**2012**

Um Jwali Market Research



RESEARCH ON THE PERFORMANCE OF THE MANUFACTURING SECTOR



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**Acronyms**

**AsgiSA**  Accelerated and Shared Growth Initiation in South Africa

**APDP** Automotive Production and Development Plan

**BBBEE** Broad Based Black Economic Empowerment

**BEE** Black Economic Empowerment

**CFTL SETA** Clothing, Textiles, Footwear and Leather Sector Education Training Authority

**CIACM** Competitiveness Improvement of Automotive Component Manufactures

**COTII** Council of Trade and Industry Institutions

**CoCT** City of Cape Town

**CoJ** City of Johannesburg

**DAFF** Department of Agriculture, Forestry and Fishery

**The dti** Department of Trade and Industry

**DBSA** Development Bank of Southern Africa

**DPLG** Department of Provincial and Local Government

**EMM** Ekurhuleni Metro Municipality

**EC** Eastern Cape

**FMMCG** Fast moving consumer goods

**FoodBev** Food Beverages Sector

**FS** Free State

**FDI** Foreign Direct Investment

**FSGDS** Free State Growth and Development Strategy

**FBO** Food Business Operators

**GPG** Gauteng Provincial Government

**GOS** Gross Operating Surplus

**GEDA** Gauteng Economic Development Agency

**GDP** Gross Domestic Product

**GDS** Growth and Development Summit

**GVA** Gross Value Add

**HRD** Human Resource Development

**IPAP 2**  Industrial Policy Action Plan

**ICT** Information, Communication and Technology

**IDC** Industrial Development Corporation

**IDT** Independent Development Trust

**IDP** Integrated Development Plan

**IDRC** International Development Research Centre

**IDZ** Industrial Development Zone

**ISA** Investment South Africa

**ISF**  South African International Steel Fabricators

**IT** Information Technology

**ITC** Information Technology Centre

**JSE** Johannesburg Stock Exchange

**KFC** Kwa Zulu Finance and Investment Corporation

**KZN CTC** KwaZulu-Natal Clothing and Textile Cluster

**KPA** Key Performance Area

**KPI** Key Performance Indicator

**KSP** Knowledge Sharing Programme for local government

**KZN** KwaZulu-Natal

**LED** Local Economic Development

**LEDS** Local Economic Development Strategy

**LEDF** Local Economic Development Fund

**LGMSA** Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000)

**LGTA** Local Government Transition Act, 1993 (Act No. 108 of 1993)

**LM** Local Municipality

**LRA** Labour Relations Act, 1995 (Act No. 66 of 1995)

**MIDP** Motor Industry Development Programme

**MERSETA** Manufacturing, Engineering and Related Services Sector Education and Training Authority

**MFMA** Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

**MOA** Memorandum of Agreement

**MOU** Memorandum of Understanding

**MEDS** Micro Economic Development Strategy

**MTBPS** Medium Term Budget Policy Statement

**MTEF** Medium-Term Expenditure Framework

**NAAMSA** National Association of Automotive Manufacturers of South Africa

**NAACAM** National Association of Automotive Component Manufacturers

**NEPAD** New Partnership for Africa’s Development

**NGO** Non Governmental Organisation

**NPO** Non-profit organization

**NQF** National Qualifications Framework

**NRF** National Research Foundation

**NSDS** National Skills Development Strategy

**NSIF** National Spatial Information Framework

**NYC** National Youth Commission

**NCPGDS** Northern Cape Provincial Growth and Development Strategy

**NSDP** National Spatial Development Perspective

**NGDS** National Growth and Development Strategy

**OEM** Original Equipment Manufacturer

**PAIA** Promotion of Access to Information Act, 2000 (Act No. 2 of 2000)

**PFMA** Public Finance Management Act, 1999 (Act No. 1 of 1999)

**R & D** Research and Development

**RDF** Rural Development Framework

**RDP** Reconstruction and Development Programme

**SA** South Africa

**SABS** South African Bureau of Standards

**SACOB** South African Chamber of Business

**SADC** South African Development Community

**SADT** South African Development Trust

**SAQA** South African Qualifications Authority

**SARB** South African Reserve Bank

**SARS** South African Revenue Service

**SDF** Spatial Development Framework (In terms of Municipal Systems Act, 2000)

**SDI** Spatial Development Initiative

**SDI Act** Spatial Development Initiative Act (part of the KwaZulu-Natal Land Affairs Act, 11 of 1992)

**SEDA** Small Enterprise Development Agency

**SETA** Sector Education and Training Authority

**SMME** Small Medium Micro Enterprise

**Stp** Seda Technology Programme

**StatsSA** Statistics South Africa

**SAISI** South African Iron and Steel Institute

**SAAPA** South African Agricultural Processors Association

**SAAFoST** South African Association for Food Science and Technology

**SACCI** South African Chamber of Commerce Industry

**SASSDA T** Southern Africa Stainless Steel Development Association

**SEIFSA**  Steel and Engineering Industries Federation of South Africa

**SACTMA** South African Cotton Textile Manufacturers Association

**TIKZN** Trade and Investment KwaZulu-Natal

**VAT** Value Added Tax

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

**WSSD** World Summit on Sustainable Development

**WTO** World Trade Organisation

**WC** Western Cape

**WRSETA**  Wholesale and Retailing Sectoral Training Authority

**ZAR** South African Rand

## Executive Summary

This study shows the performance of the manufacturing sector in South Africa and its impact and importance for SMMEs, particularly for job creation. The focus of the research is to provide an overview of the manufacturing sector to ensure a better understanding of the current performance of the total sector in the economy, the performance of the subsectors within manufacturing sector and the potential for SMME development within the sector, as well as the policy framework that governs the manufacturing sector.

International manufacturing statistics show the dominant position of the US, China, and to a lesser extent Japan, as the manufacturers of the World. It also shows how China increased their manufacturing output from a mere 3% in 1990 to 18.9% in 2010. Although there are practises of labour mistreatment and exploitation, lessons can be learned from this. South Africa’s international manufacturing output, at a percentage of total world manufacturing output, decreased from 0.61% in 1990 to 0.5% in 2010. This indicates the need to strengthen SA’s manufacturing position, given the potential for employment creation, economic growth and export earnings.

The manufacturing sector in SA is growing slower in comparison to other sectors and has shrunk from 19% of GDP in 1993 to 17% of GDP in 2010. Petroleum products, chemicals, rubber and plastic as well is metals, metal products, machinery and equipment and food, beverages and tobacco are the largest sectors in the economy. Other non-metal mineral products showed the slowest growth over the period 1993 to 2010; and petroleum products, chemicals, rubber and plastic, the highest growth. Sub-sectors that receive the highest investment are motor vehicles, as well as parts and special machinery. The current sectors that dominate exports include Non-ferrous metals, Iron and steel products, and motor vehicles. Non-ferrous metals and Iron and steel products have great potential to provide additional value add to the raw, unworked products, while the motor industry imports 70% more than what they export, showing the immense potential in this industry.

The New Growth Path aims at creating 5 million new jobs by 2020. However, this seems very unlikely given the current structure of the economy, including supply side constrains (power, rail networks and levels of education amounts others). Key focus areas identified in the IPAP2 includes metal fabrication, capital and transport equipment, oil and gas, ‘green’ and energy-saving industries, agro-processing (linked to food security and food pricing imperatives), boatbuilding, automotive (products and components, and medium and heavy commercial vehicles), plastics, pharmaceuticals and chemicals, clothing, textiles, footwear and leather, bio fuels, forestry, paper, pulp and furniture, cultural industries and tourism, business process servicing, nuclear, advanced materials and aerospace.

The Subsection analysis section in this report aims to provide a clearer picture on each subsector making up the manufacturing sector as a whole, by providing a top view of the subsector and identifying and discussing the various industries within it. The subsector analysis additionally aims to identify role players within each subsector, as well as the strength and weaknesses of the subsector, while also highlighting the current and future opportunities that are available within it for SMME businesses. The analysis section helps to identify the challenges and barriers that hinder the growth of small businesses within each manufacturing subsector, and the job creation ability of each subsector.

The telephonic profiling phase of the project is reported on in section 7 of the report. The findings of the study are derived from interviews conducted with actual small businesses operating within the manufacturing sector. Highlighted are the demographics of the sample, their skills levels that are currently available within the parameters of small businesses in the manufacturing sector. Also highlighted are the challenges and barriers that small businesses are currently facing and their perception on the manufacturing sector as a whole. During the study, the respondents also provided their recommendations on what is required to support small businesses in the sector and delves into the current feelings and beliefs of small businesses within the manufacturing sector

Policy needs to address both our domestic and international competitiveness. In most areas, SA cannot compete with countries like China, but instead needs to find niche markets of specialisation, as well as areas where SA has a competitive advantage. It is also important to seek to improve SA’s productivity, not only in domestic rand terms, but also in dollar terms when we competed in international exports markets. Other important aspects include education, new product innovation; planning, the identification of areas for import substitution or supporting sectors that already show strong export capability. There is also a need of financial support for SMMEs, especially in economic recession periods (where potential bankruptcy is not as a result of bad management), as well as a need to increase the profitability of the manufacturing sector in order to attract new investment, and new talent and innovation to the sector.

