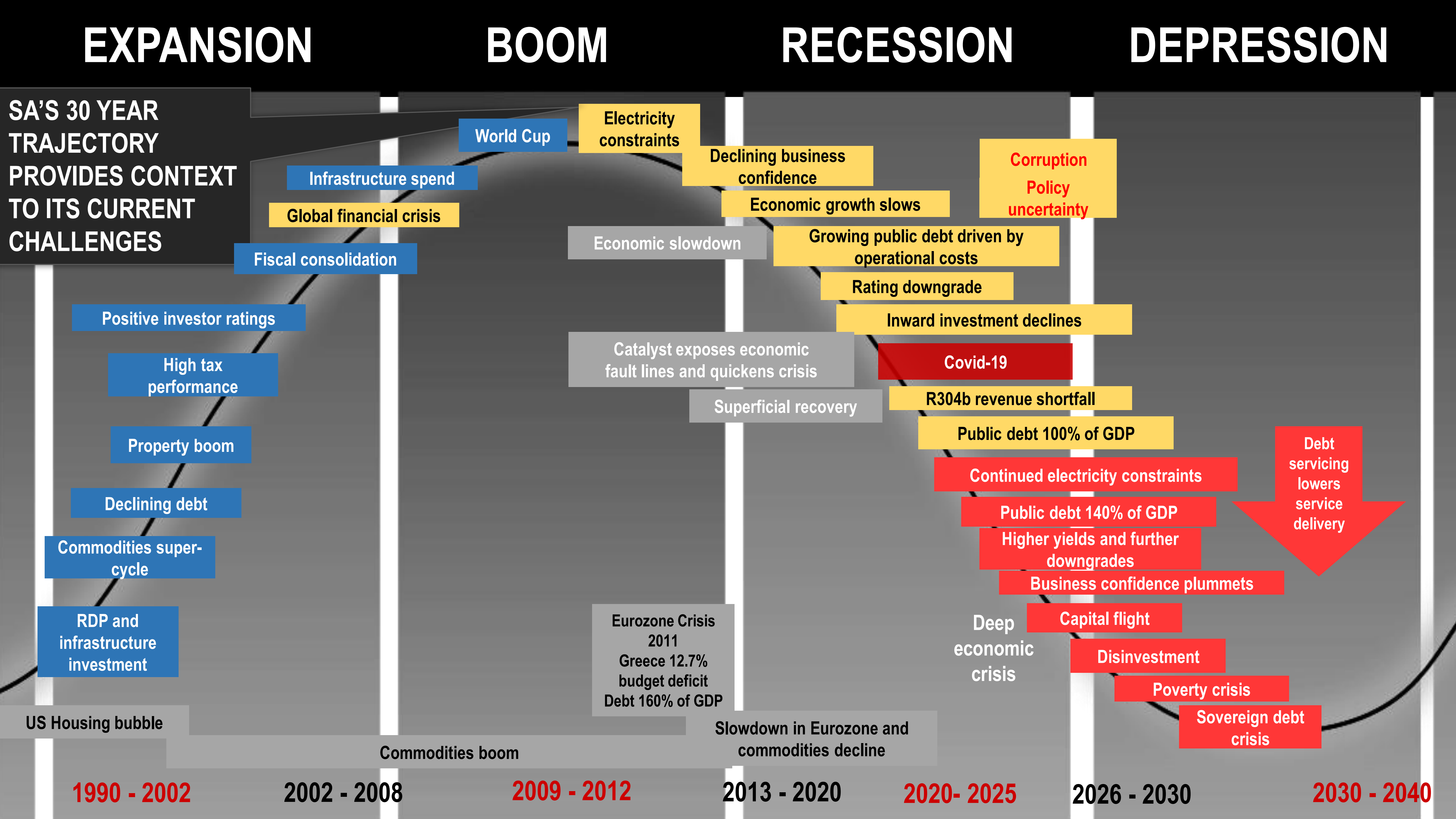
Business Unity South Africa, 2020

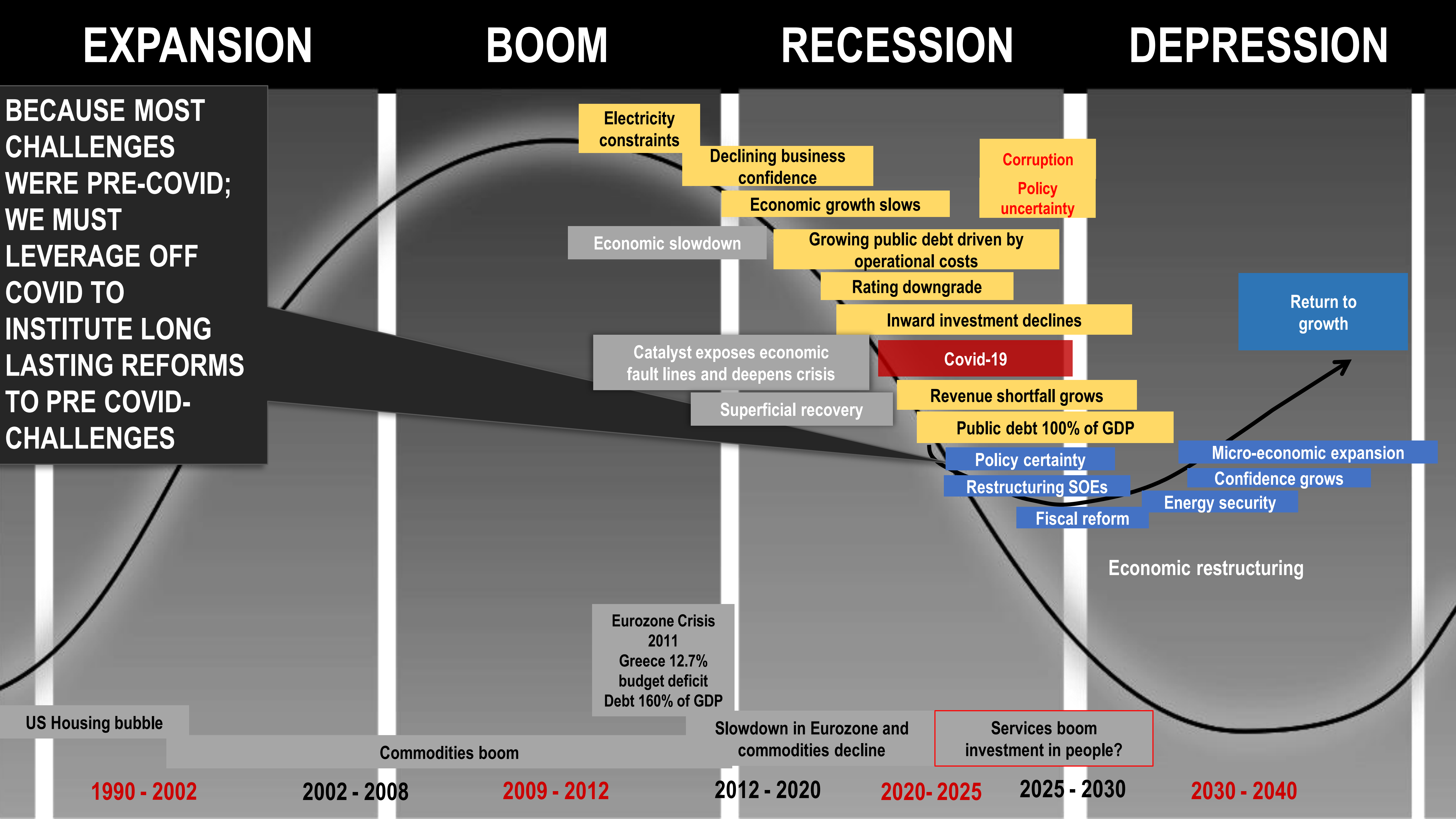
OVERVIEW OF SOUTH AFRICA GDP PERFORMANCE

	Reserve Bank	IMF	World Bank	OECD
Pre-COVID-19 forecast (Feb 20)	1,4%	1,0%	1,7%	1,3%
COVID-19 forecast (Oct 20)	- 8,2%	- 8,0%	- 7,1%	- 11,2%



Source: South African Reserve Bank, 2020


EXPANSION
BOOM
RECESSION
DEPRESSION
SA'S 30 YEAR TRAJECTORY PROVIDES CONTEXT TO ITS CURRENT CHALLENGES
World Cup
Electricity constraints
Infrastructure spend
Global financial crisis
Fiscal consolidation
Positive investor ratings
High tax performance
Property boom
Declining debt
Commodities super-cycle
RDP and infrastructure investment
US Housing bubble
Commodities boom
Declining business confidence
Economic growth slows
Economic slowdown
Growing public debt driven by operational costs
Rating downgrade
Inward investment declines
Catalyst exposes economic fault lines and quickens crisis
Superficial recovery
Eurozone Crisis 2011
Greece 12.7% budget deficit
Debt 160% of GDP
Slowdown in Eurozone and commodities decline
Corruption
Policy uncertainty
Covid-19
R304b revenue shortfall
Public debt 100% of GDP
Continued electricity constraints
Public debt 140% of GDP
Higher yields and further downgrades
Business confidence plummets
Capital flight
Disinvestment
Poverty crisis
Sovereign debt crisis
Deep economic crisis
Debt servicing lowers service delivery
1990 - 2002
2002 - 2008
2009 - 2012
2013 - 2020
2020- 2025
2026 - 2030
2030 - 2040


EXPANSION
BOOM
RECESSION
DEPRESSION
BECAUSE MOST CHALLENGES WERE PRE-COVID; WE MUST LEVERAGE OFF COVID TO INSTITUTE LONG LASTING REFORMS TO PRE COVID-CHALLENGES
Electricity constraints
Declining business confidence
Economic growth slows
Corruption
Policy uncertainty
Economic slowdown
Growing public debt driven by operational costs
Rating downgrade
Inward investment declines
Return to growth
Catalyst exposes economic fault lines and deepens crisis
Covid-19
Superficial recovery
Revenue shortfall grows
Public debt 100% of GDP
Policy certainty
Restructuring SOEs
Fiscal reform
Micro-economic expansion
Confidence grows
Energy security
Economic restructuring
Eurozone Crisis 2011 Greece 12.7% budget deficit Debt 160% of GDP
US Housing bubble
Commodities boom
Slowdown in Eurozone and commodities decline
Services boom investment in people?
1990 - 2002
2002 - 2008
2009 - 2012
2012 - 2020
2020- 2025
2025 - 2030
2030 - 2040

KEY MACRO ECONOMIC INDICATORS

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- **GDP:** 1,4 (2017); 0.8% (2018); 0.2% (2019); -8.2% (2020)⬇
- **CPI:** 5.3% (2017) 4.7% (2018) 4.1% (2019) 3.2% (est. 2020)⬇
- **Prime lending rate:**10.25% (2018); 10% (2019) 9.75%, 8.75%, 7.75%, 7.0% (2020)
- **Budget Deficit to GDP:** -4.2% (2018/19); -6.5% (2019/20), **-15.7%** (2020/21)⬇
- **Gross National Debt/ GDP**: 65.6% (2019/20); 81.8% (2020/21 f); 85.6% (2021/22 f)⬇
- **Moody's rating for South Africa sovereign debt is Ba1 (rating drop)**
- **Standard & Poor's credit rating for South Africa stands at BB-**
- **Fitch's credit rating for South Africa is BB (rating drop)**

Source: National Treasury (Supplementary Budget, 2020; MTBPS, 2020), SARB 2020, StatsSA, 2020.

#MTBPS2020

•A Growth-extracting rise in sovereign risk
•High and unaffordable cost of borrowing;
•Risk of financial sector crisis as government deficits overwhelm the domestic savings market.
•Debt service costs growing faster than expenditure on all other items, almost four times as much as the next item (Economic Development).

Budget deficit is expected to decrease from 15.7% now to 7.3% in 2023/24, and national debt will stabilise at 95.7% of GDP, only by 2024/25 IF the following:

- Fiscal consolidation, mainly through the wage bill
- tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25
- Proposed 1.8% wage bill increase in 2020/21 and 0.8% in 2021/22
- Also, a wage freeze proposed.

BUSINESS SENTIMENT IS CLEARLY RECOVERING..

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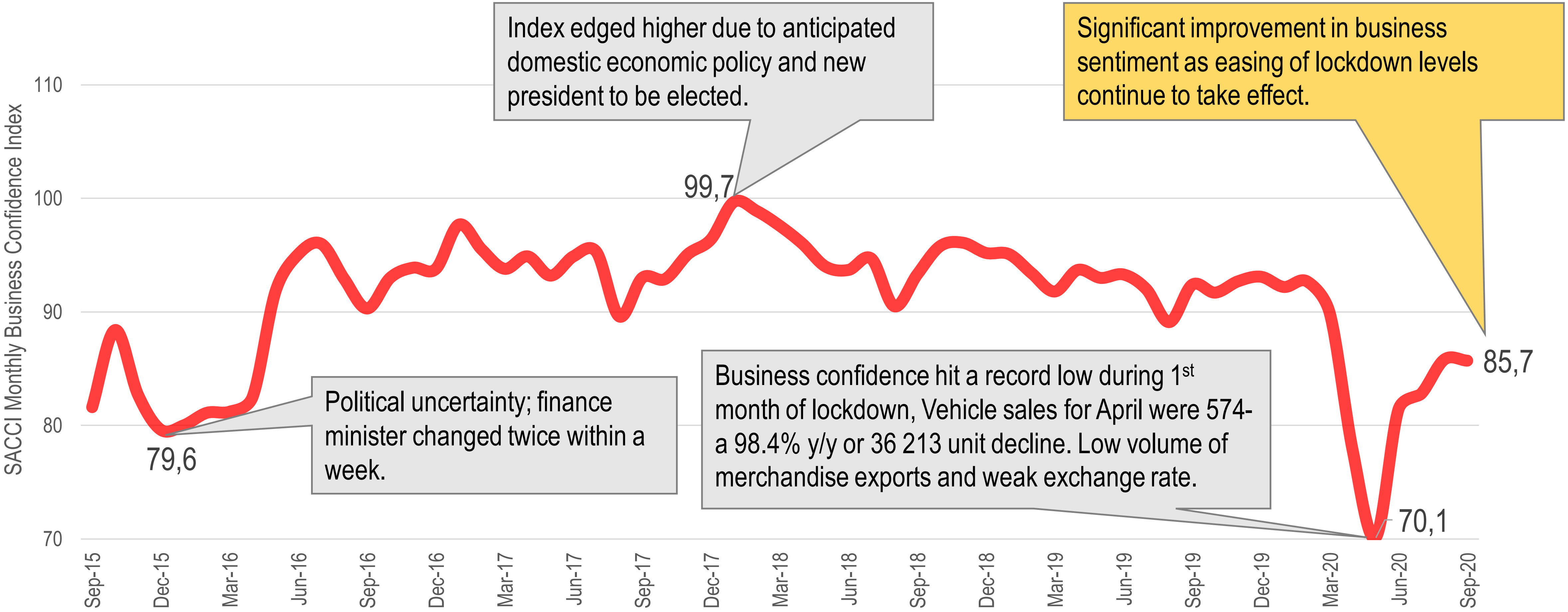

Source: South African Chamber of Commerce and Industry, 2020. Quantec, 2020

FUEL FOR GROWTH
ESKOM WIPES OUT R8,5BN IN 2019

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DEBT LEVELS ARE SUCH THAT FOR THE FORESEEABLE FUTURE ESKOM CAN NOT ADD GENERATION CAPACITY

In 2000 Eskom debt was

R0.5bn

2001 Global power company of the year

In 2019 Eskom debt was

R500bn

2019 Declining revenue and increasing maintenance

Eskom wiped out R8,5 bn in 2019, or 0,3% in GDP.

GDP in South Africa only grew by 0,2% in 2019.