There is also a greater need for policy alignment, not only for industrial policy, but also for example targeted education for key sectors, transport strategies and employment regulations that must also be aligned to create employment and to grow the manufacturing sector.

SMMEs have the potential of creating further employment opportunities in comparison to large companies and must be supported to create sustainable employment in SA. If support and funding for SMMEs can improve as well as the review of policies and budgets related to the SMME sector in manufacturing, then more sustainable jobs will be created that will impact on job creation, skills development and the improvement of economic conditions in the sector.

Some of the key findings that emerged from the research include:

* The manufacturing sector is declining due to higher labour and production costs. Certain goods are cheaper to import and retail, rather than produce locally.
* Banks are reluctant to borrow money to SMMEs as they are seen as a perceived risk, and the nature of their business is sometimes difficult to compute. There needs to be partnerships that will benefit rather than demoralize SMMEs.
* There is a huge opportunity for Foreign Direct Investment across the country, and China is taking advantage of that.
* There exists a need for a central management / support agency that will have the capability to assist firstly provincial government with translating their policy documents into actions. Secondly, there needs to be more awareness created amongst SMMEs and Co-operatives on the availability of business support services. Lastly to bridge the disconnect between government support agencies who duplicate services, work in competition rather than as a synergy even though they are striving for the same developmental goals (IPAP2 and the New Growth Path).
* Government needs to invest more in research and development to ensure that opportunities are well researched before a strategy is informed to implement it.

# SECTION 1: INTRODUCTION AND PROJECT OBJECTIVES

## Introduction

Um Jwali Market Research was commissioned by the Small Enterprise Development Agency (Seda) to conduct a desktop research study on the performance of the manufacturing sector in South Africa, to determine the role of small to medium enterprises in the manufacturing sector. The study dictated that the manufacturing sector be analysed on a national; provincial and local level which meant that all policies and programmes reviewed also be analysed on these three levels. The study also includes a review of the sub sectors in the manufacturing sector, which encompass the current performance of each sub sector and the challenges experienced by the sub sectors. The overall aim of the study is to identify the potential that the manufacturing sector has for job creation through SMME development.

An analysis of the economic growth and development strategies was completed to establish if there is cohesion between National, Provincial and Local governments departments.

The purpose of this study is to provide a detailed look into the manufacturing sector and the potential that this sector holds for employment creation through an analysis of existing data and documentation. The research further looks at the requirements that are needed to support growth and development for established SMME entities within the manufacturing sector, through programmes, interventions, and strategies that are available.

## Project Objectives

Included in this introduction is the project background and objectives as expressed in the Terms of Reference and project briefing document.

With the SMME sector being identified as a key sector to drive job creation and economic development, Seda identified three key sectors where SMME development would result in direct job creation

The three sectors are:

* Manufacturing
* Agriculture (Primary and Agro processing)
* Services Sector

Through the study of the manufacturing sector, Seda hopes to understand each sector and make future decisions relating to products, programmes, and developing partnerships with other organisations to optimally assist SMMEs within the manufacturing sector based on the findings.

Seda has identified the following objectives or outcomes from the study to consider when making decisions regarding future products and programmes to assist SMMEs within the manufacturing sector:

* The identification of foreseeable sector wide developments within the manufacturing sector.
* The identification of Spinoffs due to developments in the manufacturing sector.
* The identification of possible opportunities for SMMEs within the manufacturing sector.

In addition to the above mentioned objectives, the study should provide a basis for identifying:

* Value chains and the areas that would be most suited for SMMEs to operate in.
* Projects that are currently available through government and non-governmental institutions which provide growth and development in the manufacturing sector and SMME support.
* The role Seda can play in stimulating job creation through customized programmes that are specific to SMMEs operating in the manufacturing sector.

Other objectives of the study are:

* To study the manufacturing sector and its sub sectors with a view to quantify the market potential for current and potentially new products, systems, and Seda services.
* To create new products and provide support to existing enterprises that has the potential to create jobs within the manufacturing sector.
* To identify market penetration options and strategies to capture opportunities.
* To identify key stakeholders in the manufacturing sector and recommend relationships or partnerships that will contribute to the success of government’s drive to create employment.

The structure of the document is as follows, section 2 provides a background to the international manufacturing environment followed by a detail discussion of the SA manufacturing in section 3. Section 4 provides a detail overview of the national, provincial and local policies that guides and supports manufacturing. A detailed sub-sector analysis of the manufacturing sector is provided in section 5; this includes agro-processing, automotive, plastics, chemicals, textiles, metals, wood products, publishing and printing and furniture. Section 6 shows the detail of relevant stakeholders in the manufacturing sector. The results from a telephonic profile are provided in section 7. Recommendations and policy initiatives are provided in section 8 and section 9 concludes.

# SECTION 2: INTERNATIONAL MANUFACTURING ENVIRONMENT AND THE IMPORTANCE OF SMMES

## Importance of manufacturing – International experience

Manufacturing is a wealth-producing or wealth creating sector in the economy, where the service sector tends to be wealth consuming (Friedman 2006). Even though the tertiary sector in most economies is currently dominant as a percentage of the economy and employment creation, most of these economies were built from a strong manufacturing base.

According to the 2010 United Nations (UN) data, the US is still the largest manufacturer in the world, with a share of 20.2% of the world’s manufacturing, closely followed by China at 18.9%. Japan is third with 11.1% of manufacturing and Germany fourth with 6.4%. The top 10 countries in the world manufacture 72.3% of the world’s manufacturing (see )

Figure : Share of Worlds manufacturing of the top 10 manufacturing economies in 2010

Source: United Nations

shows the manufacturing output by the top 10 manufacturing countries in constant 2005 US$ prices. China has increased its manufacturing output from $153.2 billion in 1990 to $1.6 trillion in 2010 (in constant 2005 prices). This is an increase from 3% of total world manufacturing in 1990 to 18.9% in 2010. The share of US manufacturing has remained flat from 20.3% in 1990 to 20.2% in 2010, but has increased from $1 trillion in 1990 to $1.7 trillion in 2010.

Figure : Trend in manufacturing output in the top 10 manufacturing countries (US$, constant 2005 prices)

Source: United Nations

South African manufacturing (not shown in the graph) has increased in dollar terms from $30 billion in 1990 to R44 billion in 2010 (in constant 2005 prices), but the SA share of world manufacturing output has decreased from 0.61% in 1990 to 0.5% in 2010. This highlights the need for domestic policy to improve the domestic economy and manufacturing output.

shows the manufacturing share of total gross fixed capital formation (GFCF) for the top 10 manufacturing countries and South Africa. It is clear from this table that China is building their economy on manufacturing activity, having a share of 43.1% of manufacturing as a percentage of GVA in 2010. The republic of Korea also has a high manufacturing share of 30.4% in 2010 (up from 27% 2004). Germany and Japan have got manufacturing shares of GVA of above 20%. South Africa and Mexico are below 18%.

Table : Manufacturing share of gross value added in the top 10 manufacturing countries and South Africa from 2004 to 2010

|  | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| United States | 13.6% | 13.7% | 13.7% | 14.0% | 13.6% | 12.6% | 13.4% |
| China, People's Republic of | 41.6% | 41.8% | 41.8% | 42.1% | 42.2% | 42.0% | 43.1% |
| Japan | 20.1% | 20.6% | 21.1% | 21.6% | 21.7% | 19.0% | 20.8% |
| Germany | 22.4% | 22.7% | 23.5% | 23.6% | 22.4% | 19.4% | 20.8% |
| Republic of Korea | 27.0% | 27.5% | 28.3% | 28.8% | 28.9% | 28.3% | 30.4% |
| Italy | 18.7% | 18.5% | 18.7% | 18.8% | 18.1% | 16.2% | 16.6% |
| UK and Northern Ireland | 13.6% | 13.3% | 13.1% | 12.8% | 12.4% | 11.7% | 11.9% |
| France | 13.2% | 13.2% | 13.0% | 12.9% | 12.5% | 11.4% | 12.3% |
| India | 15.4% | 15.6% | 16.2% | 16.4% | 16.0% | 16.1% | 15.9% |
| Mexico | 18.7% | 18.7% | 18.8% | 18.4% | 18.0% | 17.2% | 17.8% |
| South Africa | 18.3% | 18.5% | 18.7% | 18.6% | 18.4% | 16.7% | 17.1% |

Source: United Nations, own calculations

## International importance of SMMEs

SMMEs or SMEs as they are sometimes referred to are important creators of value added and employment in economies. Large companies were all once small SMMEs (companies like Microsoft, Apple and Vodafone started as small companies).

SMEs are the engine of economic growth and are essential for a competitive and efficient market. Research has shown that SMEs are critical for poverty reduction and can play a particularly important role in developing countries. SMEs are the largest provider of employment in most countries (especially of new job creation) and are a major source of technological innovation and new products.