Municipalities that do invest into generation capacity or buy from IPPs will loose **top customers**

SKEWED GROWTH

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GROWTH OF SOCIAL SPEND OUTPACING ECONOMIC GROWTH AND EMPLOYMENT CREATION

In 2000 SA spent **R18bn** on social grants **(2% of GDP)** **6 mn people**

In 2000 SA's employed amounts to **12.3mn people**

In 2019 SA spent **R120bn** on grants **(4% of GDP)** **17 mn people**

In 2019 SA's employed amounts to **16.4 mn people**

This excludes free housing, water, municipal rates, healthcare and education

The state is a major factor in keeping poverty under control – A sovereign debt crisis will unwind South African society

INNOVATION IS THE NEW NORMAL

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CONNECTING EVERYONE AND KEEPING PACE WITH RAPID CHANGE

In 2000

Tech Services industry US$ 300 bn

360 million internet users (5% of pop)

1 million social media users globally

Africa had 4.3 million internet users

South Africa had 2.4 million internet users

In 2019

Tech Services industry US$4 trillion

4.8 bn internet users (62% of pop)
5.1 bn cellphone users

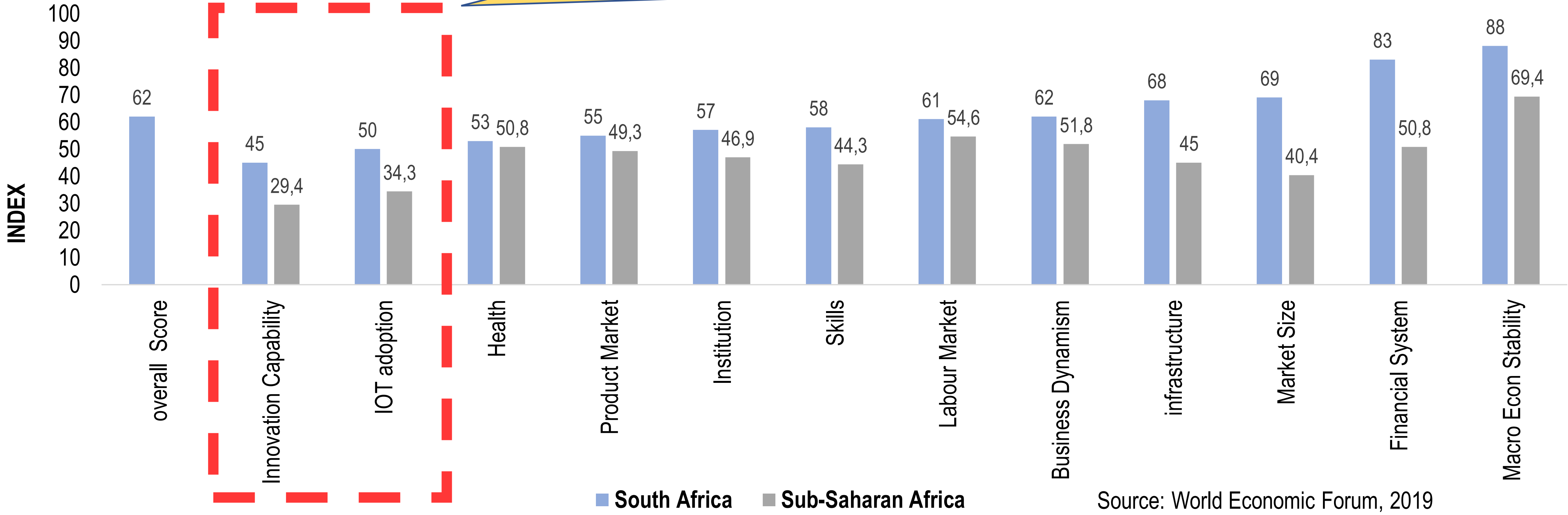
4 bn active social media users globally

Africa has 566m internet users

South Africa had **36.5 million** (58% pop of which 34.9m are mobile internet users)

IS SOUTH AFRICA READY FOR THE NEW NORMAL?

For SA and its cities to maintain their competitiveness there need to be strategies in place to support the new normal .Innovation Durban Co -Lab in launched March 2020 in Cato Manor – with the purpose of bringing the Fourth Industrial Revolution (4IR) benefits to historically disadvantaged communities. Innovate Durban, in partnership with Technology Innovation Agency (Source: KZN Network, March 2020).



Source: World Economic Forum, 2019

South Africa attains a second spot in sub-Saharan region. Amongst it strength macro stability, financial system, market size and infrastructure. Financial stability translate to the quality of governance, oversight and maintenance of robust capital adequacy ratios. Innovation capability and IOT scored the least, this area needs special attention and improvement and with the pandemic we are need to adjust and come up with innovative ways of doing things. People are already working from home adjusting to the new normal of doing things.

SOUTH AFRICA IS A **TWO-SPEED** SOCIETY

DEVELOPING AT TWO DISTINCT RATES…

The result is a one part modern, **affluent**, technologically advanced, **skilled**, mobile, dynamic and increasingly **non-racial** society;

Umhlanga, Durban, South Africa

Bottle Brush, Durban, South Africa

And the other part, **jobless**, marginalised, **unskilled**, **young**, mostly rural or peri-urban outcasts, largely **African**, increasingly restless, bereft of hope and condemned to **poverty**.

Colin Coleman UCT Open Lecture, 2020

TWO SPEED SOCIETY

YOUNG BLACK FEMALES ARE MOST LIKELY TO BE SOCIALLY AND ECONOMICALLY VULNERABLE

Bottom 40% accounts for 7% of income
(emerging market average 16%)

South African youth unemployment 53%
(Emerging market Ave 15%)

In 2000 Gini was 0.57

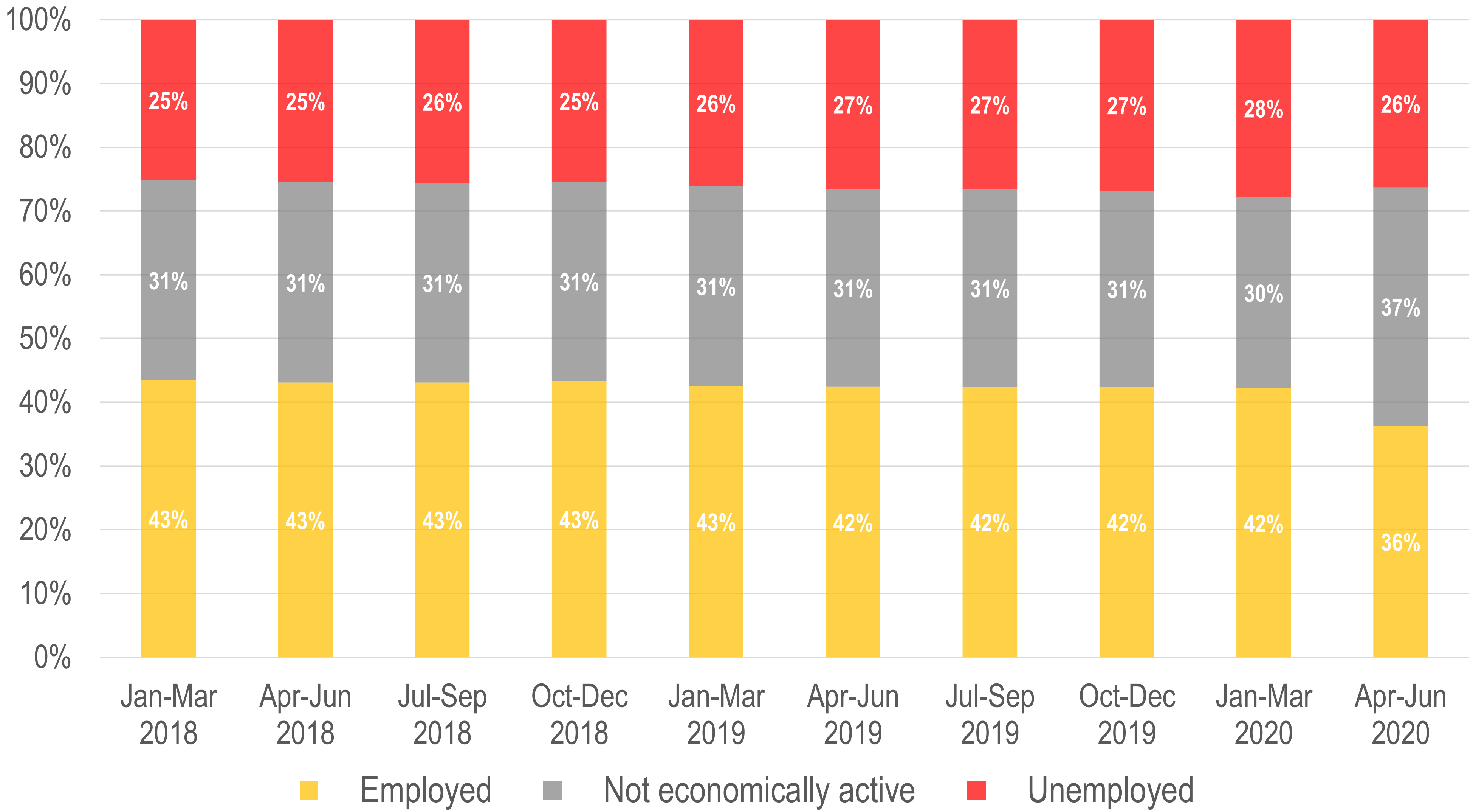
NEET Female 35,9% male 32,2%

63,3% of unemployed people are <35 years old

Top 20% accounts for 70% of income
(emerging market average 49%)

In 2020 Gini is 0.67

SOUTH AFRICA'S COVID19 LABOUR MARKET
LOSING JOBS AND NOT BEING ALLOWED TO RECOVER THEM



Source: StatsSA, Quantec 2020

Unemployed people; including discouraged work seekers or people unable to look for jobs due to lockdown) now ***form 42% of the national workforce.***

SA's strict unemployment (only including those looking for work) of 28,7% was already 5 times the global average of 5,3% in 2019.

Due to ***COVID19, almost 3 million people left the workforce altogether*** *and many were restricted from working. However, as lockdown eases further, a more realistic unemployment picture will emerge.*

THE MOST LABOUR INTENSIVE INDUSTRIES

IF UNEMPLOYMENT IS THE SOURCE OF INEQUALITY, THEN INDUSTRIES THAT CREATE JOBS MUST GROW

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- BPO
- Construction
- Community and social services
- Clothing, textiles, leather and footwear
- Tourism

**Agriculture and mining are very small in Durban*

Most of these sectors draw on TVET education

Underperformance of TVET sector

Unemployment among TVET graduate 33%

Unemployment among University graduates 7%

Turkey: TVET and employment promotion for Syrian Refugees

WAY FORWARD FOR SOUTH AFRICA
RECONSTRUCTION AND RECOVERY PLAN

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- Key solutions in order to address the country's current and long-standing challenges:
  - **Energy security in two years**, as additional (14 000) megawatts from renewables (IPPs), self-generation and gas come within two years.
  - **800,000 mass public employment programme** work opportunities by March 2021
  - **R1-trillion infrastructure** in 4 years 2024
  - **R100-bn investment** over three years (R13.8-bn is to be spent by the end of March next year)
  - **localisation** to boost domestic industrialisation and **exports, particularly into the rest of Africa**
- Successful implementation will lead to **3% annual growth rate target**

THE PRESIDENT
REPUBLIC OF SOUTH AFRICA

Source: RSA Presidency, 2020.

STATE OF THE DURBAN ECONOMY

- eThekwini was the first City in SA to develop and implement a Recovery Plan
- Innovation and clean, green energy are both important sources & enablers of future growth
- Two speed society, Slow job creation, Energy insecurity, Skewed growth

eThekwini Municipality was the first City in South Africa to release and implement a Covid-19 economic recovery plan.

"The City (Durban) was able to … move quickly to understand the impact of the crisis and to design and implement rapid responses where needed most."

The World Bank Group, 2020

Officially launched in May it is a short term response with 11 pillars developed on the back of a Perceptions and Impact Survey run with business at the start of lockdown.

The response pillars are well advanced in implementation and regularly updated.

The plan will cease in 2021, at which point all continuing support will be absorbed by the City's 5 year Accelerated and Inclusive Growth (Shape Durban) Strategy

PILLAR 1: Monitoring the Health of the Municipality and the Economy
PILLAR 2: Facilitating the City's Share of National Support
PILLAR 3: Re-starting the Tourism Sector
PILLAR 4: Supporting the Rural, Township and Informal Economy
Pillar 5: Creating an Extraordinary Environment for Construction and Investment
PILLAR 6: Ensuring Radical Economic Transformation In City Procurement and Expediting Payments to Small Businesses
PILLAR 7: Operationalising the Socio-economic Relief Fund
PILLAR 8: Building Social Coalitions and a Buy-local Invest-local Campaign
PILLAR 9: Stabilising the City-owned Entities
PILLAR 10: Accelerating Job Creation Through Public Employment
PILLAR 11: Industrialisation and Growth of Key Sectors

KEY CHALLENGES IN DURBAN'S ECONOMY
HIGHLIGHTED BY THE PANDEMIC

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Two speed society

Bottom 40% accounts for 7% of income (emerging market average 16%)

Top 20% accounts for 70% of income (emerging market average 49%)

Slow job creation

The number of employed people as a % of all people is declining albeit slowly;

Traditional sources of job creation (manufacturing and logistics, particularly SDB) are often neglected; e.g. industrial areas, the port.

Skewed growth

Covid job losses coupled with the recent adoption of the City's **new Indigent Policy**, with will require **increased social expenditure** by the City.

This is **not balanced by** significant **economic growth**, which in turn increases investment and ultimately revenue (rates, water and lights)

Innovation for the new normal

Digital services are a key source of economic growth, and therefore so are digital skills and infrastructure.

Municipal innovation is necessary to facilitate economic growth.

Energy insecurity: **Load shedding** cost SA **R8,5bn** in 2019; or 0,3% GDP. Key customers are planning to port.

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GROWTH AND PERFORMANCE

WEAK HISTORY, SLOW RECOVERY

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DURBAN'S GROWTH TRAJECTORY

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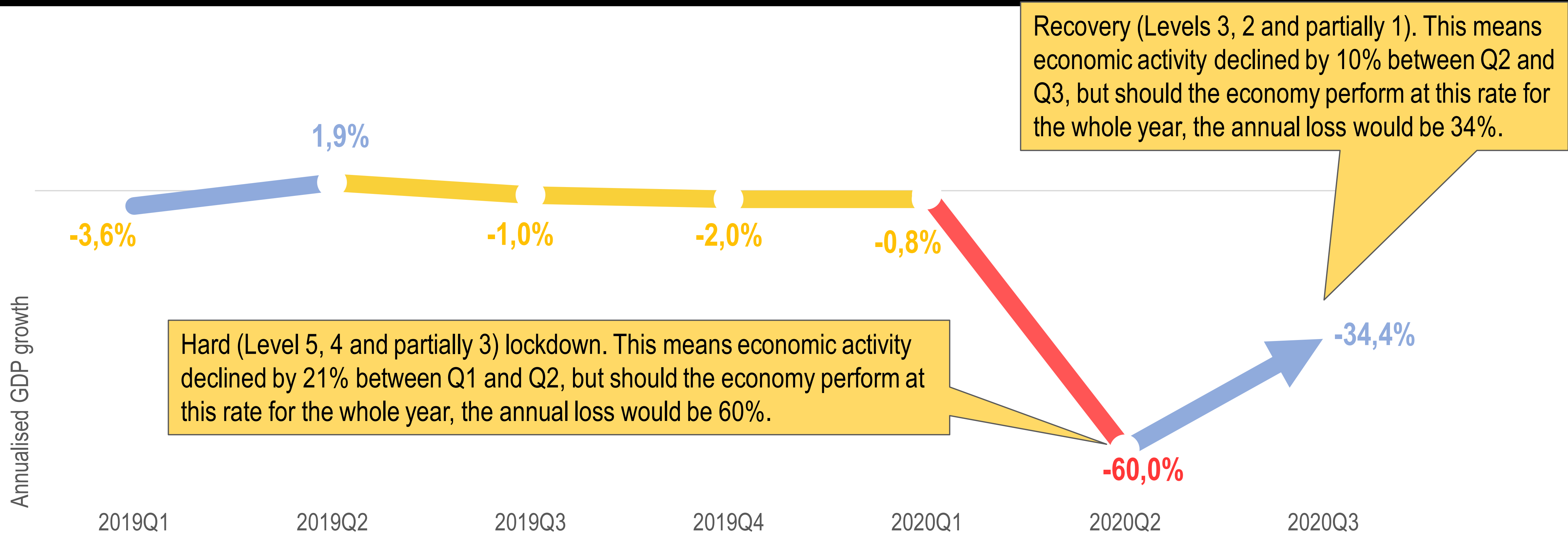

Source: IHS Global insight 2019, Future Cities South Africa, 2020.