According to World Bank research, there are an estimated 19.3 million micro, small and medium-sized enterprises in the European Union[[1]](#footnote-2) that provide work to around 65 million peoples, two-thirds of all employment. The average EU business provides employment for four people (including the owner).Figures also show that SMEs account for 66% of employment within the EU (with micro enterprises accounting for 34%, small enterprises accounting for 19% and medium-sized enterprises accounting for 13%). SMEs also account for more than half (52%) of private sector turnover within the EU.

In Latin-America the vast majority (80-90% of companies) are micro enterprises, and the government have vastly reduced red tape to ensure their needs are attended to swiftly. According to the research, SMEs represent over 95% of enterprises in most OECD countries and generate over half of private sector employment.

In a lot of developing countries, the roles of SMEs remain in traditional activities with low levels of productivity, poor quality products and serving small localized markets. There is sometimes little or no technological dynamism, and in many poor countries, there is also a large underclass of (formal and informal) micro enterprises that ekes out of bare survival.

Seligman also mentioned that small SMEs constitute almost 90% in all practices in every country. Due to their crucial importance to the economy, government and international agencies are constantly working to promote and sustain them in a highly competitive environment. According to the research, the World Association of Small and Medium-Sized Enterprises (WASME) are extremely active to support SMEs, having members in 112 countries, promoting cooperation as well as providing enterprises with industrial, technological and trade information, training and research facilities and support for the development of micro and rural enterprises.

shows the distribution of employment in the manufacturing sector by firm size in selected international economies. In Italy 79.7% of the manufacturing firms employ less than then 500 employees and in the UK 66.3% of the manufacturing firm employ less than 500 employees. In the US, the majority of the manufacturing companies (58.9%) are large companies, employing more than 500 people. Given the dominance of the USA in World’s manufacturing as shown in , this is expected where most of the small companies could grow into big companies or were taken over or merged with bigger companies. This could also imply that there is some merit in the economies of scale of larger enterprises.

Figure : Distribution of employment in the manufacturing Sector by Firm Size

Source: World Bank

The next section provides background information to the current trends in manufacturing in SA as well as employment ratios for different manufacturing industries and the contribution of SMMEs in different industries in the manufacturing sector.

# SECTION 3: THE MANUFACTURING SECTOR

## Background trends to the SA manufacturing sector

Manufacturing is a process involving tools and labour to produce goods for use or sale as intermediaries, or as final products, either domestically or internationally. The term refers to a range of human activity (labour, entrepreneurship and innovation), combined with tools or capital equipment in a production process in which raw or intermediate products are used to produce final (or intermediate) goods.

According to Statistics SA (StatsSA) the standard industrial classification (SIC) system classifies manufacturing activities under the major division 3 that starts with the manufacturing of food products, beverages and tobacco (301, 302, 303, 304 and 305) and ends with the manufacturing of furniture and N.E.C (that includes categories like jewellery, musical instruments, sport goods, other manufacturing like crayons, chalk, pens and pencils and recycling) (sub codes 391 and 392).

The SA manufacturing sector experienced a severe contraction during the international financial crisis. The manufacturing sector, according to data from Statistics South Africa, contracted with 10.4% in 2009, losing almost R31 billion in GDP contributions (measured in 2005 constant prices, or 3% and R10.3 billion at current prices). The manufacturing sector also lost more than 200 000 job opportunities during the crisis (including formally and informally opportunities).

The manufacturing sector increased from R180 053 million in 1993 (at constant 2005 prices) to R282 215 million in 2010, but its contribution to GDP decreased from 19% to 17% during this period.

and show the manufacturing sectors as a percentage of the total industries at basic prices and show how the tertiary sectors, including finance, real estate and business services, transport storage and communication and finance, real estate and business services increased as a percentage of GDP. Although this movement from primary and secondary to the tertiary sectors is part of economic evolution as shown by, amongst others Rostow, the manufacturing sector remains a very prominent and valuable industry and can contribute immensely to economic growth, job creation and export earnings. This is also recognised in numerous economic and industry growth strategies.

Figure : SA sector contribution to GDP in 2010, with a focus on the manufacturing sector

Source: Stats SA

Figure : SA sector contribution to GDP in 1993, with a focus on the manufacturing sector

Source: Stats SA

shows the contribution of 10 manufacturing industries to total manufacturing between 1993 and 2010 (in constant 2005 prices) with the prominent recession in 2009 (international financial crisis). The petroleum products, chemicals, rubber and plastic industry contributed the most to manufacturing with at 24.1% in 2010 followed by metals, metal products, machinery and equipment at 19.4% (in 2010) and food, beverages and tobacco at 18.1% in 2010. The radio, TV, instruments, watches and clocks industry, at 1.5% contributed the lowest to manufacturing in 2010.

Figure : Manufacturing sectors, contribution to GDP, constant 2005 prices (R million)

Source: Stats SA data

The data in shows the disaggregated manufacturing data for 10 industries for 1993 and 2010 in constant prices as well as the percentage change in the data between the two periods. Petroleum products, chemicals, rubber and plastic increased with 103.6% while other non-metal mineral products only increased with 1.4%. Metals, metal products, machinery, and equipment increased with 64.5%.

Table : Manufacturing, disaggregated industries and percentage growth between 1993 and 2010 (in constant 2005 prices)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **1993** | **2010** | **% change** |
| **Manufacturing** | **180 053** | **282 215** | **56.7%** |
| Food, beverages and tobacco | 37 463 | 51 111 | 36.4% |
| Textiles, clothing and leather goods | 9 672 | 13 675 | 41.4% |
| Wood and paper; publishing and printing | 19 916 | 24 469 | 22.9% |
| Petroleum products, chemicals, rubber and plastic | 33 381 | 67 953 | 103.6% |
| Other non-metal mineral products | 9 528 | 9 664 | 1.4% |
| Metals, metal products, machinery and equipment | 33 348 | 54 869 | 64.5% |
| Electrical machinery and apparatus | 4 265 | 8 475 | 98.7% |
| Radio, TV, instruments, watches and clocks | 3 378 | 4 116 | 21.8% |
| Transport equipment | 13 015 | 25 133 | 93.1% |
| Furniture; other manufacturing 1/ | 17 687 | 22 752 | 28.6% |

Source: Stats SA data, own calculations

shows key data for the manufacturing sector at current prices between 2005 and 2010. The gross value added (GVA) at basic prices increased only slightly, from R259 billion to R332 billion while the gross operating surplus (GOS) (profits in the industry) decreased from R137 billion to R134.6 billion. The GOS also decreased from a share of 53% of value added at factor cost in 2005 to 41% in 2010. Compensation of employees increased from 47% of value added at factor cost in 2005 to 59% in 2010, this while employment creation in the sector decreased. This implies that wages increased much faster than profits in the manufacturing industries, and this contributed to layoffs of workers to keep companies profitable, or the closing down of companies (productivity increases were lower than wage increases). The lower profits, lower employment, and higher compensation of employee’s levels, show the severe competition in the manufacturing sector.

Table : Annual Manufacturing production at current prices (R million) (2005 – 2010)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Manufacturing** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Output at basic prices** | 1 029 868 | 1 112 891 | 1 243 522 | 1 434 130 | 1 397 973 | 1 415 348 |
| **Intermediate consumption** | 770 767 | 838 389 | 939 084 | 1 093 507 | 1 066 271 | 1 082 878 |
| **Gross value added at basic prices** | 259 101 | 274 502 | 304 438 | 340 623 | 331 702 | 332 470 |
| **Other taxes on production** | 3 763 | 3 707 | 4 041 | 4 158 | 4 809 | 5 281 |
| **Other subsidies** | -2 484 | -4 478 | -4 183 | -6 430 | -5 216 | -4 801 |
| **Value added at factor cost** | 257 822 | 275 273 | 304 579 | 342 894 | 332 109 | 331 990 |
| **Compensation of employees** | 120 743 | 133 628 | 152 608 | 173 836 | 183 597 | 197 367 |
| **Gross operating surplus/mixed**  **income** | 137 079 | 141 645 | 151 971 | 169 058 | 148 512 | 134 623 |
| **Compensation of employees as % of VA at factor cost** | 47% | 49% | 50% | 51% | 55% | 59% |
| **GOS as % of VA at factor cost** | 53% | 51% | 50% | 49% | 45% | 41% |

Source: Stats SA, own calculations

shows the manufacturing output at constant 2005 prices. The gross value added at basic prices increased with only 8.9% from 2005 and 2010 (from 259 101 to 282 215) with most of this driven by increases in the compensation of employees, and not by increases in gross operating surplus (as shown above). This will imply that the profitability at constant prices in the manufacturing sector actually decreased from 2005 to 2010.

Table : Annual Manufacturing production at constant 2005 prices (R million) (2005 – 2010)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Manufacturing** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Output at basic prices** | 1 029 868 | 1 074 423 | 1 117 438 | 1 177 104 | 1 101 729 | 1 094 089 |
| **Intermediate consumption** | 770 767 | 798 641 | 827 192 | 879 216 | 834 006 | 811 873 |
| **Gross value added at basic prices** | 259 101 | 275 782 | 290 246 | 297 889 | 267 723 | 282 215 |

Source: Stats SA

The relative higher labour cost increases is also shown in when compared to the labour productivity. Labour productivity increased with 40% between 2000 and 2011 compared to nominal unit labour cost that increased with 84.9%, with a large divergence occurring after the international financial crisis in 2008. Going forward, labour prices in the manufacturing industry will either have to increase at a much lower pace, or productivity will have to increase much faster to enable an environment where manufacturing enterprises can be profitable.

Figure : Labour productivity and nominal unit labour cost (2000 to 2011)

Source: Data from the SA Reserve Bank

also confirms the gap that opened up between unit labour cost and productivity shown in . According to this graph the percentage utilisation of production capacity in the manufacturing industry for durable and non-durable goods decreased on average from around 84% to below 78% during the international financial crisis and is struggling to regain lost ground.

Figure : Percentage utilisation of production capacity in the manufacturing sector

Source: SA Resbank

## Gross fixed capital formation in the SA manufacturing sector

The gross fixed capital formation (GFCF) is used to measure the net additions the (physical) capital stock. Capital is needed in any industry to improve productivity and increase competitiveness. It is also an indicator of long term commitment and a supply driven component in the economy to secure long-term economic growth.

shows the GFCF for the manufacturing industry in SA in constant 2005 prices (at an annualised rate). The data shows that the GFCF increased from around R36 billion in 1990 to around R65.7 billion in 2011, an average increase of less the 1.5% per year over the period. Although the manufacturing GFCF increased at a low rate in rant terms, it decreased as a percentage of total GFCF in SA (from 23.7% in 1990Q1 to 17.2% in 2011Q3) although it recovered slightly from a low of 14.6% at the high of the international financial crisis in 2009Q3).

Figure : Gross fixed capital formation in the manufacturing sector (1990 to 2011)

Source: Data from the SA Resbank

The future growth of manufacturing sub-sectors will depend on the amount of current and historic investment. shows the gross capital formation in selected manufacturing sectors for the period 2007 to 2010. Motor vehicles and parts received the highest capital investment (R84 billion in 2010 or almost 32% of manufacturing gross capital formation), followed by special machinery at R57.5 billion in 2010 (or 21.8%). Other sectors that also received relatively high investments are electrical machinery (R25.5 billion in 2010 or 9.7%), office machinery (R22.6 billion or 8.6%) and medical appliances (RR18 billion or 6.9%).

Table : Gross capital formation in manufacturing for 2007 – 2010 (nominal values)

|  | 2007 | 2008 | 2009 | 2010 |
| --- | --- | --- | --- | --- |
| **Meat** | - | - | - | - |
| **Fish** | - | - | - | - |
| **Vegetables** | - | - | - | - |
| **Fruit and nuts** | - | - | - | - |
| **Oils and fats** | - | - | - | - |
| **Dairy products** | - | - | - | - |
| **Grain mill products** | - | - | - | - |
| **Starches products** | - | - | - | - |
| **Animal feeding** | - | - | - | - |
| **Bakery products** | - | - | - | - |
| **Sugar** | - | - | - | - |
| **Confectionary products** | - | - | - | - |
| **Pasta products** | - | - | - | - |
| **Food n.e.c.** | - | - | - | - |
| **Alcohol, beverages** | - | - | - | - |
| **Soft drinks** | - | - | - | - |
| **Tobacco products** | - | - | - | - |
| **Textile fabrics** | - | - | - | - |
| **Made-up textile, articles** | 15 | 19 | 19 | 19 |
| **Carpets** | - | - | - | - |
| **Textile n.e.c.** | - | - | - | - |
| **Knitting fabrics** | - | - | - | - |
| **Wearing apparel** | - | - | - | - |
| **Leather products** | 0 | 0 | 0 | 0 |
| **Footwear** | - | - | - | - |
| **Wood products** | - | - | - | - |
| **Paper products** | - | - | - | - |
| **Printing** | 1 | 1 | 1 | 1 |
| **Petroleum products** | 358 | 459 | 460 | 459 |
| **Basic chemicals** | - | - | - | - |
| **Fertilizers, pesticides** | - | - | - | - |
| **Paint, related products** | - | - | - | - |
| **Pharmaceutical products** | - | - | - | - |
| **Soap, cleaning, perfume** | - | - | - | - |
| **Chemical products, n.e.c.** | - | - | - | - |
| **Rubber tyres** | 2 | 2 | 2 | 2 |
| **Other rubber products** | - | - | - | - |
| **Plastic products** | 6 | 8 | 8 | 8 |
| **Glass products** | 0 | 0 | 0 | 0 |
| **Non-structural ceramic** | 10 | 12 | 12 | 12 |
| **Structure non-refractory clay** | - | - | - | - |
| **Plaster, cement** | - | - | - | - |
| **Articles of concrete** | - | - | - | - |
| **Non-metallic products n.e.c.** | - | - | - | - |
| **Furniture** | 3 042 | 5 491 | 5 380 | 5 341 |
| **Jewellery** | - | - | - | - |
| **Manufactured products n.e.c.** | 807 | 1 035 | 1 037 | 1 034 |
| **Wastes, scraps** | - | - | - | - |
| **Iron, steel products** | - | - | - | - |
| **Non-ferrous metals** | 172 | 221 | 221 | 221 |
| **Structural metal products** | 191 | 244 | 245 | 244 |
| **Tanks, reservoirs** | 74 | 95 | 95 | 445 |
| **Other fabricated metal** | 36 | 47 | 47 | 47 |
| **Engines, turbines** | 10 213 | 11 837 | 10 517 | 10 510 |
| **Pumps, compressors** | 5 553 | 7 067 | 5 354 | 5 342 |
| **Bearings, gears** | 857 | 1 299 | 1 204 | 1 201 |
| **Lifting equipment** | 1 109 | 1 609 | 1 620 | 1 018 |
| **General machinery** | 6 052 | 9 011 | 8 920 | 8 576 |
| **Special machinery** | 56 272 | 70 161 | 61 151 | 57 491 |
| **Domestic appliances** | 1 134 | 1 454 | 1 457 | 1 453 |
| **Office machinery** | 22 482 | 28 761 | 22 399 | 22 635 |
| **Electrical machinery** | 22 611 | 28 981 | 26 036 | 25 465 |
| **Radio, television** | 3 856 | 5 661 | 1 396 | 2 352 |
| **Medical appliances** | 16 713 | 22 239 | 18 538 | 18 255 |
| **Motor vehicles, parts** | 61 113 | 83 532 | 84 252 | 84 061 |
| **Ships and boats** | 3 150 | 3 300 | 2 946 | 3 031 |
| **Railway and trams** | 2 250 | 2 800 | 2 639 | 2 639 |
| **Aircrafts** | 7 918 | 12 604 | 9 964 | 10 011 |
| **Other transport equipment** | - | - | - | 1 700 |

Source: Stats SA

## Employment in the manufacturing sector

shows the formal manufacturing employment figures from 2000 to 2010 for the major manufacturing sub-sectors. According to this data, the formal manufacturing lost almost 150 000 employment opportunities between 2000 and 2010, or 11.3% of its labour force. The trend in employment numbers shows a slight decrease after 2000 (after the dot com bubble burst in the US) and a slight increase after that up to 2006 (at 1.33 million manufacturing employment in SA). From there on the employment trend decreased to around 1.17 million in 2010.

The figure also shows that the metals, metal products, machinery and equipment sub-sector is the largest employer (estimated at 25% or 291 854), followed by the food, beverages and tobacco industry at 18% of total employment and petroleum products, chemicals, rubber and plastics at 12%. The Radio, TV, instrument, watches and clocks sector only makes up 1.4% of total employment while electrical machinery and apparatus only makes up 3% of employment.

Figure : Formal sector employment in the manufacturing sector (2000 to 2011)

Source: Quantec data

The year-on-year percentage change in the employment data is shown in . The textiles, clothing and leather lost on average the most employment opportunities, averaging an average of -5.1% lost per year (more than 75 000 formally lost opportunities since 2000). This is followed by furniture and other manufacturing that lost on average -2.6% employment opportunities per year. Metals, metal products, machinery and equipment shows an average increase of 1.08% between 2000 and 2010, petroleum products, chemicals, rubber and plastics and wood and paper, publishing and printing also shows a slight increase at 0.32% and 0.02% respectively over the period.

Figure : Year-on-year percentage change in manufacturing employment

Source: Quantec data

shows the employment output ratios (number of employees needed to produce R1 million of economic output at constant 2005 prices) from 2001 to 2010 for manufacturing industries. If the policy goal is to support labour intensive sectors, it is important to see what sectors are labour intensive. It is however; also important to see how this labour intensity changes over time and also important to look at the long run sustainability and profitability of the sector.