MONTHLY GDP LOSSES COMPARED TO 2019 FROM APRIL

GRADUAL RECOVERY CLEAR; BUT POSITIVE GROWTH ONLY EXPECTED IN 2021

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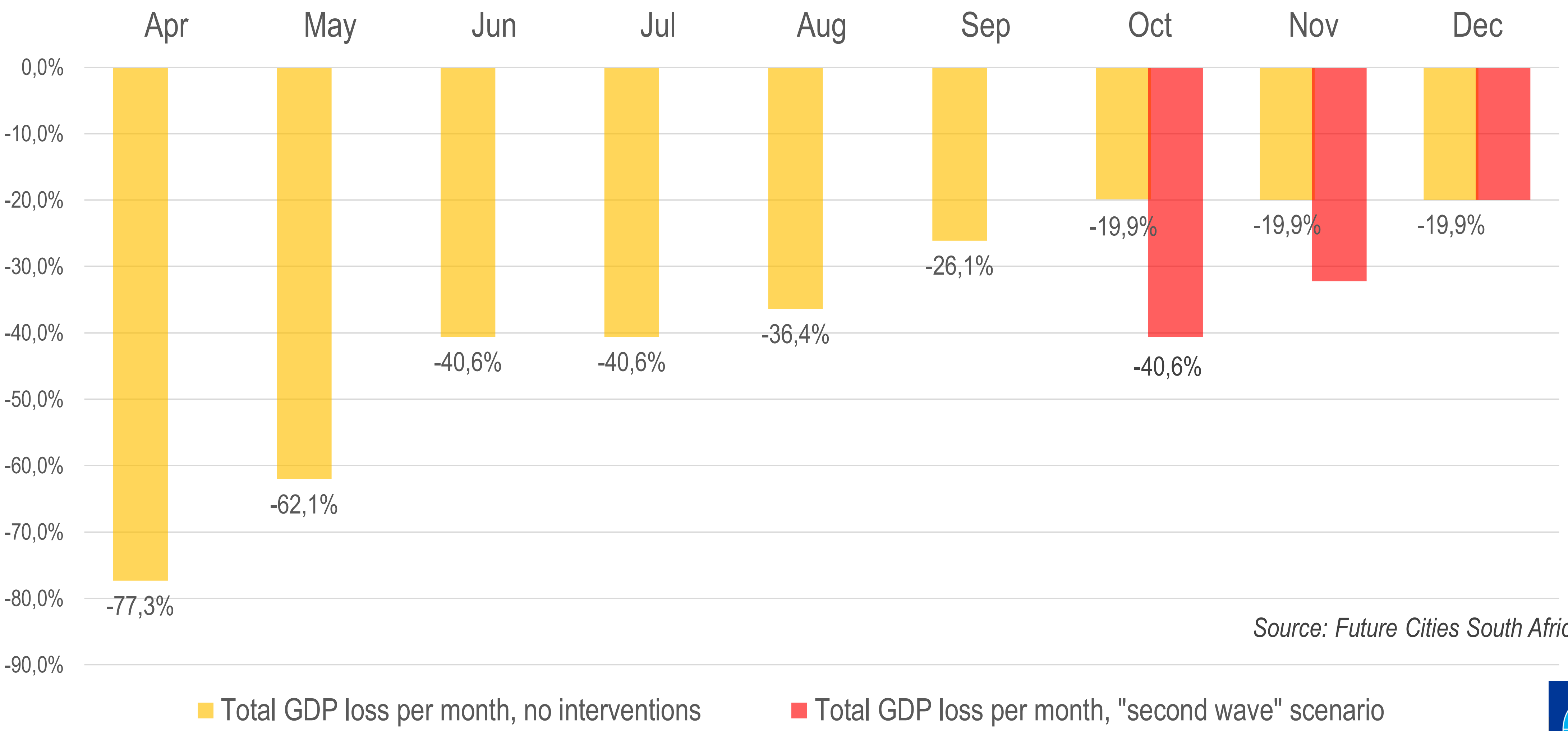

Source: Future Cities South Africa, 2020.

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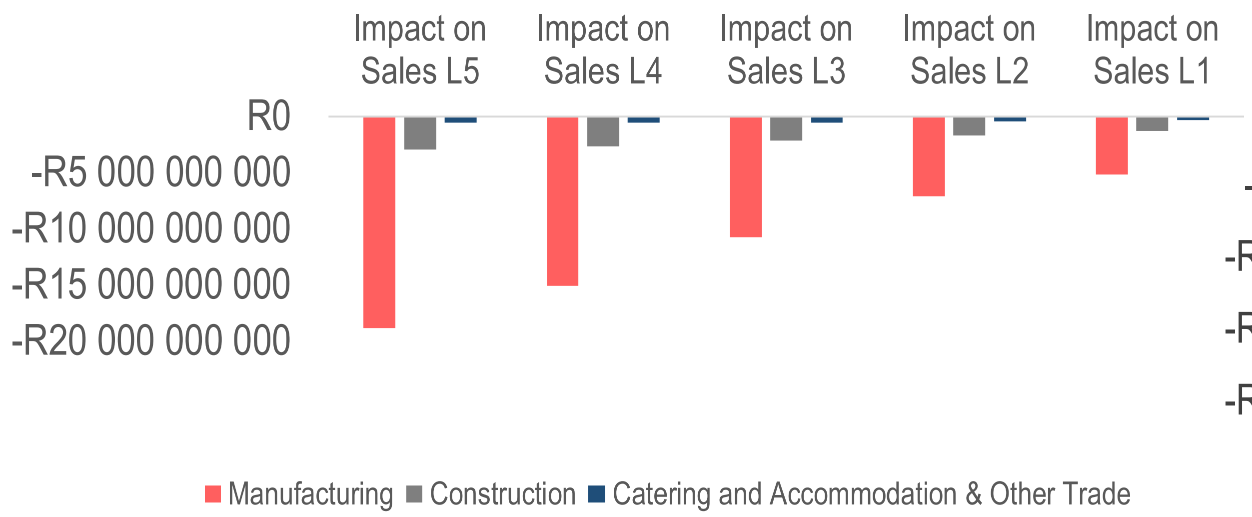
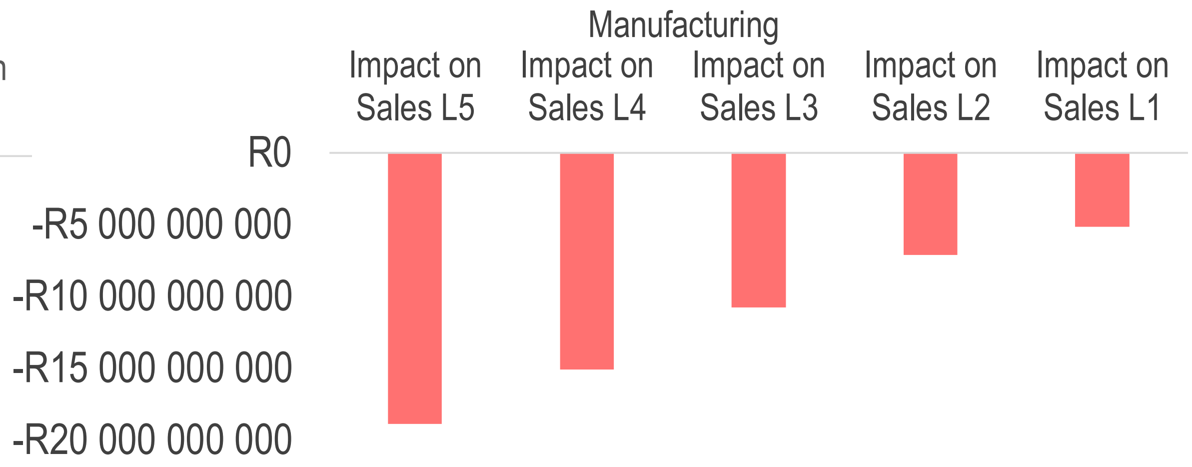
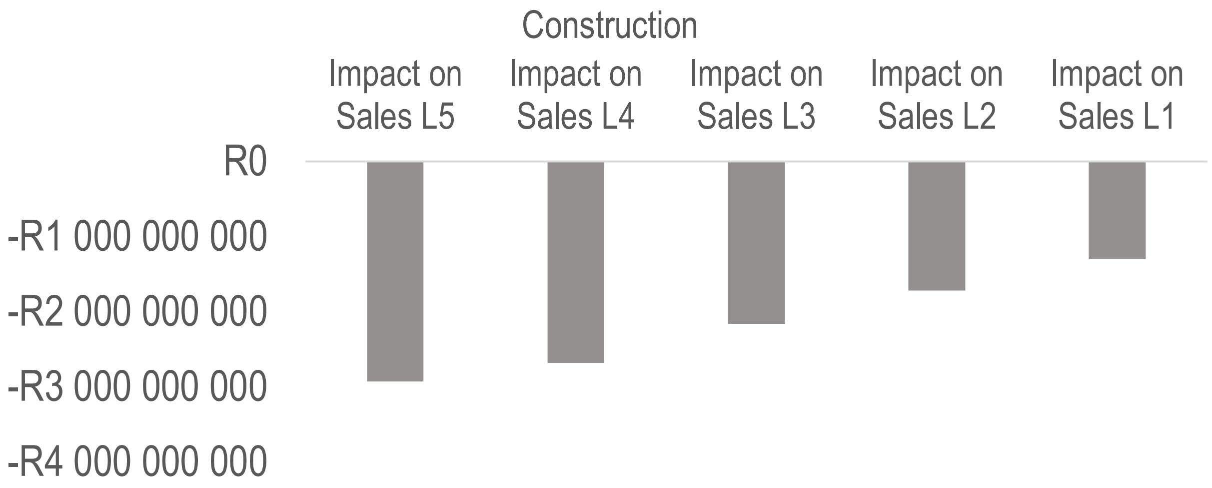
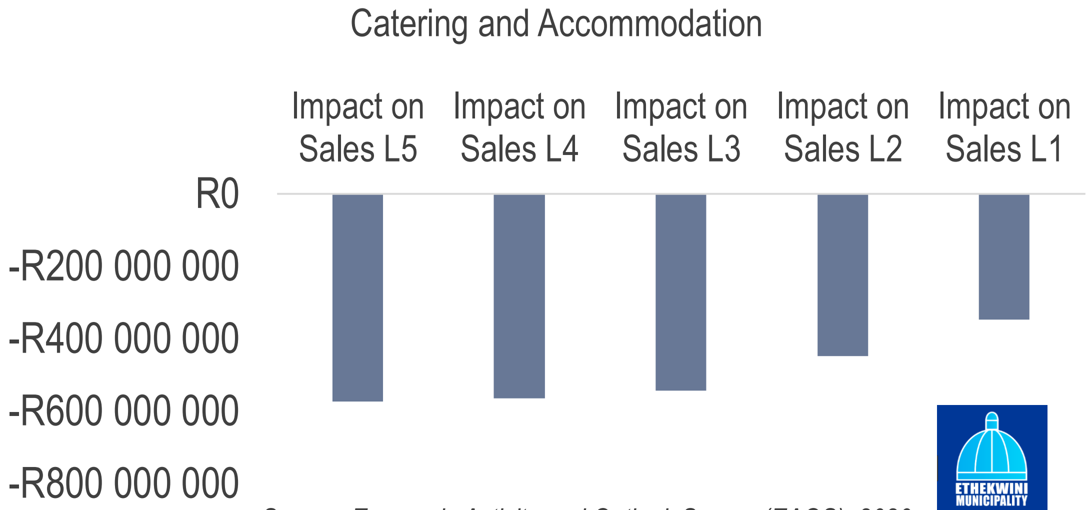
SELECTED SECTORS, REVENUE LOST DURING LOCKDOWN









Source: Economic Activity and Outlook Survey (EAOS), 2020.

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MANUFACTURING AND EXPORTS

EXPORTS BACK TO 2016 LEVELS, DIGITAL TRADE PRESENTS GROWTH OPPORTUNITIES

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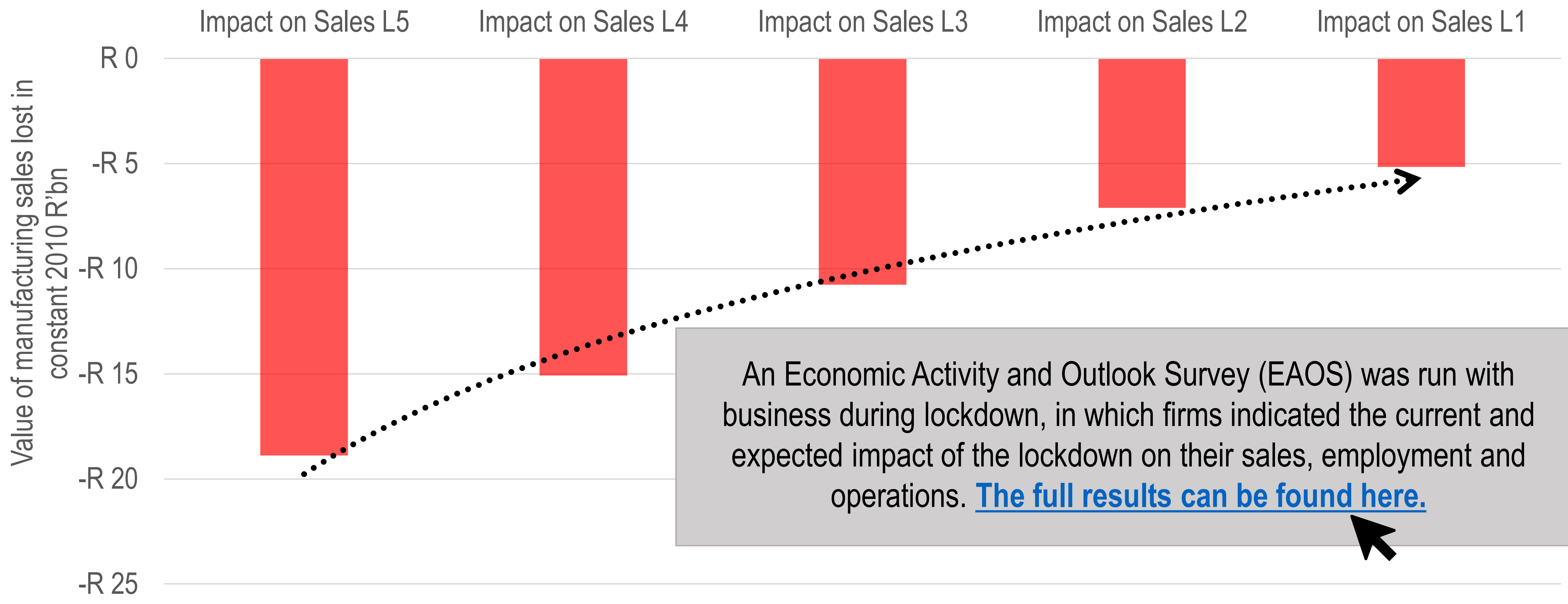
FORECASTED IMPACT ON SALES PER LOCKDOWN LEVEL BY MANUFACTURERS

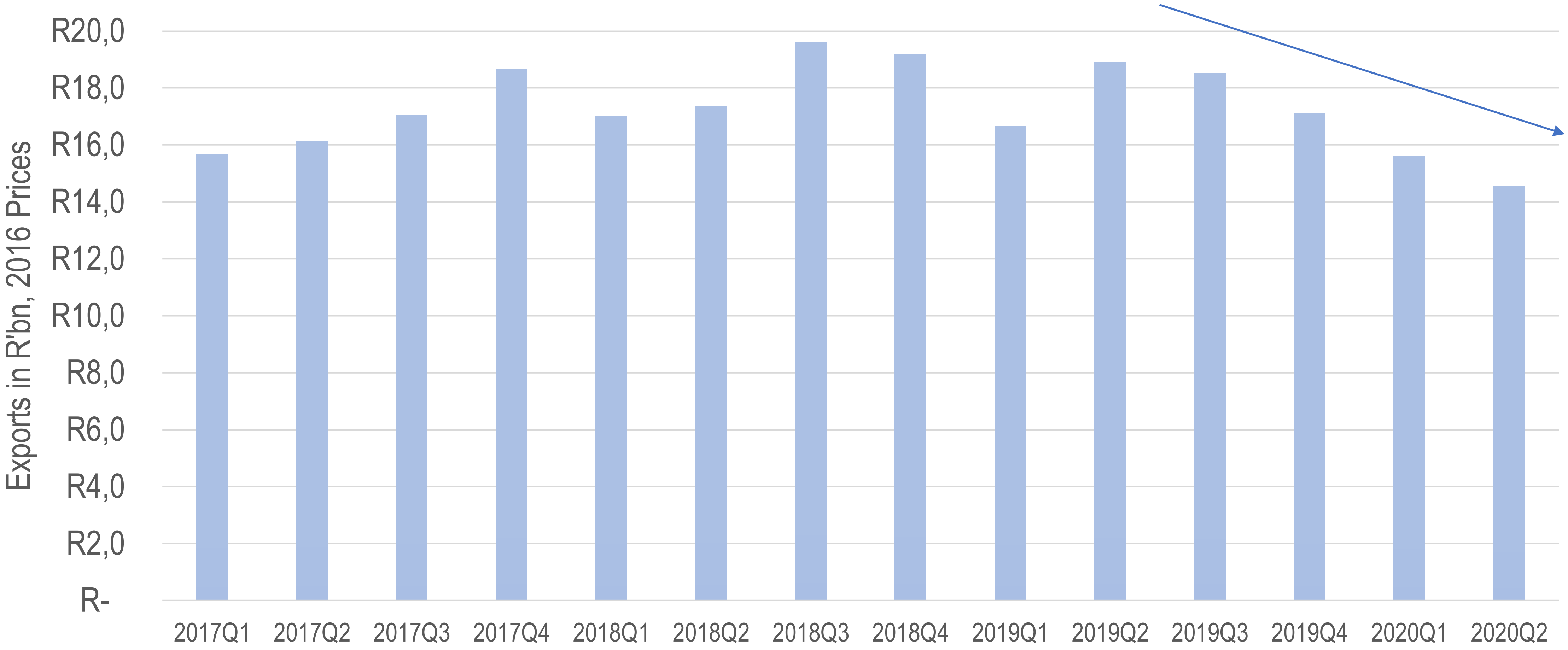
DECLINE IN SALES COMPARED TO 2019



An Economic Activity and Outlook Survey (EAOS) was run with business during lockdown, in which firms indicated the current and expected impact of the lockdown on their sales, employment and operations. The full results can be found here.