The data shows a decreasing trend in most of the industries, especially labour-intensive sectors such as clothing, textiles, leather, and leather products, footwear and furniture (textiles for example decreased from 9.9 employees per R1 million in 2001 to 6.3 employees per R1 million in 2010 – measuring it at constant prices). This highlights the need for sufficient government policy, including labour policy, education, training, etc to solve the unemployment problems in South Africa. It also demands a big turnaround needed in a number of sectors to reach government employment targets indicated for example in the New Growth Path.

Table : Employment output ratios (including informal sector) at constant 2005 prices by industry, 2001 to 2010

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Industry** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Food | 2.04 | 1.98 | 1.66 | 1.54 | 1.46 | 1.41 | 1.27 | 1.27 | 1.34 | 1.37 |
| Beverages | 1.46 | 1.30 | 1.28 | 1.31 | 1.36 | 1.45 | 1.57 | 1.37 | 1.54 | 1.35 |
| Tobacco | 0.27 | 0.25 | 0.25 | 0.24 | 0.21 | 0.22 | 0.23 | 0.20 | 0.21 | 0.19 |
| Textiles | 4.95 | 4.33 | 4.33 | 4.09 | 3.87 | 3.81 | 3.84 | 3.23 | 3.23 | 3.21 |
| Clothing | 9.90 | 9.45 | 9.30 | 9.53 | 9.02 | 8.87 | 8.61 | 6.35 | 5.86 | 6.33 |
| Leather and leather products | 3.35 | 2.04 | 1.74 | 1.60 | 1.53 | 1.63 | 1.61 | 1.28 | 1.34 | 1.02 |
| Footwear | 4.21 | 3.93 | 2.94 | 2.31 | 2.24 | 2.25 | 2.20 | 1.79 | 1.98 | 1.78 |
| Wood and wood products | 3.80 | 3.60 | 3.77 | 3.77 | 3.64 | 3.64 | 3.66 | 3.19 | 2.73 | 2.25 |
| Paper and paper products | 0.86 | 0.82 | 0.86 | 0.91 | 0.69 | 0.73 | 0.67 | 0.68 | 0.78 | 0.62 |
| Printing, publishing and recorded media | 2.76 | 2.95 | 2.92 | 2.78 | 2.57 | 2.42 | 2.32 | 2.11 | 2.37 | 2.22 |
| Coke and refined petroleum products | 0.15 | 0.15 | 0.22 | 0.27 | 0.25 | 0.24 | 0.24 | 0.25 | 0.25 | 0.26 |
| Basic chemicals | 0.38 | 0.36 | 0.36 | 0.34 | 0.33 | 0.31 | 0.30 | 0.29 | 0.28 | 0.24 |
| Other chemicals and man-made fibres | 0.59 | 0.56 | 0.66 | 0.61 | 0.66 | 0.64 | 0.63 | 0.62 | 0.64 | 0.62 |
| Rubber products | 1.90 | 1.80 | 1.89 | 1.73 | 1.50 | 1.40 | 1.49 | 1.34 | 1.36 | 1.15 |
| Plastic products | 1.97 | 1.77 | 1.80 | 1.76 | 1.74 | 1.66 | 1.61 | 1.70 | 1.63 | 1.59 |
| Glass and glass products | 3.10 | 2.67 | 2.22 | 2.08 | 1.88 | 2.02 | 2.06 | 1.83 | 1.95 | 1.81 |
| Non-metallic minerals | 4.77 | 3.92 | 3.65 | 3.62 | 3.56 | 3.51 | 3.16 | 2.94 | 2.63 | 2.59 |
| Basic iron and steel | 0.92 | 0.69 | 0.71 | 0.69 | 0.68 | 0.64 | 0.58 | 0.56 | 0.60 | 0.49 |
| Basic non-ferrous metals | 0.81 | 0.72 | 0.78 | 0.78 | 0.78 | 0.89 | 0.84 | 0.79 | 0.83 | 0.72 |
| Metal products excluding machinery | 2.84 | 2.79 | 3.18 | 3.10 | 2.97 | 2.94 | 2.99 | 2.49 | 2.62 | 2.60 |
| Machinery and equipment | 2.47 | 2.21 | 2.46 | 2.42 | 2.37 | 2.40 | 2.50 | 2.19 | 2.26 | 2.28 |
| Electrical machinery and apparatus | 1.51 | 1.45 | 1.41 | 1.38 | 1.43 | 1.37 | 1.36 | 1.20 | 1.17 | 1.00 |
| Television, radio and communication equipment | 2.15 | 1.67 | 1.39 | 1.16 | 1.15 | 1.15 | 1.02 | 0.80 | 0.85 | 0.86 |
| Professional and scientific equipment | 2.75 | 1.80 | 2.24 | 2.20 | 2.25 | 1.96 | 1.85 | 1.60 | 1.77 | 1.84 |
| Motor vehicles, parts and accessories | 1.00 | 1.02 | 0.99 | 0.92 | 0.86 | 0.83 | 0.78 | 0.83 | 0.80 | 0.57 |
| Other transport equipment | 2.76 | 1.67 | 1.27 | 1.40 | 1.23 | 1.35 | 1.27 | 1.18 | 1.31 | 1.52 |
| Furniture | 4.38 | 5.13 | 4.42 | 3.73 | 3.83 | 3.34 | 3.50 | 2.77 | 2.69 | 2.36 |
| Other manufacturing | 2.06 | 2.10 | 2.21 | 2.21 | 2.21 | 2.16 | 2.11 | 1.77 | 1.80 | 1.66 |

Source: Quantec

## Imports and exports in the manufacturing sector

shows the import and export activity in the SA manufacturing sector and the ratio of imports to exports for 2010. It is important to see what sectors are major net importers, major net exporters or are importing sectors. Some sectors also import large amounts, add some value and export large amounts. SMMEs can perform an important role in either supporting strong export driven sectors or can produce products to substitute imported products, if this can be done more competitively and at a better quality.

Non-ferrous metal, motor vehicles and iron and steel products show the largest portion of exports at R52.7 billion (16.9% of total manufacturing exports), R44.9 billion (14.4%) and R43.3 billion (or 13.9% of total manufacturing exports) respectively. Basic chemicals at R27 billion (9% of total manufacturing exports) also contributed largely to export earnings.

Looking at imports, motor vehicles and parts at R77.7 billion (or 14.7% of total manufacturing imports), special machinery (R40 billion or 7.7% of total manufacturing imports) and radio and televisions (at R40 billion or 7.1% of total manufacturing imports) contributed the most to imports. Other important import sectors are non-ferrous metal (R30.49 billion) petroleum products (R28 billion) and basic chemicals at R24.9 billion.

Looking at exports as a percentage of total supply in the manufacturing industry, non-ferrous metals (61.4%), jewellery (53.9%) and general machinery (52.8%) shows large percentages. Bakery products (0.7%), tobacco products (0.8%) and footwear (0.8%) shows the lowest export percentages (as a percentage of total industry supply at purchases prices) in 2010.

Office machinery (80.4%), aircrafts (75.3%), radio and televisions (62.4%) and engines and turbines (61.8%) shows the largest percentages of imported products as a percentage of total supply at purchases prices in 2010. Articles of concrete (0.6%), tobacco products (0.7%), bakery products (0.8%) and soft drinks (1.4%), show the lowest percentages of imports as a percentage of total supply at purchases prices.

Looking at the ratio of imports to exports, footwear (at 40), wearing apparel (34.8), non-structural ceramic (18.7) and domestic appliances (16.6) shows the highest ratios (a ratio for example of 40 would imply that you import 40 times as much of the product as what you export). Sectors showing low ratios include fruit and nuts (0.2), fish (0.3), alcohol and beverages (0.3), jewellery (0.3) and iron and steel products (0.3).

Table : Exports and Imports in the manufacturing sector (2010)

|  | **Total supply at purchasers prices (R million)** | **Exports (R million)** | **Exports (X) as a % of total supply** | **Imports (R million)** | **Imports (M) as a % of total supply** | **M/X ratio** |
| --- | --- | --- | --- | --- | --- | --- |
| Meat | **46 151** | 670 | 1.5% | 2 283 | 4.9% | 3.4 |
| Fish | **15 273** | 2 934 | 19.2% | 920 | 6.0% | 0.3 |
| Vegetables | **8 752** | 265 | 3.0% | 691 | 7.9% | 2.6 |
| Fruit and nuts | **13 811** | 3 447 | 25.0% | 661 | 4.8% | 0.2 |
| Oils and fats | **23 320** | 1 302 | 5.6% | 9 164 | 39.3% | 7.0 |
| Dairy products | **40 699** | 291 | 0.7% | 854 | 2.1% | 2.9 |
| **Grain mill products** | **51 947** | 503 | 1.0% | 1 367 | 2.6% | 2.7 |
| **Starches products** | **11 633** | 173 | 1.5% | 691 | 5.9% | 4.0 |
| **Animal feeding** | **20 233** | 206 | 1.0% | 487 | 2.4% | 2.4 |
| **Bakery products** | **35 916** | 107 | 0.3% | 297 | 0.8% | 2.8 |
| **Sugar** | **16 160** | 578 | 3.6% | 387 | 2.4% | 0.7 |
| **Confectionary products** | **5 587** | 532 | 9.5% | 985 | 17.6% | 1.9 |
| **Pasta products** | **1 251** | 32 | 2.5% | 161 | 12.9% | 5.1 |
| **Food n.e.c.** | **22 942** | 1 430 | 6.2% | 2 189 | 9.5% | 1.5 |
| **Alcohol, beverages** | **76 964** | 5 543 | 7.2% | 1 426 | 1.9% | 0.3 |
| **Soft drinks** | **21 423** | 164 | 0.8% | 297 | 1.4% | 1.8 |
| **Tobacco products** | **40 018** | 772 | 1.9% | 292 | 0.7% | 0.4 |
| **Textile fabrics** | **17 281** | 763 | 4.4% | 2 930 | 17.0% | 3.8 |
| **Made-up textile, articles** | **16 467** | 534 | 3.2% | 1 578 | 9.6% | 3.0 |
| **Carpets** | **3 062** | 223 | 7.3% | 328 | 10.7% | 1.5 |
| **Textile n.e.c.** | **8 053** | 464 | 5.8% | 1 641 | 20.4% | 3.5 |
| **Knitting fabrics** | **3 915** | 74 | 1.9% | 527 | 13.5% | 7.1 |
| **Wearing apparel** | **55 360** | 577 | 1.0% | 20 074 | 36.3% | 34.8 |
| **Leather products** | **10 145** | 913 | 9.0% | 1 833 | 18.1% | 2.0 |
| **Footwear** | **17 528** | 145 | 0.8% | 5 873 | 33.5% | 40.6 |
| **Wood products** | **38 703** | 2 760 | 7.1% | 3 175 | 8.2% | 1.2 |
| **Paper products** | **80 285** | 8 588 | 10.7% | 6 809 | 8.5% | 0.8 |
| **Printing** | **41 530** | 535 | 1.3% | 2 210 | 5.3% | 4.1 |
| **Petroleum products** | **208 907** | 10 967 | 5.2% | 28 115 | 13.5% | 2.6 |
| **Basic chemicals** | **95 855** | 27 958 | 29.2% | 24 991 | 26.1% | 0.9 |
| **Fertilizers, pesticides** | **33 389** | 3 585 | 10.7% | 7 058 | 21.1% | 2.0 |
| **Paint, related products** | **32 449** | 1 311 | 4.0% | 2 745 | 8.5% | 2.1 |
| **Pharmaceutical products** | **46 677** | 985 | 2.1% | 12 940 | 27.7% | 13.1 |
| **Soap, cleaning, perfume** | **41 997** | 2 312 | 5.5% | 2 952 | 7.0% | 1.3 |
| **Chemical products, n.e.c.** | **34 543** | 4 076 | 11.8% | 8 316 | 24.1% | 2.0 |
| **Rubber tyres** | **18 799** | 1 632 | 8.7% | 4 364 | 23.2% | 2.7 |
| **Other rubber products** | **9 274** | 588 | 6.3% | 2 347 | 25.3% | 4.0 |
| **Plastic products** | **56 077** | 2 329 | 4.2% | 6 396 | 11.4% | 2.7 |
| **Glass products** | **13 363** | 687 | 5.1% | 1 692 | 12.7% | 2.5 |
| **Non-structural ceramic** | **5 002** | 67 | 1.3% | 1 254 | 25.1% | 18.7 |
| **Structure non-refractory clay** | **14 077** | 437 | 3.1% | 2 343 | 16.6% | 5.4 |
| **Plaster, cement** | **15 439** | 265 | 1.7% | 439 | 2.8% | 1.7 |
| **Articles of concrete** | **14 392** | 227 | 1.6% | 90 | 0.6% | 0.4 |
| **Non-metallic products n.e.c.** | **14 895** | 1 015 | 6.8% | 1 869 | 12.5% | 1.8 |
| **Furniture** | **25 725** | 3 575 | 13.9% | 3 642 | 14.2% | 1.0 |
| **Jewellery** | **11 519** | 6 209 | 53.9% | 1 618 | 14.0% | 0.3 |
| **Manufactured products n.e.c.** | **12 856** | 1 158 | 9.0% | 5 735 | 44.6% | 5.0 |
| **Wastes, scraps** | **19 299** | 5 945 | 30.8% | 2 932 | 15.2% | 0.5 |
| **Iron, steel products** | **131 338** | 43 334 | 33.0% | 11 391 | 8.7% | 0.3 |
| **Non-ferrous metals** | **85 881** | 52 711 | 61.4% | 30 490 | 35.5% | 0.6 |
| **Structural metal products** | **26 705** | 3 771 | 14.1% | 3 800 | 14.2% | 1.0 |
| **Tanks, reservoirs** | **4 852** | 279 | 5.8% | 868 | 17.9% | 3.1 |
| **Other fabricated metal** | **59 441** | 5 804 | 9.8% | 11 214 | 18.9% | 1.9 |
| **Engines, turbines** | **19 285** | 7 355 | 38.1% | 11 923 | 61.8% | 1.6 |
| **Pumps, compressors** | **15 151** | 2 512 | 16.6% | 7 486 | 49.4% | 3.0 |
| **Bearings, gears** | **8 961** | 1 330 | 14.8% | 4 171 | 46.5% | 3.1 |
| **Lifting equipment** | **9 820** | 1 228 | 12.5% | 4 277 | 43.6% | 3.5 |
| **General machinery** | **21 216** | 11 195 | 52.8% | 9 907 | 46.7% | 0.9 |
| **Special machinery** | **74 895** | 8 812 | 11.8% | 40 803 | 54.5% | 4.6 |
| **Domestic appliances** | **19 569** | 634 | 3.2% | 10 541 | 53.9% | 16.6 |
| **Office machinery** | **30 209** | 2 639 | 8.7% | 24 291 | 80.4% | 9.2 |
| **Electrical machinery** | **70 079** | 5 681 | 8.1% | 18 357 | 26.2% | 3.2 |
| **Radio, television** | **60 468** | 2 457 | 4.1% | 37 747 | 62.4% | 15.4 |
| **Medical appliances** | **29 028** | 2 494 | 8.6% | 17 397 | 59.9% | 7.0 |
| **Motor vehicles, parts** | **282 708** | 44 931 | 15.9% | 77 771 | 27.5% | 1.7 |
| **Ships and boats** | **3 929** | 834 | 21.2% | 2 333 | 59.4% | 2.8 |
| **Railway and trams** | **3 094** | 315 | 10.2% | 813 | 26.3% | 2.6 |
| **Aircrafts** | **12 716** | 2 983 | 23.5% | 9 570 | 75.3% | 3.2 |
| **Other transport equipment** | **5 072** | 139 | 2.7% | 1 977 | 39.0% | 14.2 |

Source: Stats SA

## Forward and Backward Linkages in the Manufacturing Sector

The value chain between different industries is potentially a very complex subject. One method of looking at the value chain is from a supply-use point of view (supply-use matrix) where you can track all the inputs from one sector to another, or all the usages from one sector to another. This is also sometimes referred to as direct forward and backward linkages from a specific industry’s point of view.

The 2009 supply-use table from Statistics SA is shown in the Appendix, with the focus being on the manufacturing sector. The primary and tertiary sectors have been condensed. A more detailed analysis can also be performed, for example, by looking at the share (percentage) of each sub-sector to the total sector, or by looking at the multiplier impact. But this is outside the scope of this research and future research can focus on this.

The table provides very detail information and although the detail will not be discussed, the principles will be provided on how to interpret the table with one example. Such a table can be very useful to support policy making by looking at potential ‘gaps’ in the value chain that can for example be filled up with SMMEs. This can also be interpreted with employment information and import and export information per sector.

The table is read from the top down (vertical) to look at the usages for a specific sub-sector/industry from other sub-sectors/industries, and from left to right (horizontal) to look at the supply from one sector/industry to another.

Looking, for example, at the furniture industry: it uses R3.7 billion in wood products, R1.76 billion of other fabricated metal (this will include for example all the cutting blades), R531 million of plastic products, R486 million in leather products, R465 million of textile fabrics and R344 million of basic chemicals. It will also use R384 million of agricultural products, and R4.39 billion of tertiary activities.

The domestic furniture sector supply mainly the retail sector (tertiary) with R2.4 billion of products. From , it can be seen that furniture on average used 2.36 employers to create R1 million of turnover (down from 4.38 in 2001). The furniture sector import almost the same as what it export (R3.5 billion vs R3.6 billion) and the imports and exports are roughly about 14% each of total supply at purchases prices.

## Provincial Manufacturing Activity

shows the provincial contribution to the manufacturing industry between 1995 and 2010. The shares between the provinces remained more or less the same of this period. Gauteng remain the major manufacturing contributor as a province, contributing 40.5% (or R134.8 billion in 2010) of SA’s manufacturing (this remained stable from 40.8% in 1995). This is followed by KwaZulu-Natal at 21.3% and Western Cape at 15%. Northern Cape only contributed 0.5% and Limpopo only 2.7%.