Economic Recovery Response: Sector specific COVID-19 support offered for clusters including auto, chemicals, clothing, footwear and leather, materials recovery, and furniture. To date; 117 firms supported over online platform and 88 SMMEs on CSD for PPEs by the clothing and textiles cluster.

EXPORTS REDUCED TO 2016 LEVELS,
BUT RECOVERY IS EXPECTED AS ECONOMIES RE-OPEN



Important to take advantage of digital trade avenues and engage more deliberately with small and medium exporters to encourage growth. This resonates with the President's aim to boost exports particularly within the continent. Other forms of competitiveness is important re exportability to the rest of the world; particularly countries which are placing carbon friendly restrictions on their imports.

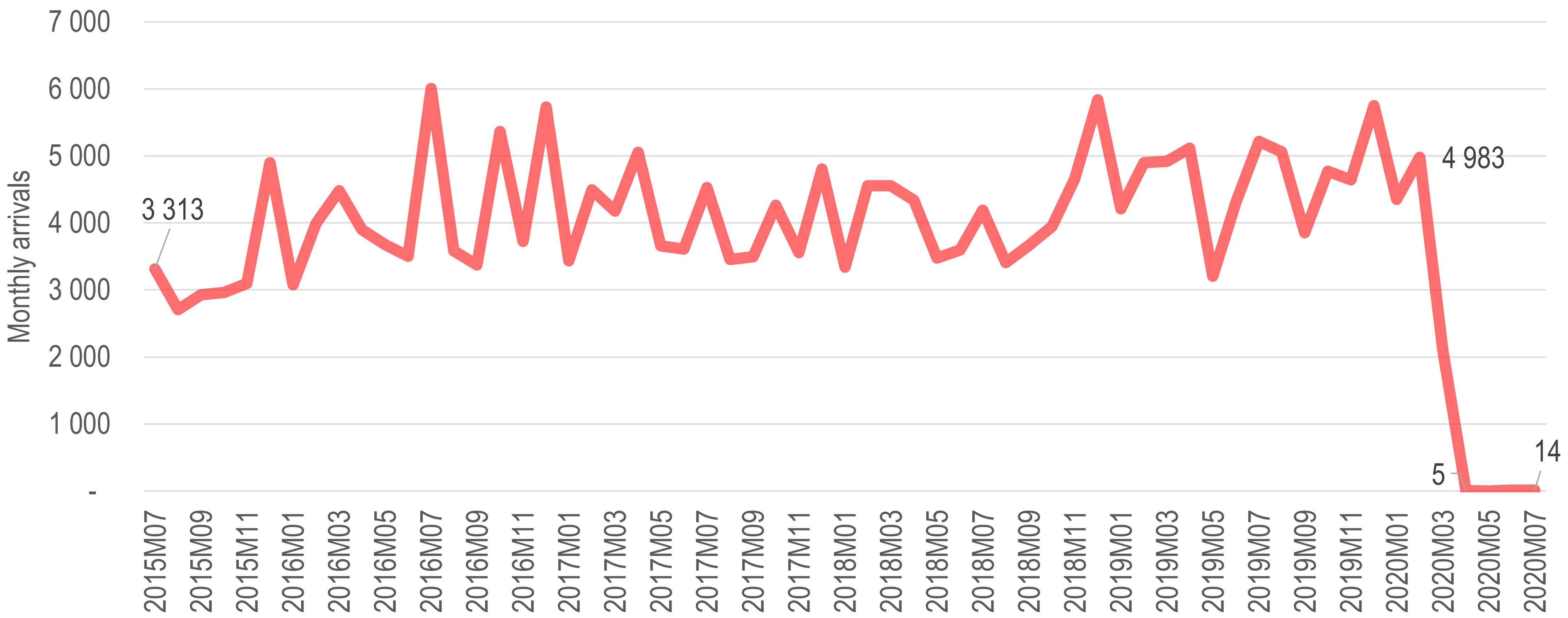
TOURISM AND LEISURE

SEVERELY HIT BY LOCKDOWN, BUT DOMESTIC TOURISM AND THE FESTIVE SEASON OFFER MUCH HOPE

THE DURBAN EDGE

LONG HAUL TOURIST ARRIVALS WERE LOW LOCKDOWN

FOREIGN OVERNIGHT TOURIST ARRIVALS AT KSIA



Direct long haul tourist arrivals into Durban were on the decline before lockdown.

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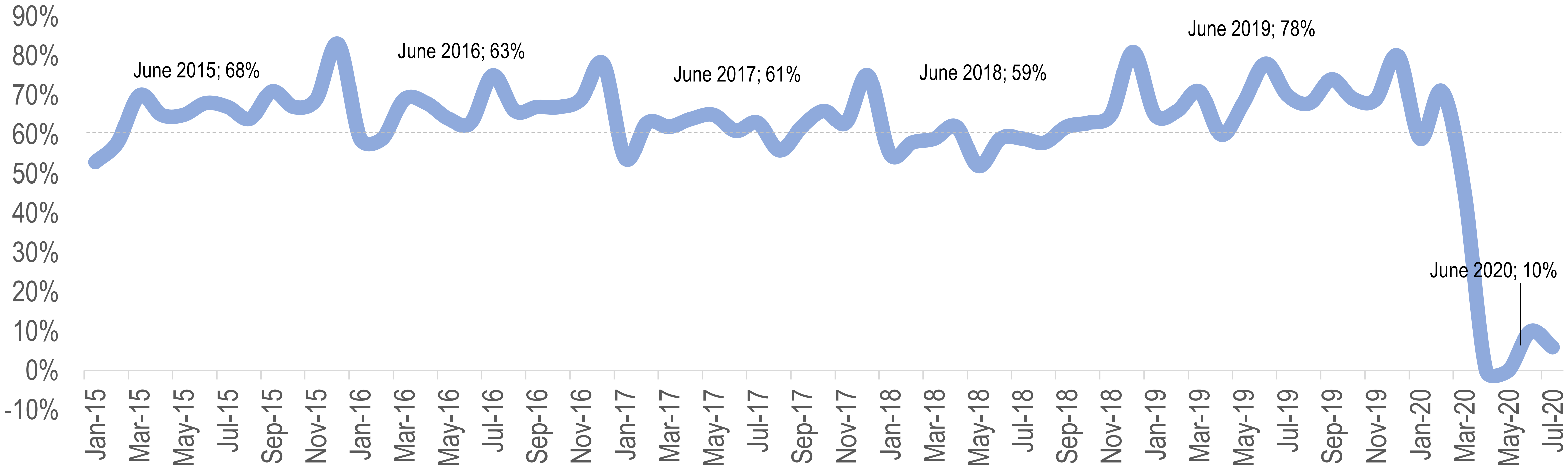
FORECASTED IMPACT ON SALES PER LOCKDOWN LEVEL BY TOURISM FIRMS

DECLINE IN SALES COMPARED TO 2019

- 260 applications for support approved by national gvt, of 4000 national approvals
- B&Bs and guest Houses recategorised to residential rates for 6 months (on appl)
- 50% rental discount on commercial leases (3-month)
- Funding to CTOs doubled for 2020/21
- Soft marketing campaign; April-June: R2.7m spent and R31m PR value with reach of 26m; July – R1.3m spent and R28m PR value with reach of 21m

RESTARTING THE TOURISM SECTOR

SLOW RECOVERY IN OCCUPANCY RATE



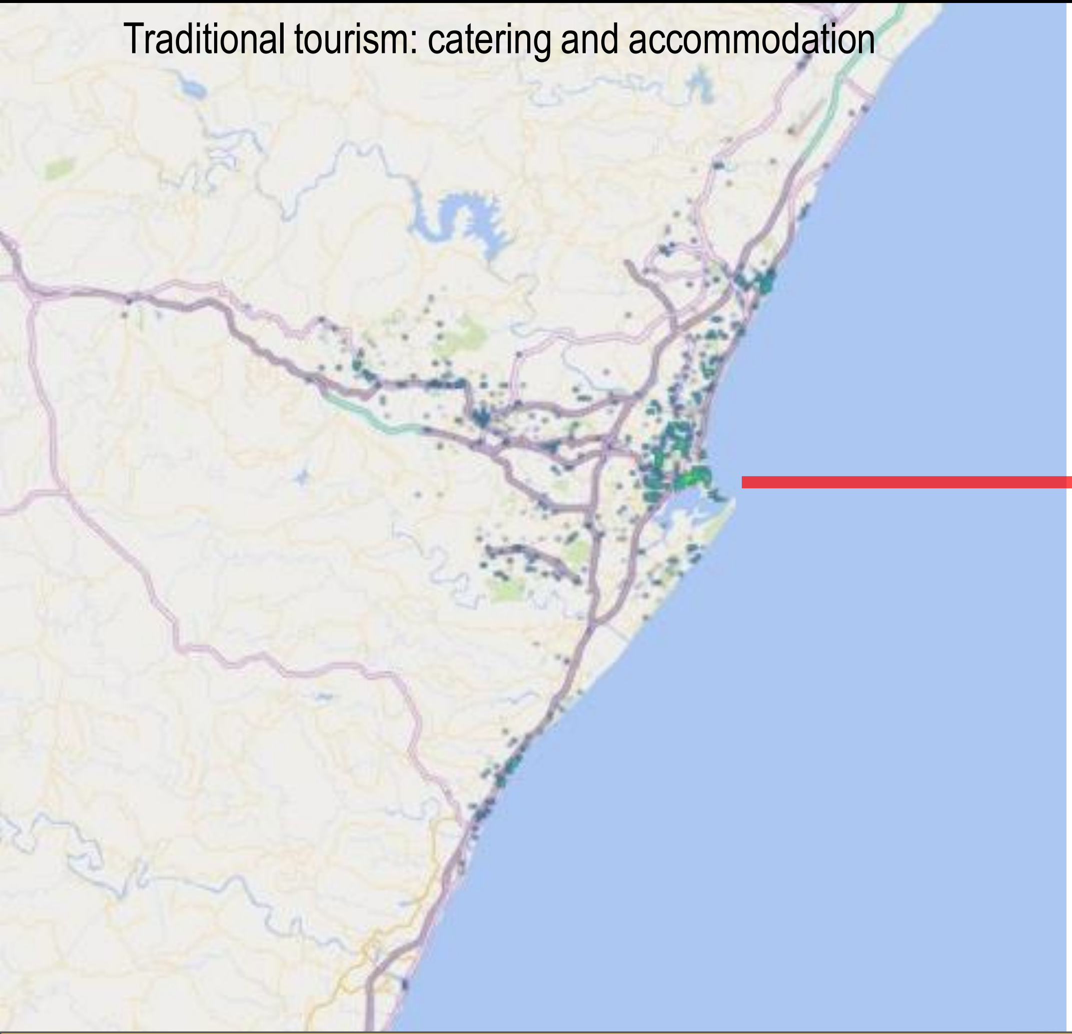
Source: Durban Tourism, 2020

- Of all cities, Durban has the highest domestic tourists, and is the top overnight destination for visiting friends and relatives. Therefore while the impact of lockdown has been significant; the City is in a critical position to benefit from domestic tourism flows during the Christmas and festive season.

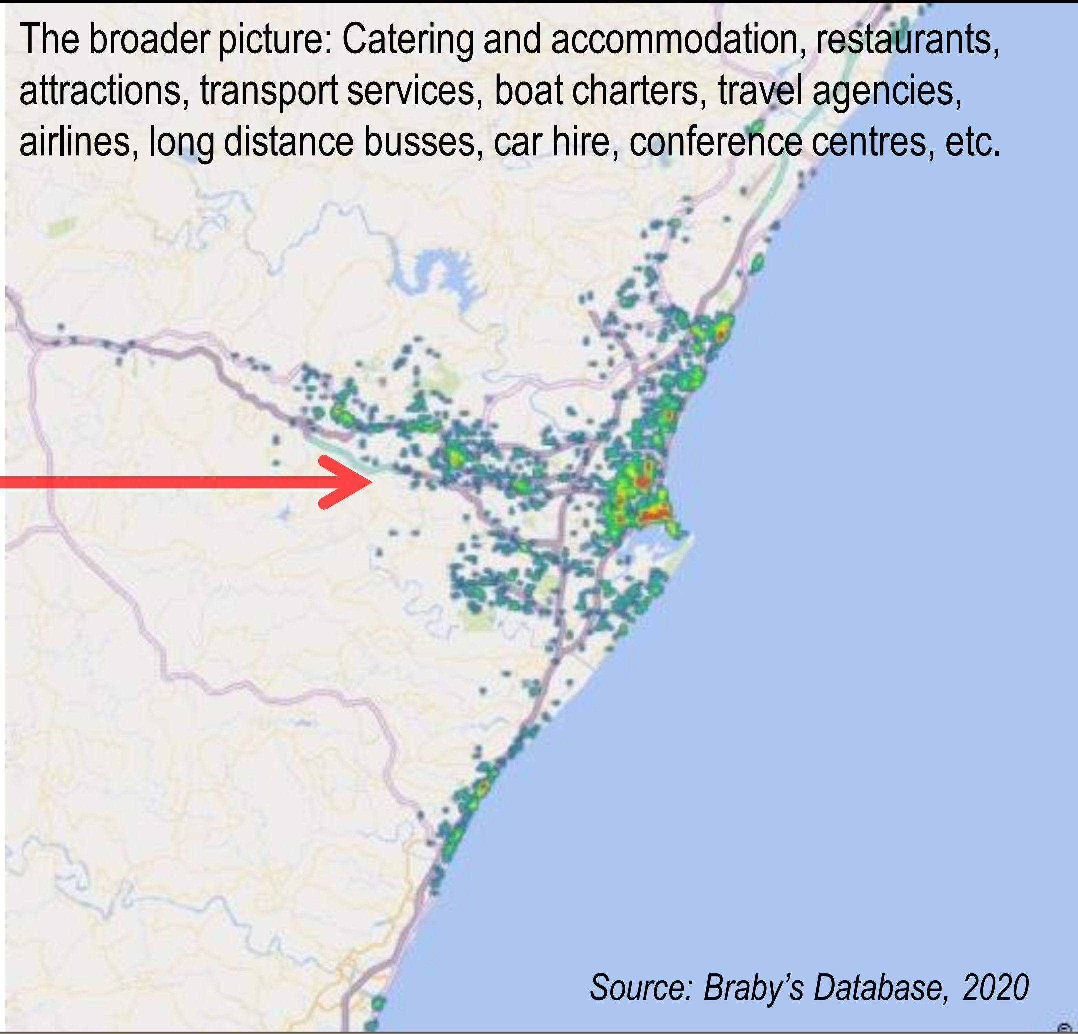
THE IMPACT OF TOURISM'S PERFORMANCE IS WIDE RANGING

AERIAL VIEW OF MAPPED TOURISM AND RELATED FIRMS IN DURBAN

Traditional tourism: catering and accommodation



The broader picture: Catering and accommodation, restaurants, attractions, transport services, boat charters, travel agencies, airlines, long distance busses, car hire, conference centres, etc.



Source: Braby's Database, 2020

Although the catering and accommodation sector's impact is relatively minimal when measured against manufacturing, it has large forward and backward linkages, and a high absorption rate of informal employment and low skilled labour. The tourism sector is 9 – 10 times the size of catering and accommodation, when taking the informal sector into account.