Figure : Provincial manufacturing activity (1995 – 2010) constant 2005 prices

Source: StatsSA

## Forecasting in the Manufacturing Sector

Forecasting the manufacturing sector is a difficult exercise, given the dependence of such a forecast on both the uncertainties of the international environment, as well as the domestic growth and government policy environment. Internationally, the European Union seems as if it will go into another short recession given the economic problems in Greece (as well as Spain and Portugal). The EU is the largest manufacturing goods trading partner of SA and economic growth in this region will impact the SA manufacturing environment.

Other variables that will impact the growth in the manufacturing sector will be the exchange rate changes (not only the rand dollar but also the dollar euro), interest rates (that is expected to remain lower for longer; potentially for the remainder of 2012) and the impact of the private sector (and their risk appetite) and government investment (including the 17 strategic infrastructure projects that government has identified).

A forecast, based on a current GDP forecasts for SA and an autoregressive model of the manufacturing sub-sectors, provide a manufacturing forecast of 2.4% for 2011, 2.8% for 2012, 3.2% in 2013 and 3.8% in 2014. The textiles, clothing and leather industry is expected to slightly outpace the growth in the rest of the sectors, given the very low base and the potential impact of lower wages of new employees in this sectors that will impact on the profitability in the sector. Growth in the non-metal mineral products is expected to remain slow given the dependence on the building and construction activity. The detailed forecast per manufacturing sub-sector is shown in and .

Figure : A forecast of the manufacturing activity (2011 to 2014 are forecasted values)

Source: StatsSA and own forecast

Table : Year-on-year percentage change in manufacturing industries and forecasted percentages for 2011 to 2014

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2009** | **2010** | **2011\*** | **2012\*** | **2013\*** | **2014\*** |
| **Manufacturing** | -10.1% | 5.4% | 2.4% | 2.8% | 3.2% | 3.8% |
| **Food, beverages and tobacco** | -4.9% | 7.8% | 1.3% | 3.8% | 4.2% | 4.7% |
| **Textiles, clothing and leather goods** | 1.1% | 7.8% | 3.6% | 6.1% | 6.4% | 6.8% |
| **Wood and paper; publishing and printing** | -11.4% | 10.3% | -1.2% | 2.1% | 2.6% | 3.2% |
| **Petroleum products, chemicals, rubber and plastic** | -5.1% | 4.0% | 1.6% | 2.6% | 3.1% | 3.7% |
| **Other non-metal mineral products** | -23.6% | 13.1% | -2.3% | -0.4% | 0.0% | 0.5% |
| **Metals, metal products, machinery and equipment** | -20.1% | 6.1% | 3.9% | 1.9% | 2.3% | 2.9% |
| **Electrical machinery and apparatus** | -4.2% | 3.4% | 5.8% | 4.9% | 5.3% | 5.8% |
| **Radio, TV, instruments, watches and clocks** | -4.8% | 3.7% | 5.0% | 4.5% | 4.9% | 5.4% |
| **Transport equipment** | -10.4% | 0.5% | 4.9% | 2.3% | 2.7% | 3.3% |
| **Furniture; other manufacturing 1/** | -9.5% | 0.3% | 4.5% | 2.6% | 3.1% | 3.6% |

## Manufacturing Sector by Enterprise Size and Employment Contribution

provides information regarding the share of small and medium enterprises in SA according to Stats SA. Large manufacturing firms contributed 80.6% of the total manufacturing in 2010 while medium firms had a share of 13.9% and small firms had a share of 5.5% of total manufacturing in SA. This shows the potential of medium and small manufacturing firms. This is for example compared to mining and quarrying where large firms contributed 98.4% of the mining activity in the economy.

Table : Percentage contribution of small and medium enterprises in the SA economy (2010) [[2]](#footnote-3)

|  |  |  |  |
| --- | --- | --- | --- |
| **Industry** | **Small %** | **Medium %** | **Large %** |
| Forestry and fishing industry | 19.0% | 5.8% | 75.2% |
| Mining and quarrying industry | 0.6% | 1.0% | 98.4% |
| **Manufacturing industry** | **5.5%** | **13.9%** | **80.6%** |
| Electricity, gas and water supply industry | 0.8% | 2.1% | 97.1% |
| Construction industry | 7.3% | 20.9% | 71.8% |
| Trade industry | 20.5% | 8.5% | 71.0% |
| Transport, storage and communication industry | 4.1% | 2.8% | 93.1% |
| Real estate, activity auxiliary to financial intermediation and other business services industry (excluding financial intermediation and insurance) | 18.1% | 7.7% | 74.2% |
| Community, social and personal services industry (excluding government institutions) | 19.9% | 6.2% | 73.9% |

Source: Stats SA, Annual Financial Statistics, 2010

shows the income in rand millions, according to enterprise size in the manufacturing industry. According to this data, the total manufacturing industry income in 2008 was R1.526 trillion. The micro enterprises contributed R36.6 billion (2.4%), the small enterprises R46 billion (3%), medium enterprises R129.6 billion (8.5%) and large enterprises R1.314 trillion (86.1%). This is in comparison to the employment creation potential, especially by the SMMEs shown in

It is important to see in what sectors SMMEs currently play a more active role. Future research can be done to understand what the reasons are why SMMEs are more involved in some sectors and if this can be supported further.

The sector that show the biggest income generation for SMMEs in rand terms (biggest involvement of SMMEs) are ‘metals, metal products, machinery and equipment’ (R75 billion in 2008) of which micro enterprises contributed R14.9 billion. According to , micro enterprises consist of 6.1% of metals sector’s turnover while small enterprises consist of 8.2%. Medium enterprises consist of 23.6%.

Micro enterprises made up only 0.5%, for example the turnover of the ‘coke, petroleum, chemical products, rubber and plastics’ sub-sector (or R2.1 billion in ) while large enterprises made-up 94.7% in 2008. This shows the dominant impact of large refineries and petro chemical companies that need a critical size and large investments to operate effectively.

Table : Income by enterprise size in the manufacturing industry, 2008[[3]](#footnote-4)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Type of manufacture** | **Micro enterprises** | **Small enterprises** | **Medium enterprises** | **Large enterprises** | **Total income** |
| **R million** | | | | |
| **Food products and beverages** | 3 018 | 4 457 | 13 368 | 200 280 | 221 123 |
| **Textiles, clothing, leather and footwear** | 2 635 | 3 570 | 10 213 | 26 882 | 43 300 |
| **Wood, wood products, paper, publishing and printing** | 4 378 | 5 174 | 13 376 | 75 978 | 98 906 |
| **Coke, petroleum, chemical products, rubber and plastic** | 2 184 | 4 557 | 17 176 | 425 512 | 449 429 |
| **Glass and other non-metallic mineral products** | 1 640 | 1 836 | 6 007 | 39 068 | 48 551 |
| **Metals, metal products, machinery and equipment** | 14 925 | 17 296 | 42 787 | 236 596 | 311 604 |
| **Electrical machinery and apparatus** | 887 | 1 151 | 4 878 | 27 372 | 34 288 |
| **Telecommunication, medical and optical equipment and watches and clocks** | 898 | 813 | 2 515 | 8 646 | 12 872 |
| **Transport equipment** | 2 195 | 3 132 | 11 468 | 229 903 | 246 698 |
| **Furniture, tobacco, other manufacturing and recycling** | 3 856 | 4 073 | 7 867 | 43 935 | 59 731 |
| **Total** | **36 616** | **46 059** | **129 655** | **1 314 172** | **1 526 502** |

Source: Stats SA, Manufacturing survey, 2008 and own calculations

shows the share of income by enterprise size in the manufacturing industry for 2008. The industries that show the largest share of SMME contribution are ‘textile, clothing, leather and footwear’ (37.9%), telecommunication, medical and optical equipment and watches and clocks’ (32.8%) and ‘furniture, tobacco, other manufacturing and recycling’ (26.4%).

Figure : Share of income by enterprise size in the manufacturing industry, 2008

Source: Stats SA, Manufacturing survey, 2008 and own calculations

presents the employment by enterprise size in the manufacturing industry for 2008. The SMME industries that show the largest employment number are the ‘metals, metal products, machinery and equipment’ (60 167 employed in micro enterprises, 48 771 in small enterprises and 66 367 in medium enterprises), ‘textiles, clothing, leather and footwear’ (31 828 employed in micro enterprises, 23 1010 in small enterprises and 35 346 in medium enterprises) and ‘furniture, other manufacturing and recycling’ (20 539 employed in micro enterprises, 13 882 in small enterprises and 22 425 in medium enterprises). This data needs to be interpreted with the information in to generate the employment potential per R1 million output. This is shown in .