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INVESTMENT, CONSTRUCTION AND BUSINESS ACTIVITY

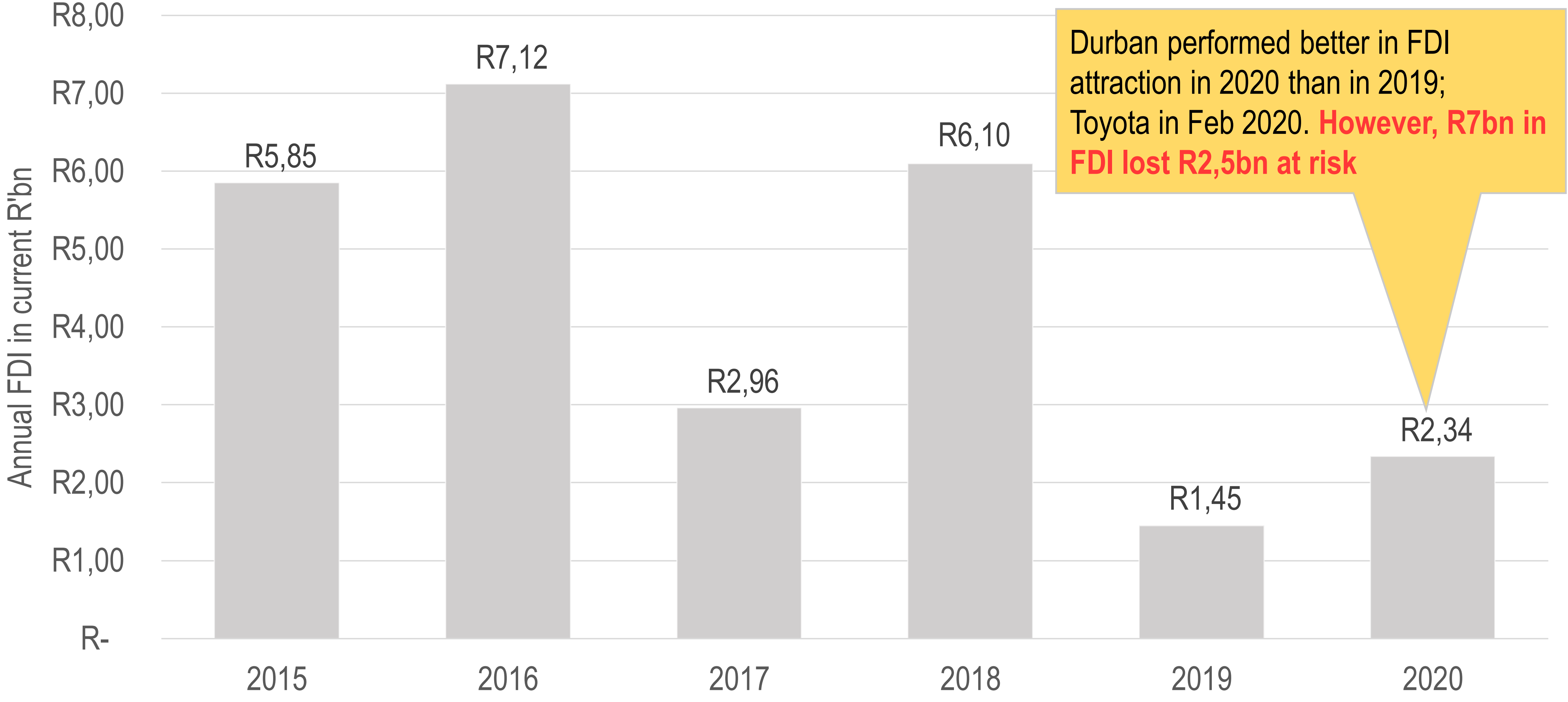
WHILE R7BN IN FDI LOST, R10BN IN FDI RETAINED AND R2BN IN INVESTMENT ASSISTED THROUGH DIGITISATION OF DEVELOPMENT APPLICATION AND OTHER PROCESSES

THE DURBAN EDGE

5 YEAR TREND OF FDI INTO DURBAN

PUBLICALLY ANNOUNCED PROJECTS

THE DURBAN EDGE



Source: FDI Markit, 2020

COVID19 IMPACT ON FDI

R7BN FDI LOST AND R2,5 AT RISK

FDI LOST

• Heineken	Agri-processing	R7bn	New & 100% secured, but then COVID cancelled

Sub Total <u>R7bn</u>

FDI AT RISK

• Thermofisher Scientific	Life Sciences	R145mn
• Urban-Lime	Property Development	R50mn
• LG Electronics	Electronics	R1.5bn
• NCP Alcohols	Agri-processing	R800mn

Sub Total <u>R2.5bn</u>

FDI RETAINED (still to be implemented)

• Toyota South Africa Motors	Automotive	R2.43bn
• ONDO Smart Farming Solutions	ICT	TBA
• Kerry Foods	Agri-processing	R800mn
• Anchor Properties	Property Development	R150mn
• JK Props UK	Property Development	R100mn
• Ignition	Global Business Services	TBA
• Capability BPO	Global Business Services	TBA
• Outworx	Global Business Services	TBA
• Blake	Global Business Services	TBA
• Synergy	Global Business Services	TBA
• CCI	Global Business Services	TBA
• Miracle Communications	Global Business Services	TBA
• Gap Prop Inner City JV/PPP	Property Development	TBA
• Crop Data India	Agri-Tech	TBA
• SAPPI	Agri-processing	R7bn
	Sub Total	**<u>R10.1bn</u>**

DURBAN'S ECONOMIC RECOVERY PLAN (ERP) RESPONSE

"CREATING AN EXTRAORDINARY ENVIRONMENT FOR CONSTRUCTION AND INVESTMENT"

WHAT HAS BEEN DONE

- **12-month holiday on development application** fees started on 1 July 2020
- Streamlined process and online planning application process resulted in **40% reduction in processing time**
- KZN Growth Coalition working with Catalytic Projects to fast track high impact projects worth R10bn

12 Investors Supported

- Transnet unblocking red tape
- L.G. Electronics supported with restart plans
- Facilitation work with National Depts to avoid DEFY's 25% staff retrenchment
- Partnership with DEFY on 'Buy Local Invest Local' campaign and the National Ventilator Project
- Identified 17 SMMEs to supply components to Defy related to ventilator project
- Linking SMMEs with corporates on PPE supplies

WHAT STILL NEEDS TO BE DONE

- New normal requires an **unblocking of catalytic projects** to ensure speedy implementation
- Initial work has started on land value capture as a means of **funding bulk infrastructure**
- The Port second access was included into the Sustainable Infrastructure Development (SID) - and requires implementation
- Review requirements such as parking and traffic standards
- Leverage **digital platforms to improve processes**
- Promote a **green recovery**

PILLAR 5 OF THE ERP: "CREATING AN EXTRAORDINARY ENVIRONMENT FOR CONSTRUCTION AND INVESTMENT" MAJOR PROJECTS SUPPORTED

NATIONAL GOVERNMENT

Passenger Rail Agency of South Africa (PRASA)	R4bn
South African National Roads Agency (SANRAL)	N/A
Airports Company South Africa (ACSA)	R320mn
Transnet National Ports Authority	R26bn
Umgeni Water	R185mn
Department of Public Works	R79mn
Mangosuthu University of Technology	R125mn
Dube Trade Port	R3.5bn

PRIVATE SECTOR CONSTRUCTION PERMITS ISSUED ON STREAMLINED WORKFLOW PROCESS

Kerry Foods	R50mn
Acacia Business Park	R56mn
Hibiscus Retirement Village	R110mn
PRASA Retail Centre Isipingo	R160mn
Midway Shopping Centre	R50mn
Baraka Read (major)	R67mn
Othongathi Mall (catalytic)	R272mn
Ridge Town Central (major)	R370mn
The Space (major)	R66mn
The Valley (Gold Coast Estate)(major)	R74mn
The Saxony (major)	R104mn
Balize Estate (major)	R145mn
Keystone Park Industrial	R77mn
Hammarsdale shopping centre	R78mn
Dancor Group	R56mn
Clairwood racecourse redevelopment	R50mn
Clairwood Racecourse redevelopment	R100mn
Northfields business park	R76mn

PILLAR 5 OF THE ERP: "CREATING AN EXTRAORDINARY ENVIRONMENT FOR CONSTRUCTION AND INVESTMENT" MAJOR PROJECTS SUPPORTED (CNTD)..

PUBLIC PRIVATE PARTNERSHIPS

PROJECT AT IMPLEMENTATION STAGE (Over next 5 years)	DEVELOPER CONTRIBUTION	CITY CONTRIBUTION
• Avoca Development (Brickworks)	R9 bn	R300 mn
• Midway Crossing	R600 mn	R350 mn
• Ntshongweni	R3.3 bn	R328 mn
• Dube Trade Port	R12 bn	R300 mn
• Sibaya	R50 bn	R200 mn
• Cornubia	R16 bn	R500 mn
• Point Waterfront	R3 bn	R620 mn
• Inner City	0	R84 mn
• Township projects	0	R214 mn
• ICC and uShaka	0	R26 mn
• Agriculture	0	R40 mn
• Informal Sector		

Source: eThekwini Catalytic Projects Unit, 2020

NEW BUILDING PLAN APPLICATIONS

CLEAR SIGNS OF THE ECONOMY PICKING UP

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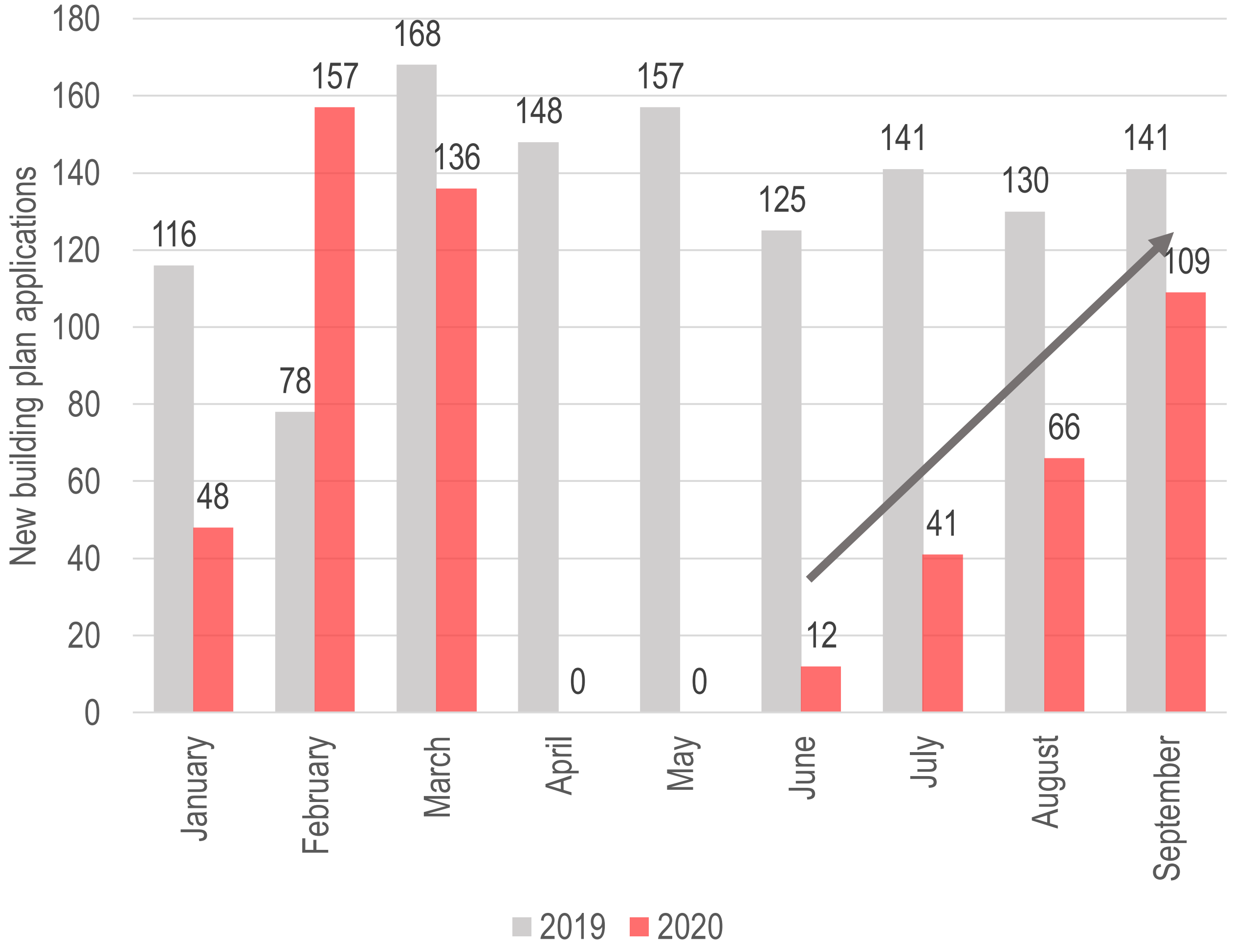


- 41 new building plans submitted in July 2020 compared to 141 in 2019 (or a 71% y/y decrease)

- However when compared to June 2020, which is a more fair comparison (construction activity in covid without assistance vs construction activity in covid with assistance) the increase in new building plan applications is 23%, compared to only 12% the previous year.

- It may be that this is due to the drop in fees, or it could be due to a Covid-19 backlog. A tally is required at year end, to correctly estimate

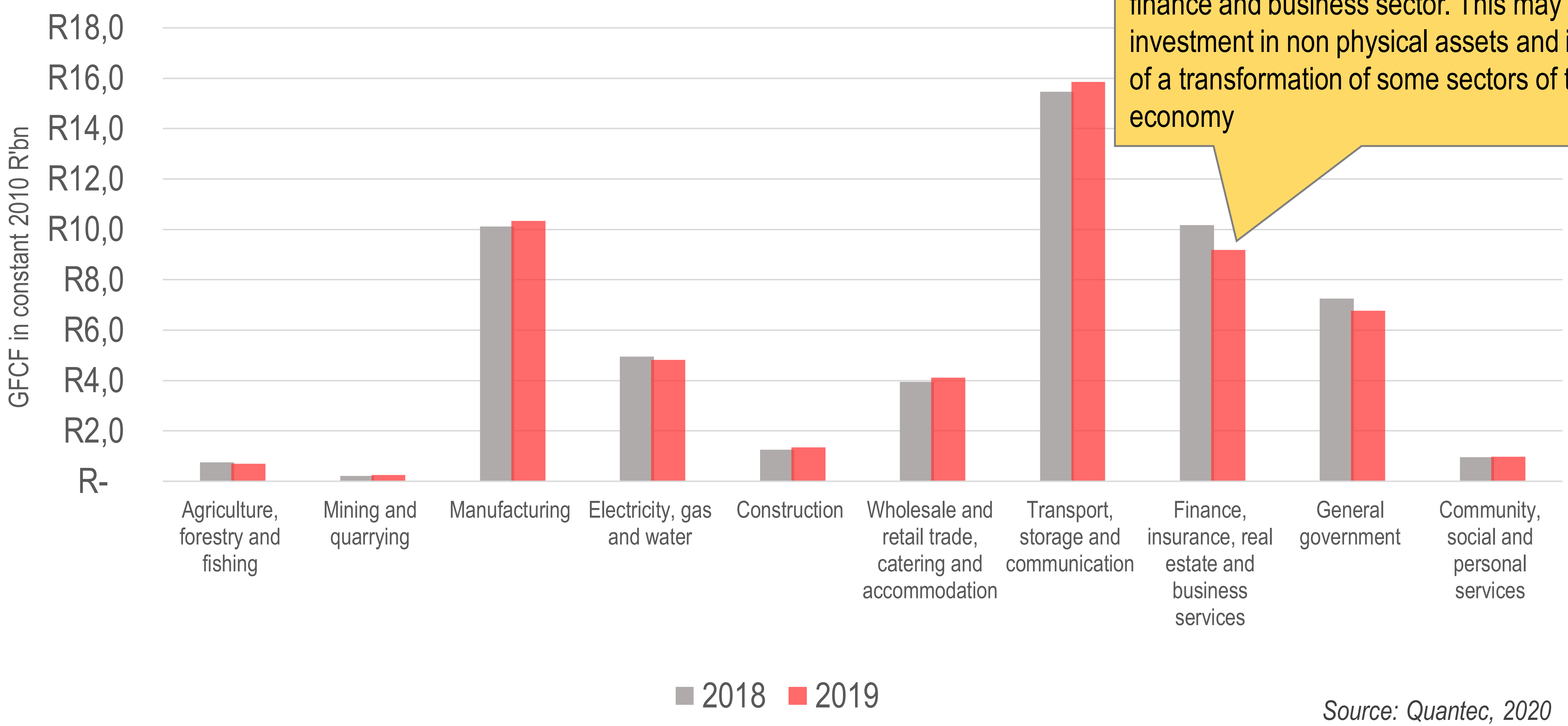
- Only new plans submitted are counted, in order that the number of developers/ investors that submitted due to the price drop.

Source: Durban Edge Portal, Development Planning 2020.

FIXED CAPITAL FORMATION INTO DURBAN DECLINES

SIGNS OF THE NEW NORMAL?

GFCF decreased by R734million or 1,2% between 2018 and 2019, mainly due to the finance and business sector. This may be due to investment in non physical assets and indication of a transformation of some sectors of the economy

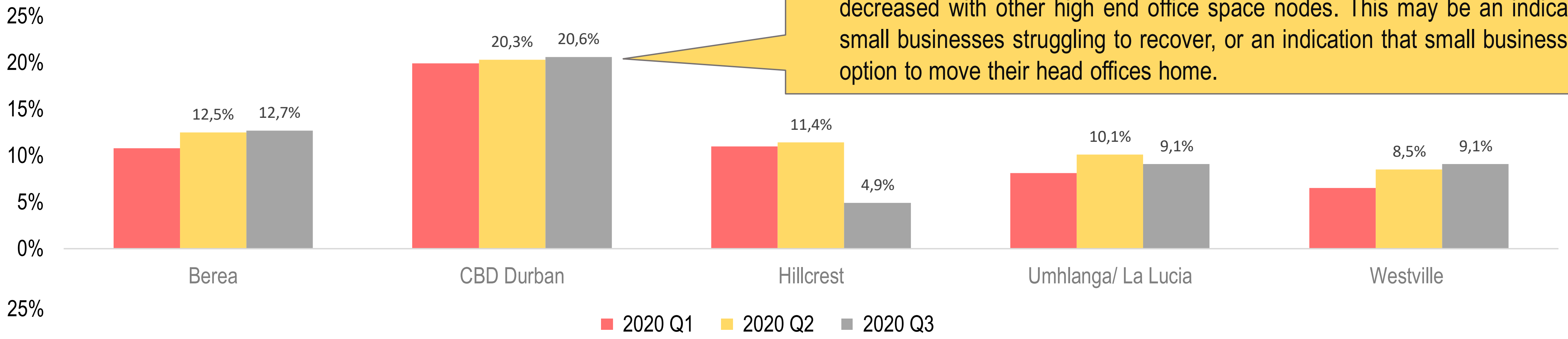


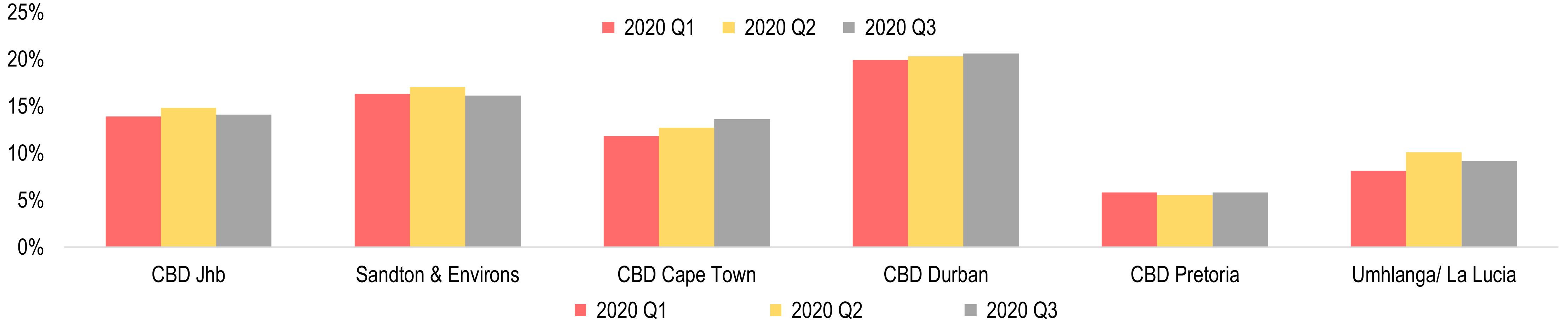
Source: Quantec, 2020

BUSINESS ACTIVITY IN KEY NODES

HIGH END OFFICE SPACE RECOVERS SLOWLY; CBD AND BEREA LAG BEHIND

Office vacancies in C grade office space; primarily in Berea and CBD have not decreased with other high end office space nodes. This may be an indication of small businesses struggling to recover, or an indication that small businesses are option to move their head offices home.





Source: SAPOA, 2020

With the easing of the lockdown regulations, there has been a slow uptake in office space as people started going back to their workplace. Office vacancy has decreased in the following nodes, JHB, Sandton and Umhlanga. Umhlanga had the highest decrease in office vacancy rates, this is visible in SAPOA's report on office vacancies in 2020 Q3. The highest take up of office space is seen in the P grade office segment and the main tenants for this grade of office space is businesses services, headquarters for insurance companies, banking sector, retail companies. With ongoing developments around this node, there is also a possibility that many businesses had planned to take up space in this node prior to lockdown and with easing of lockdown have taken office space as planned.

MORE PEOPLE ARE STAYING HOME

AND LESS ARE GOING TO "WORK"

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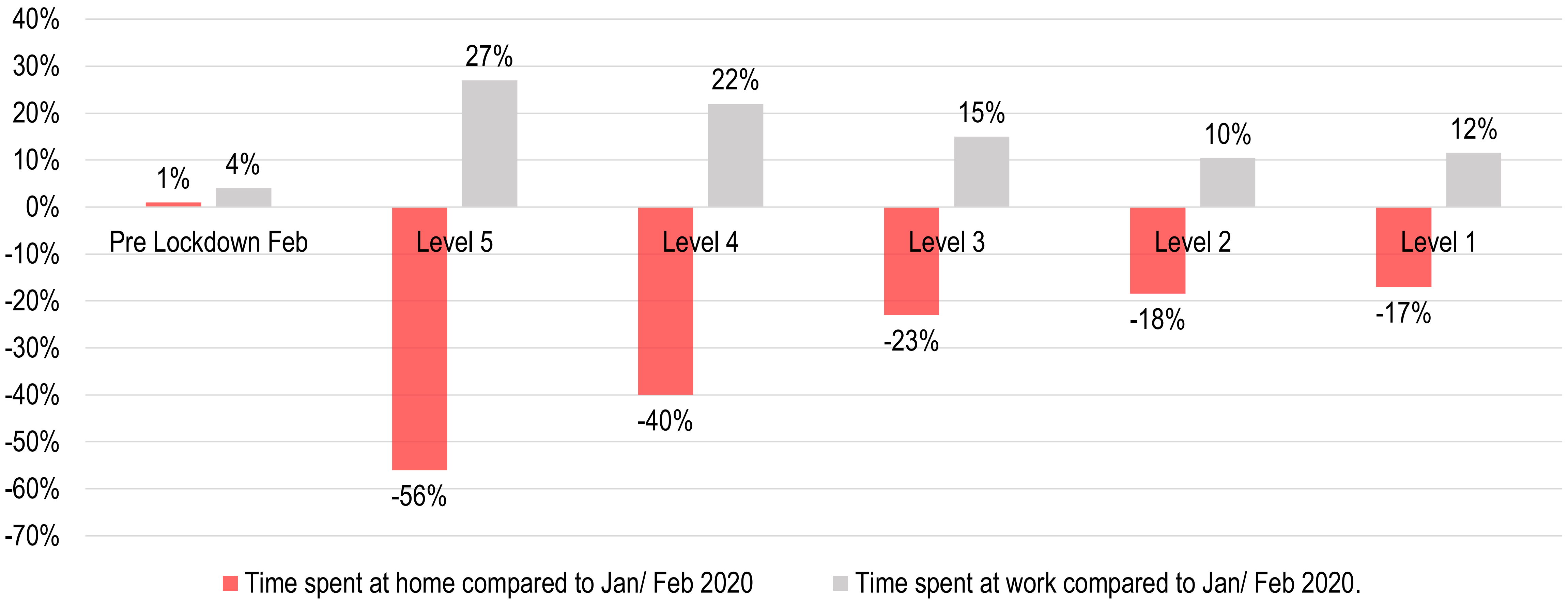

% change in time spent is measured against the average of time spent in the 5-week period Jan 3 – Feb 6, 2020. If this trend persists, what does this mean for the City's revenue, and strategic spatial planning? Trends should settle before any strategic decisions are made.

Source: Google Mobility Trends, KZN, 2020

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FILM

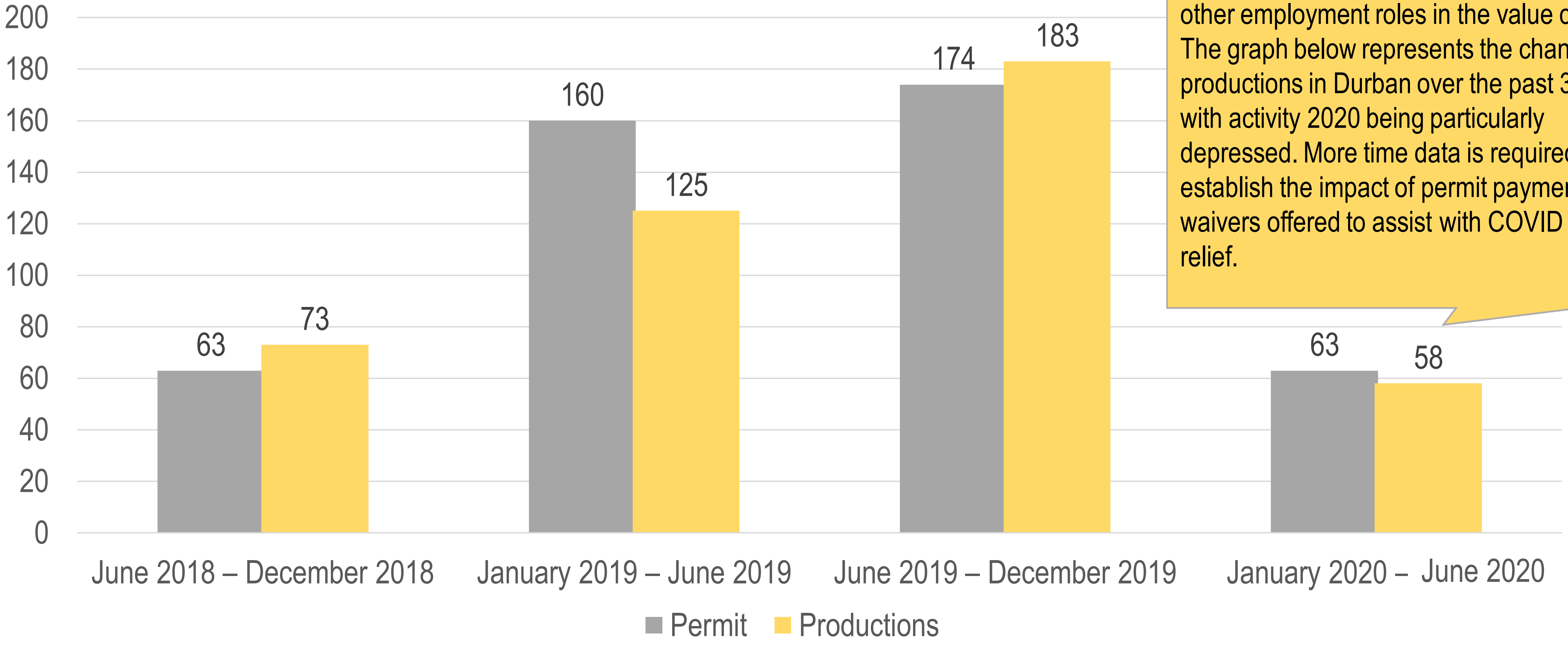
APPLICATIONS FOR FILMING MORE THAN HALVED DUE TO LOCKDOWN, HOWEVER THE INDUSTRY IS STILL HIGHLY LABOUR ABSORBENT, AND CONSISTENT MOMENTUM MUST BE MAINTAINED TO INCREASE JOBS CREATED

THE DURBAN EDGE

FILM SECTOR PERFORMANCE

PERMITS ISSUED/ PRODUCTIONS UNDERTAKEN IN DURBAN

The film sector is important for its high labour absorption capacity. Each production represents job opportunities for actors, lighting technicians, make up artists, directs and producers, caterers, and numerous other employment roles in the value chain. The graph below represents the change in productions in Durban over the past 3 years- with activity 2020 being particularly depressed. More time data is required to establish the impact of permit payment waivers offered to assist with COVID 19 relief.



Source: DFO, 2020.

3 series currently in full production in Durban create 450 jobs. Durban virtual FilmMart was held in September

LABOUR AND UNEMPLOYMENT

EXPANDED UNEMPLOYMENT IS THE HIGHEST IT HAS EVER BEEN ON RECORD; BUT SOME INDUSTRIES MADE CLEAR THEIR INTENTIONS TO REHIRE LABOUR AS THE ECONOMY RECOVERS

JOBS LOST IN KEY SECTORS

DURING LOCKDOWN- 304 000

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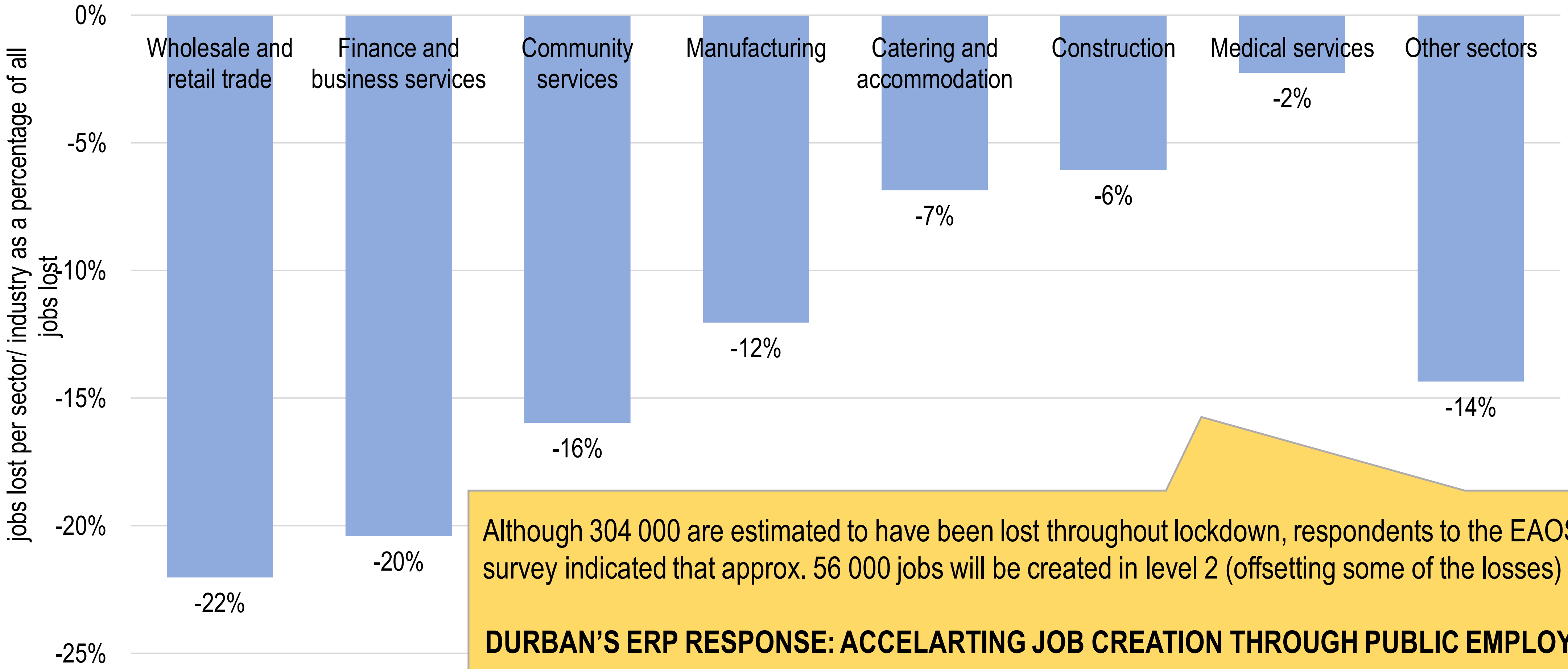


Source: *EAOS, 2020*

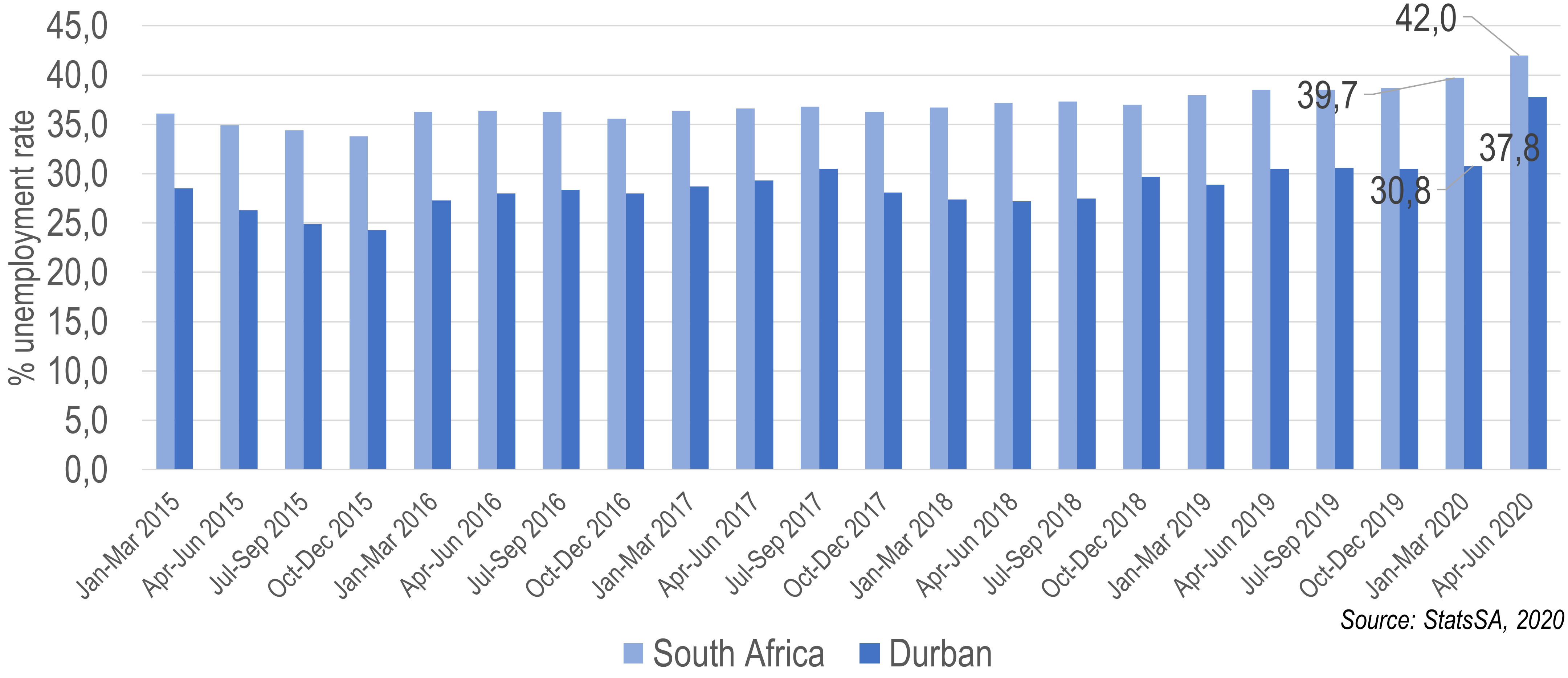
Although 304 000 are estimated to have been lost throughout lockdown, respondents to the EAOS survey indicated that approx. 56 000 jobs will be created in level 2 (offsetting some of the losses)

DURBAN'S ERP RESPONSE: ACCELARTING JOB CREATION THROUGH PUBLIC EMPLOYMENT

The City is working with National Treasury to identify projects for the Public Employment Stimulus. National target is to create 2.5m jobs, eThekwini's target is 200 000.

A SPIKE IN UNEMPLOYMENT

THE DURBAN EDGE



Source: StatsSA, 2020

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Roughly 304 000 jobs have been lost in Durban since the beginning of lockdown, some firms indicated intentions to rehire labour has the economy recovers. eThekwini unemployment remains below the average unemployment for other cities despite the sluggish growth. However this does not translate to an increase in employment, but rather a lesser number of labour participation (fewer working aged people are choosing to work in eThekwini). Expanded unemployment in Durban was officially 38% during the height of lockdown.

TRANSFORMATION IN LABOUR

NO FUNDAMENTAL CHANGE IN 10 YEARS. YOUTH, WOMEN AND BLACK PEOPLE ARE LARGELY WORSE OFF. HOWEVER, RISE IN BLACK MIDDLE CLASS EARNINGS IS EVIDENT.

TRANSFORMATION IN DURBAN?
DURBAN'S WORKING AGED AND RACE, AGE AND GENDER PROGRESS

Of all working aged in Durban..
76% are black/ 51% are women/ 43% are youth

Women
57% of all working people are male

62% of not economically active are women

Youth
Unemployment amongst youth (20 – 34 years old) is 35%

Race
Unemployment amongst black people is 50%

Above 90% of those earning below minimum wage rate are black

However slight change is visible,
Middle and higher income earnings growth is visible amongst black employed

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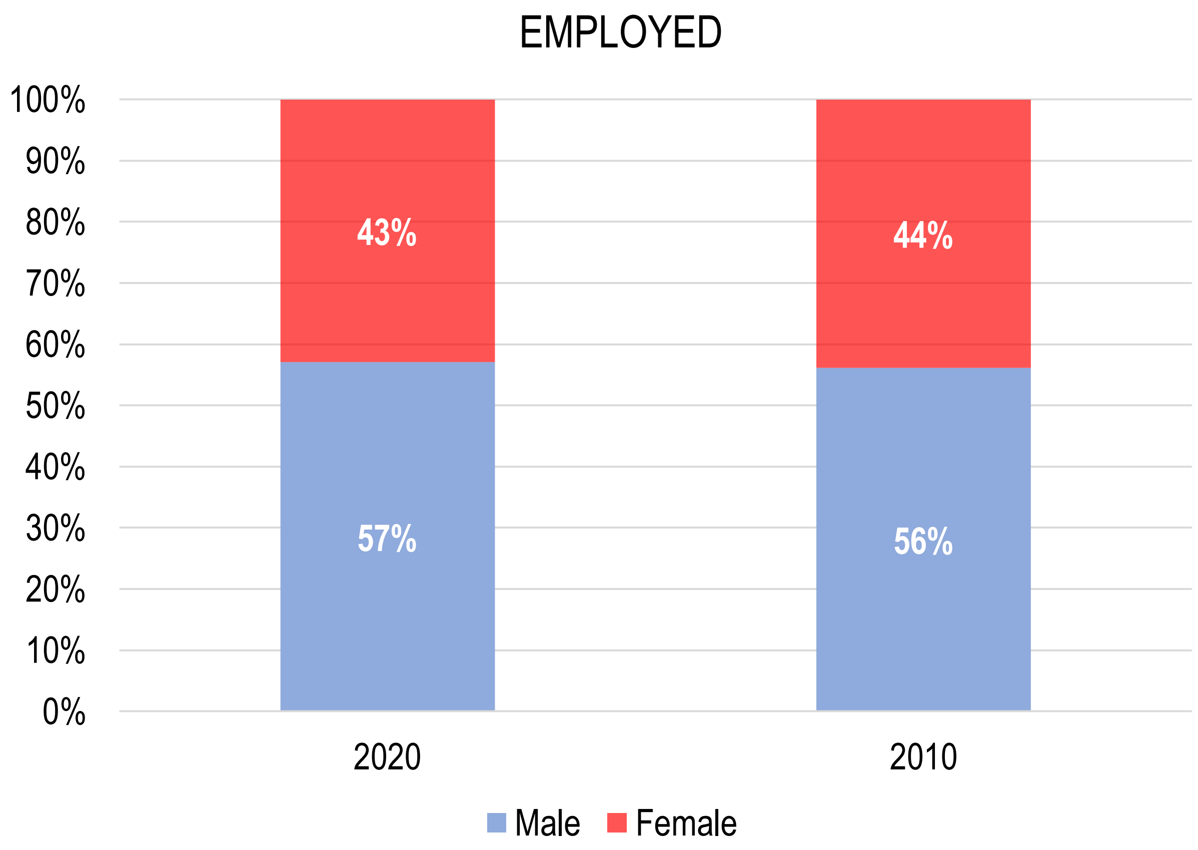
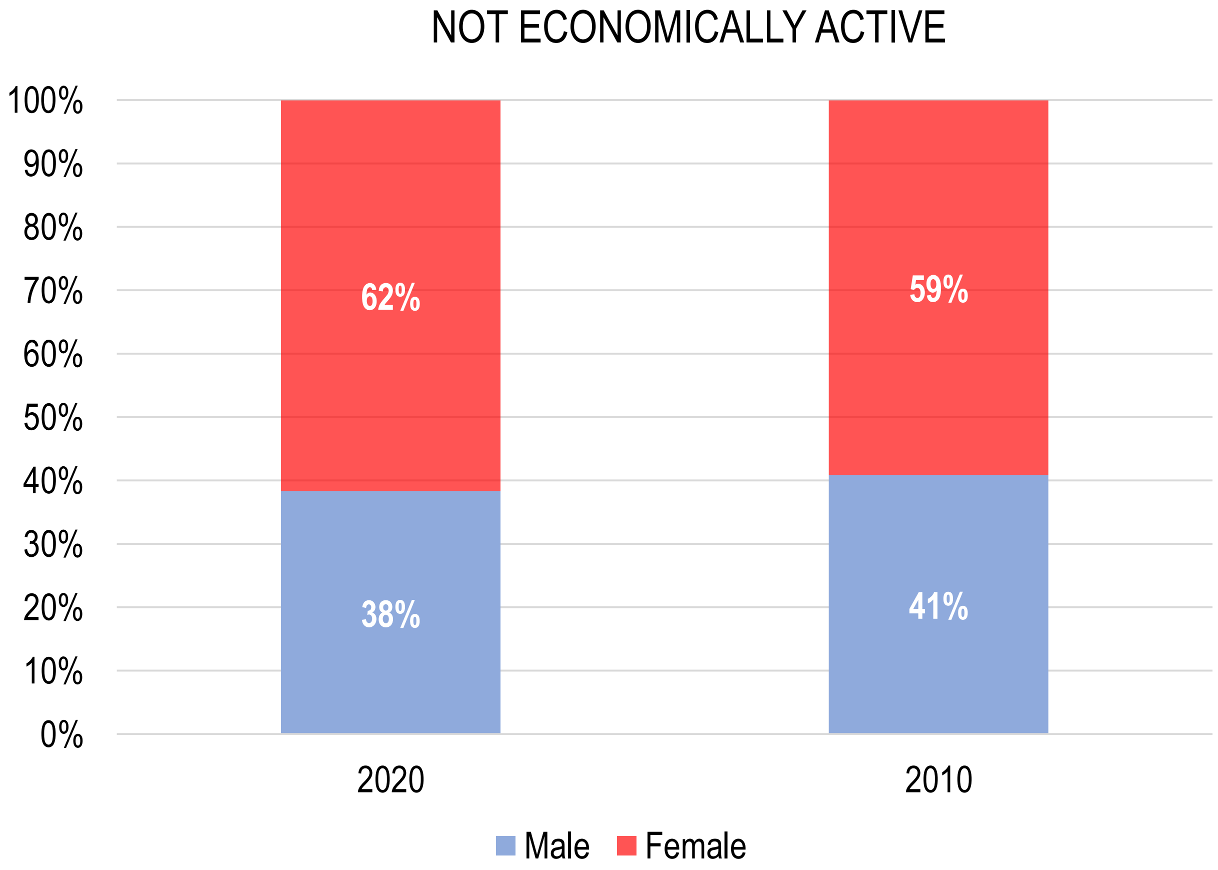
Source: StatsSA QLFS, 2020.

STATE OF *GENDER* TRANSFORMATION

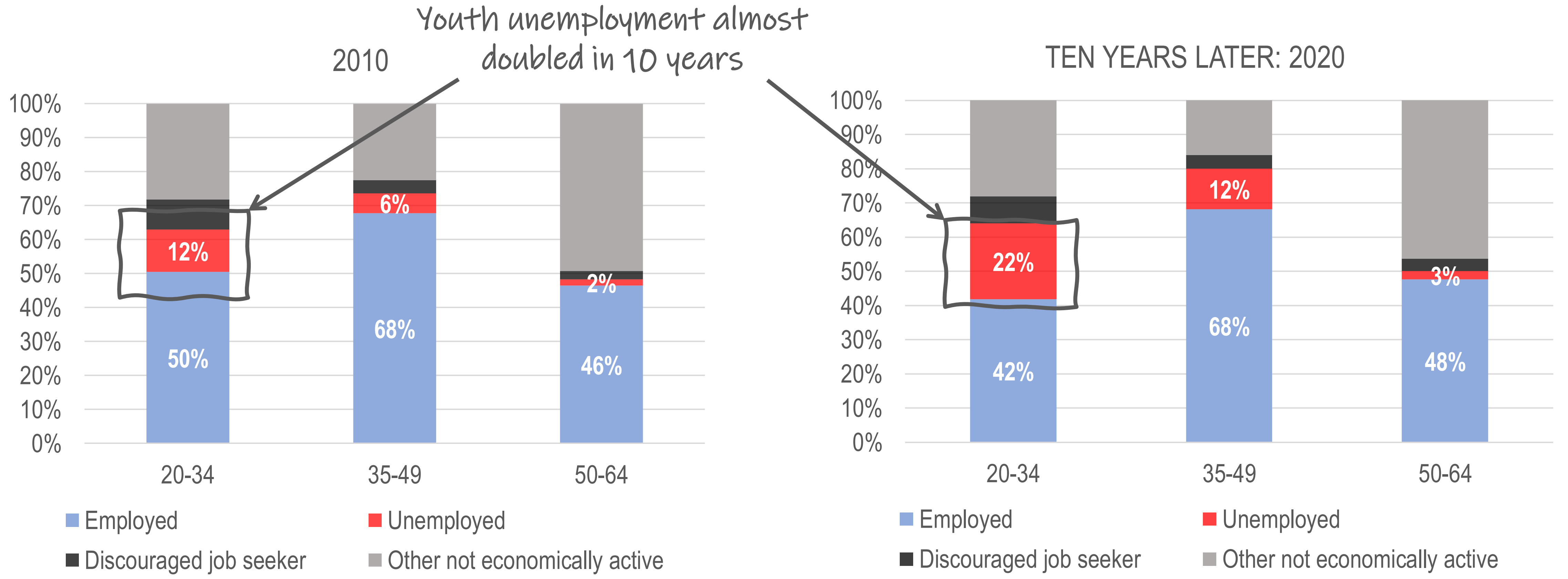
PARTICIPATION IN THE LABOUR MARKET





Despite the majority of the working aged being women, most in employment are male. The flip side is also true- most economically inactive (excl. discouraged work seekers) are women; meaning most people not available for work are women. In the 10 years between 2010 and 2020, the gender disparity has increased slightly in both cases. Work places are absorbing even more men than women, and a higher proportion of women are not available to work. However, unemployment is significantly higher amongst men, while women are more likely to be discouraged work seekers than men.

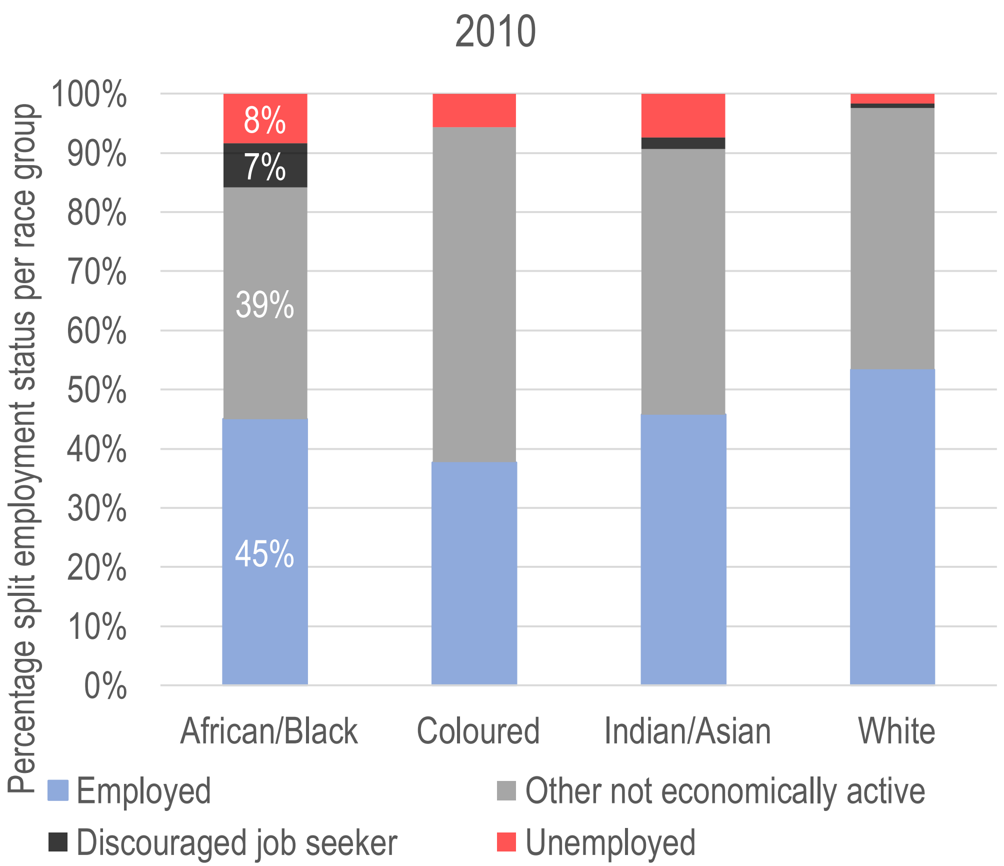
STATE OF *AGE* TRANSFORMATION
YOUTH UNEMPLOYMENT HAS ALMOST DOUBLED…

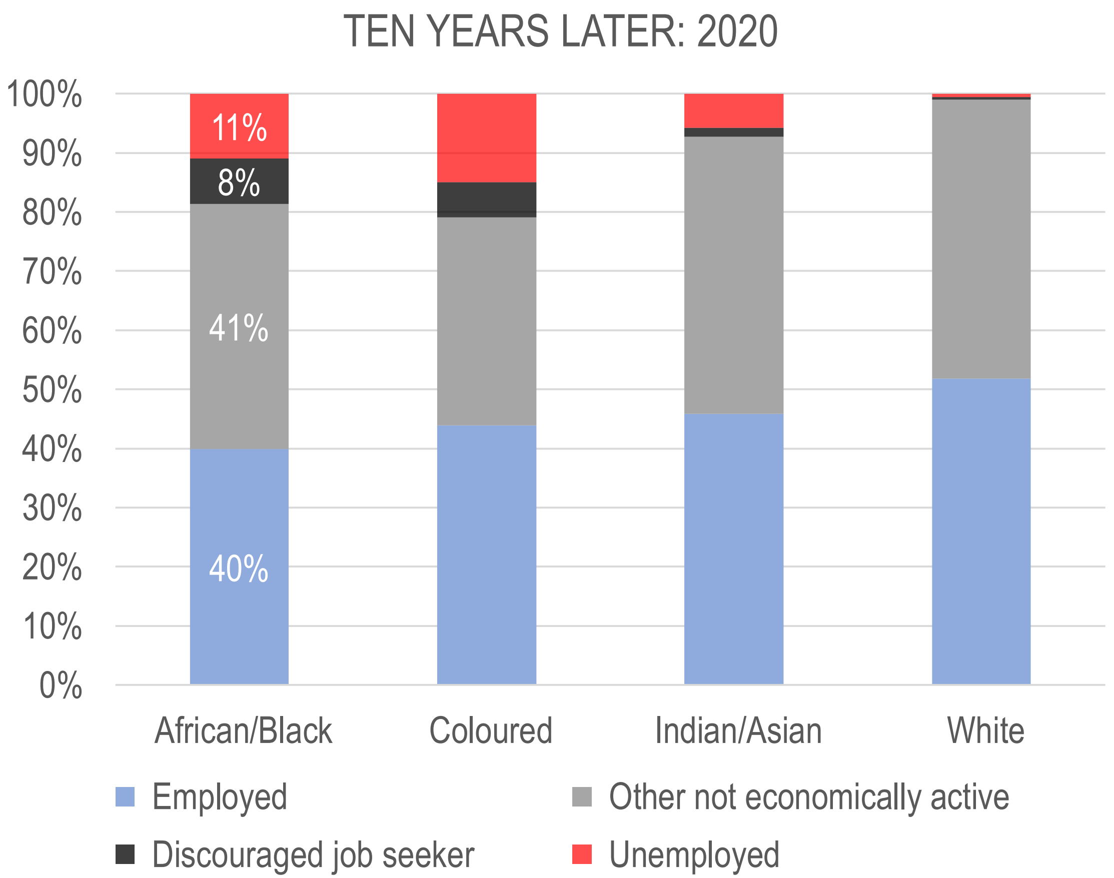


Unemployment is highest amongst youth. This may be due to the barriers to entry into the labour market while starting out; however in the 10 years between 2010 and 2020, unemployment doubled.

STATE OF *RACE* TRANSFORMATION

INCREASED UNEMPLOYMENT FOR BLACK DURBAN WORKING AGED





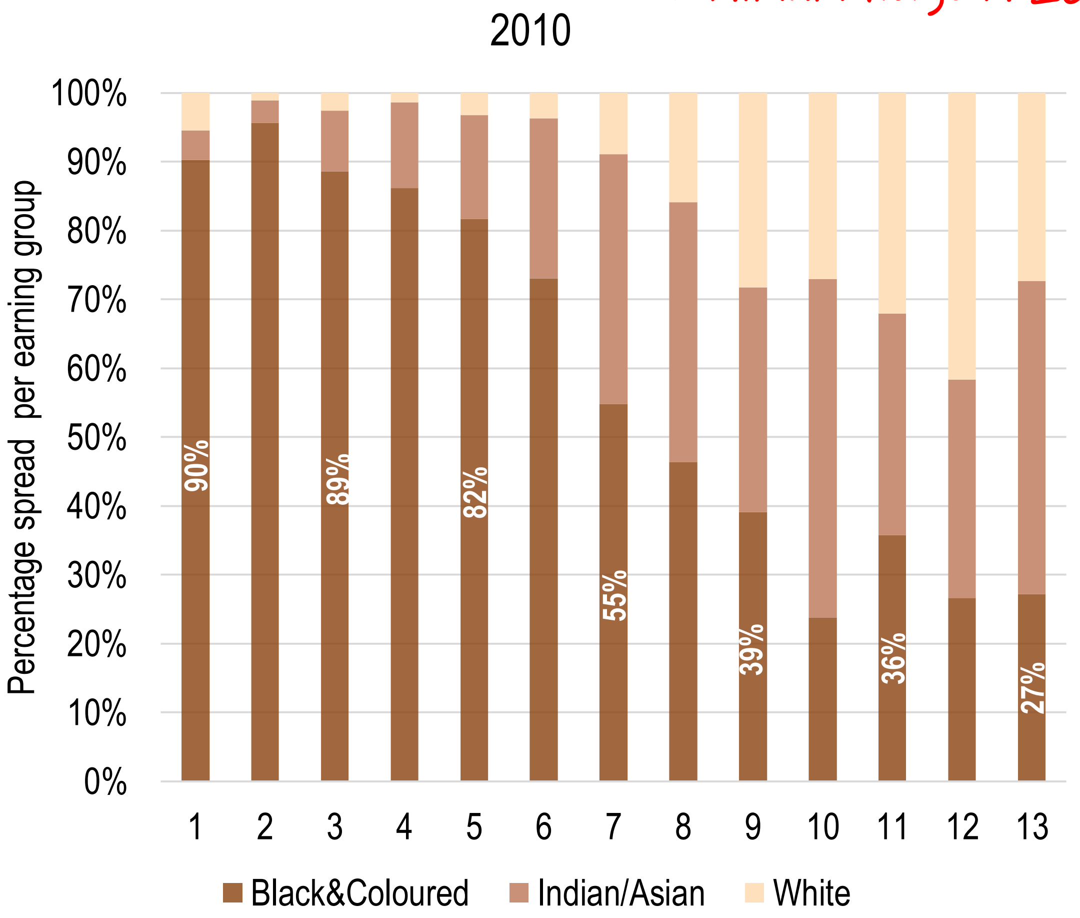
In 10 years, the proportion of employed has decreased, while unemployed working aged have increased, together with discouraged work seekers and not economically active.

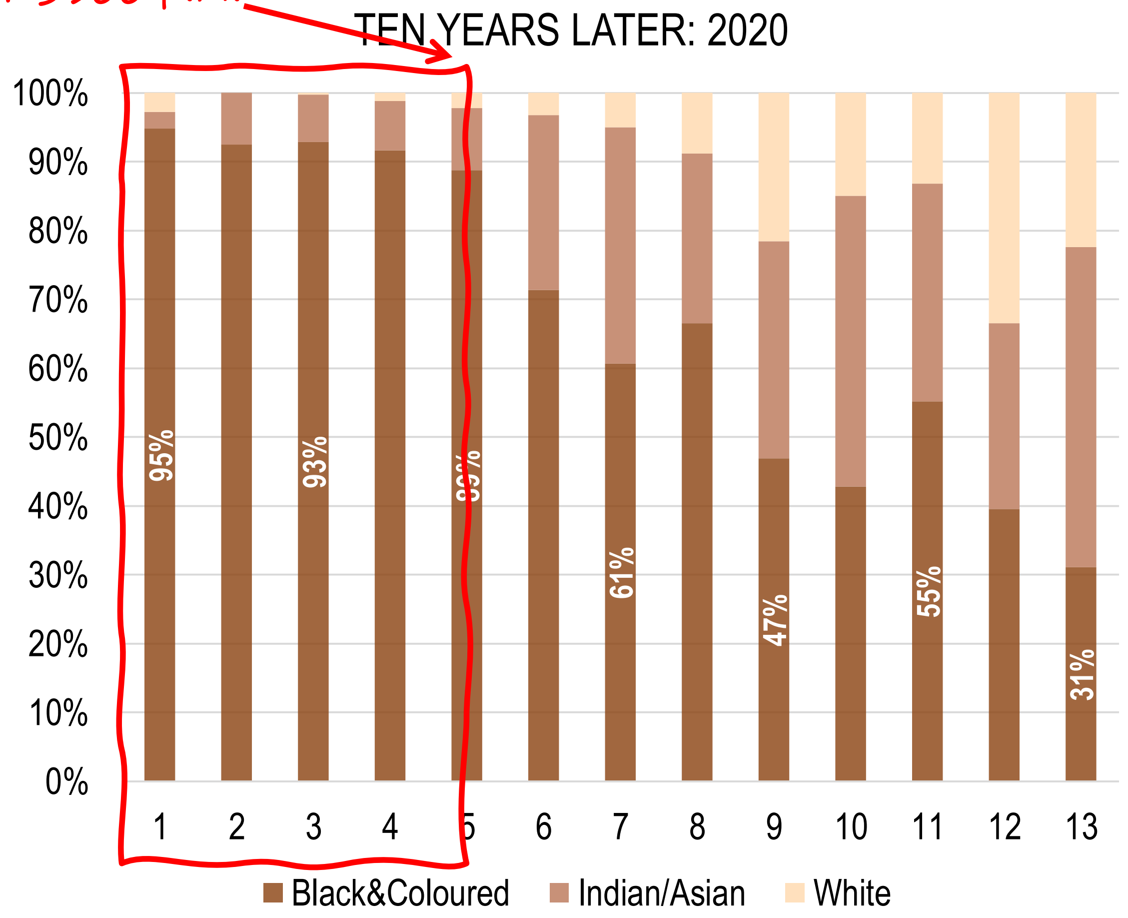
Source: StatsSA QLFS, 2020

10 YEAR TRANSFORMATION PROGRESS?

SLIGHT IMPROVEMENT IN SPREAD OF EARNINGS PER POPULATION GROUP

Minimum wage in 2020- R3500 p.m.





1= lowest tier income earning group, 13 = highest tier income earning group. Earnings reflect the same race disparities as with employment and unemployment, however some improvement is visible with increased diversity from decile 7 onward (from +/- R8000 pm onward).

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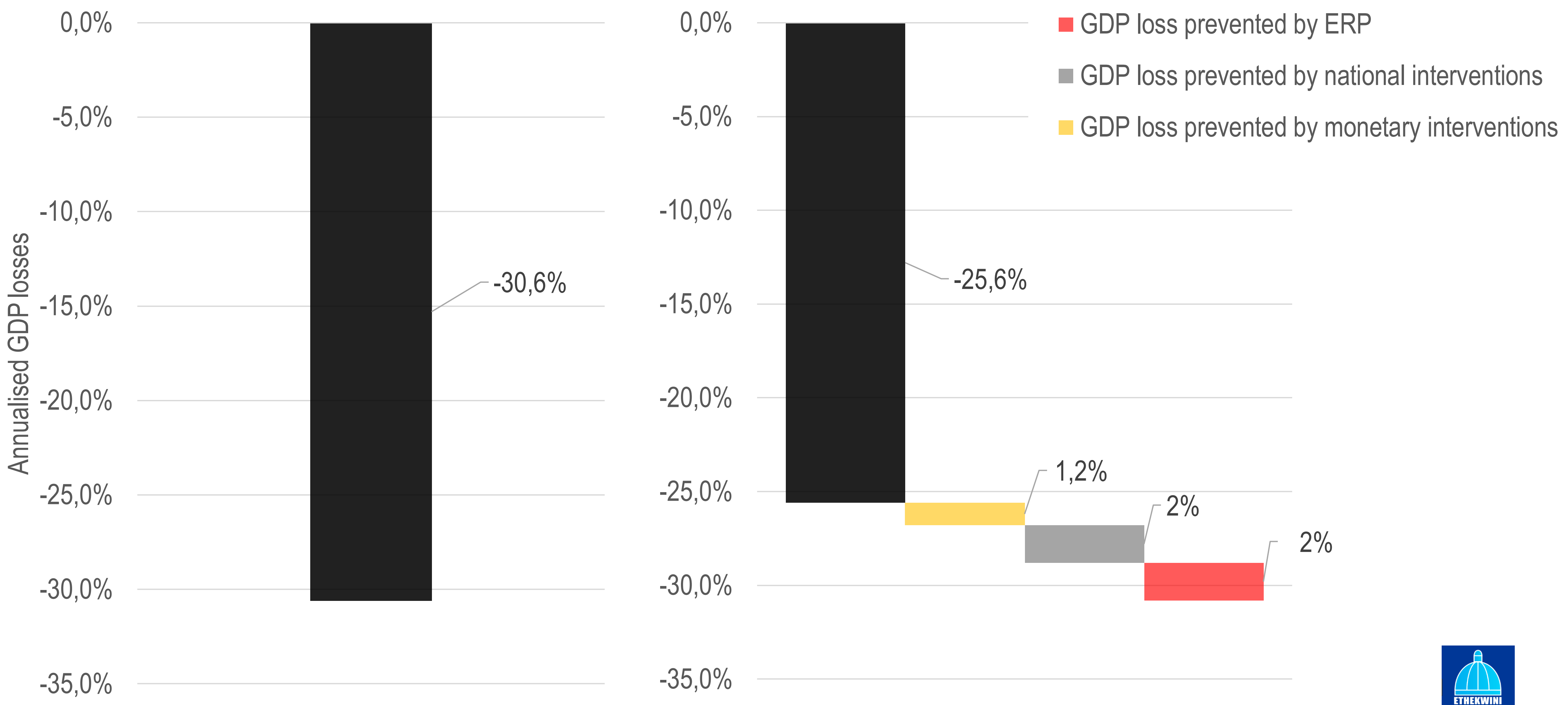
WHAT HAS BEEN THE IMPACT OF ALL COVID19
INTERVENTIONS ON DURBAN'S ECONOMY?



Source: Future Cities South Africa, 2020.

It is important that eThekwini continue to focus on the aggressive implementation and monitoring of the

ECONOMIC RECOVERY PLAN

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HOW CAN NEW CATALYTIC PROJECTS IMPACT OUR ECONOMY (2021)?

R6,6BN AND 10 000 – 15 000 CONSTRUCTION JOBS

M4 & Umhlanga North Corridor
(Cornubia, Sibaya, Oceans, Beachwood, Virginia Airport)
Investment = R3,4b
RCP/GFCF contribution= 4%
Existing Jobs = 5 620 (0,18%)

Inner City Central Corridor
(Point Precinct, Centrum, Dbn Film City)
Curr Investment=R250m (0,3%)
NEW Inv: R1,7b (2%)
New Jobs = 9 000 (1%)

N3 West Corridor
(Keystone, Cato Ridge, Ntshongweni)
Curr Investment=R813m (1%)
NEW Inv: R3,4b (4%)
New Jobs = 3 400 (0,3%)

NEW investment
8% increase in investment,
Or R6,6 bn

NEW jobs
1% increase in jobs,
Or approx. 10 000 construction jobs

Aerotropolis North Corridor
(iNyaninga, DTP, Whetstone)
Investment = R270m
RCP/GFCF contribution= 0,3%
Existing Jobs= 2 600 (0,2%)

Central/North Corridor
(Midway Crossing, Brickworks)
Investment = R505m
RCP/GFCF contribution= 1%
Existing Jobs = 575 (0,1%)

N2 South Corridor
(Automotive Supply Park)
NEW Investment = R1,5b (2%)
New Jobs = 2 500 (0,2%)

***Regions with new Catalytic Projects in 2021 in red*

KEY STRATEGIC RESPONSES

Comprehensive responses to these strategic challenges will be included in the revised Accelerated and Inclusive Growth (Shape Durban) Strategy

The need to **increase targeted development in townships** and rural areas

The need to focus on sectors which a highly **labour absorbing-** tourism, film sector, manufacturing, etc.

The need to **balance social package with investment and economic** activity

Innovation for the new normal

Focus on renewable energy required, including **new energy infrastructure** and IPPs. The City has completed a New Energy Policy, and aims to generate 40% renewable by 2030 and 100% by 2050

Shape Durban

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