Table : Employment by enterprise size in the manufacturing industry, 2008

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Type of manufacture** | **Micro enterprises** | **Small enterprises** | **Medium enterprises** | **Large enterprises** | **Total employees** |
| Food products and beverages | 11 435 | 10 814 | 26 056 | 143 304 | 191 609 |
| Textiles, clothing, leather and footwear | 31 828 | 23 101 | 35 346 | 78 637 | 168 912 |
| Wood, wood products, paper, publishing and printing | 20 257 | 17 895 | 31 503 | 89 490 | 159 145 |
| Coke, petroleum, chemical products, rubber and plastic | 10 338 | 10 591 | 30 864 | 119 321 | 171 114 |
| Glass and other non-metallic mineral products | 5 399 | 6 270 | 14 481 | 37 139 | 63 289 |
| Metals, metal products, machinery and equipment | 60 167 | 48 771 | 66 367 | 135 630 | 310 935 |
| Electrical machinery and apparatus | 3 230 | 2 433 | 7 607 | 28 038 | 41 308 |
| Telecommunication, medical and optical equipment and watches and clocks | 2 796 | 2 043 | 5 229 | 9 722 | 19 790 |
| Transport equipment | 11 311 | 8 833 | 23 318 | 88 691 | 132 153 |
| Furniture, other manufacturing and recycling | 20 539 | 13 882 | 22 425 | 29 069 | 85 915 |
| **Total** | **177 300** | **144 633** | **263 196** | **759 041** | **1 344 170** |

Source: Stats SA, Manufacturing survey, 2008 and own calculations

The SMME employment share is shown in . ‘Furniture, tobacco, other manufacturing and recycling’ shows a micro enterprises employment share of 23.9%, a small enterprise share of 16.2% and a medium enterprise share of 26.1%. ‘Metals, metal products, machinery and equipment’ shows an employment share of 19.4% for micro enterprises, 15.7% for small enterprises and 21.3% for medium enterprises. ‘Textiles, clothing, leather and footwear’ industries’ show the largest share of SMME employment - a total of 53.4% (18.8% employment in micro enterprises, 13.7% in small enterprises and 20.9% in medium enterprises).

Figure : Share of employment by enterprise size in the manufacturing industry, 2008

Source: Stats SA, Manufacturing survey, 2008 and own calculations

shows the employment ratio per R1 million income for each of the industries per enterprise size. Micro enterprises show on average a ratio of 4.84 employees per R1 million income, small enterprises a ratio of 3.14 and medium enterprises a ratio of 2.03. This is in comparison to large enterprises with a ratio of 0.58. The data can be interpreted that the manufacturing sector for SMMEs shows an employment ratio where 4.26 more employment opportunities on average can be generated for every R1 million income in the micro sector compared to the large enterprises and 2.56 more for small enterprises.

Micro and small enterprises in ‘Textile, clothing, leather and footwear’ show for example an employment intensity of 12.08 and 6.47 employers respectively per R1 million of income. This also explains why these sectors are the first to close down when there are demands for above inflationary salary increases.

Table : Employment ratio per R1 million income per enterprise size in the manufacturing industry, 2008

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Type of manufacture** | **Micro enterprises** | **Small enterprises** | **Medium enterprises** | **Large enterprises** | **Total employees** |
| Food products and beverages | 3.79 | 2.43 | 1.95 | 0.72 | 0.87 |
| Textiles, clothing, leather and footwear | 12.08 | 6.47 | 3.46 | 2.93 | 3.90 |
| Wood, wood products, paper, publishing and printing | 4.63 | 3.46 | 2.36 | 1.18 | 1.61 |
| Coke, petroleum, chemical products, rubber and plastic | 4.73 | 2.32 | 1.80 | 0.28 | 0.38 |
| Glass and other non-metallic mineral products | 3.29 | 3.42 | 2.41 | 0.95 | 1.30 |
| Metals, metal products, machinery and equipment | 4.03 | 2.82 | 1.55 | 0.57 | 1.00 |
| Electrical machinery and apparatus | 3.64 | 2.11 | 1.56 | 1.02 | 1.20 |
| Telecommunication, medical and optical equipment and watches and clocks | 3.11 | 2.51 | 2.08 | 1.12 | 1.54 |
| Transport equipment | 5.15 | 2.82 | 2.03 | 0.39 | 0.54 |
| Furniture, other manufacturing and recycling | 5.33 | 3.41 | 2.85 | 0.66 | 1.44 |
| **Average[[4]](#footnote-5)** | **4.84** | **3.14** | **2.03** | **0.58** | **0.88** |

Source: Stats SA, Manufacturing survey, 2008 and own calculations

### The Manufacturing Sector and Government Support

indicates the subsidies received by the manufacturing sector according the data from the Annual financial statistics from Stats SA and shows the percentage subsidy received as a percentage of total turnover per year. According to this data, large manufacturing companies received larger subsidies between 2007 and 2009 compared to previous year and also compared to small and medium enterprises. These three years increased the average subsidy received by large enterprises to 0.25% of turnover for the period 2006 to 2010, compared to the 0.13% and 0.18% for small and medium enterprises respectively.

Medium manufacturing enterprises received the largest subsidy share of turnover during 2010 of 0.43% (R853 million) compared to 0.12% for small manufacturing enterprises (R211 million) and 0.09% for large manufacturing enterprises (R1.115 billion).

Table : Subsidies and incentives received by different enterprise sizes from government in the manufacturing sector between 2006 and 2010 (in rand millions)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Small** | **Medium** | **Large** | **Total** |
| **2010 AFS** | 211 | 853 | 1 115 | **2 179** |
| **2009 AFS** | 58 | 494 | 3 221 | **3 773** |
| **2008 AFS** | 142 | 210 | 3 512 | **3 864** |
| **2007 AFS** | 36 | 26 | 3 453 | **3 515** |
| **2006 AFS** | 272 | 101 | 2 212 | **2 585** |

Source: Stats SA, Annual Financial Statistics (various years)

These subsidies, potentially doesn’t show all the ‘hidden cost’ of government supporting SMMEs, but the case can be made, that given the potential of SMMEs to create employment additional resources can be invested to support SMME development. The subsidy as a percentage of total turnover is shown in . The subsidy of small sized manufacturing companies as a percentage of total turnover is on average only 0.13% for small sized companies compared to 0.18% for medium sized manufacturing companies and 0.25% for large manufacturing companies.

Table : Subsidies received by different enterprise sizes as a percentage of total turnover per year in the manufacturing sector between 2006 and 2010

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Small** | **Medium** | **Large** | **Total** |
| **2010 AFS** | 0.12% | 0.43% | 0.09% | **0.13%** |
| **2009 AFS** | 0.06% | 0.20% | 0.22% | **0.21%** |
| **2008 AFS** | 0.18% | 0.16% | 0.28% | **0.27%** |
| **2007 AFS** | 0.03% | 0.03% | 0.37% | **0.30%** |
| **2006 AFS** | 0.28% | 0.11% | 0.27% | **0.26%** |
| **Average** | **0.13%** | **0.18%** | **0.25%** | **0.23%** |

Source: Stats SA, Annual Financial Statistics (various years)

# SECTION 4: POLICY & PROGRAMMES ON MANUFACTURING

## Introduction

Since 1994, government has been attempting to provide support to the business sector through various policy amendments and the development of entirely new policies.

Policy structure is important to the economy as it creates the environment for companies and entrepreneurs to operate in a legal business environment.

Policy also indicates the direction that government wants to take the economy in by clarifying legislature regarding business practices, employment creation, and labour laws.

While there are many economic policies in South Africa, there are few that affect the manufacturing sector in relation to growth and development.

Two key national strategies that affect the manufacturing sector at all levels of government is the NEW GROWTH PATH and the INDUSTIAL POLICY ACTION PLAN II (IPAP II)

## The New Growth Path

The new growth path is a framework that seeks to address the issues surrounding unemployment, inequality, and poverty, through strategy implementation relating to job creation.

The main objective of the growth path is job creation; the framework aims to create 5 million jobs by 2020 by attempting to restructure the South African economy to improve performance in relation to labour intensive and an improved growth rate.

The route that the new growth path intends to take to achieve its goals relies on strategies to be implemented to improve local economies and established economic sectors as well as emerging economies with the view of creating more jobs.

The New Growth Path identifies key job drivers which are:

* Substantial public investment in infrastructure to create employment directly and indirectly by improving efficiency across the economy.
* The targeting of labour absorbing activities in the main economic sectors such as:
  + Agriculture
  + Mining value chains
  + Manufacturing
  + Services
* Taking advantage of new opportunities in emerging economies, e.g. Green Economies
* Nurturing rural development and regional integration.

Efforts are prioritised in creating employment in the following key sectors:

* The agricultural value chain
* The mining value chain
* The Green economy
* Manufacturing sectors
* Tourism and services.

### Industrial Policy Action Plan II (IPAP 2)

The Industrial policy action plan aims to address South Africa’s unsustainable growth path. The policy aims to ensure that stronger cohesion exists between macro and micro economic policies that relate to exchange and interest rates, inflation and trade balance requirements.

Financing will be directed to more labour absorbing and value add sectors. While procurement policies will be influenced to increase production and employment across a range of sectors.

The policy seeks to align skills, technology and innovation policies to sector priorities.

A key priority of the IPAP is to coordinate the efforts of different government departments, agencies and state owned enterprises towards the goal of industry development and ultimately job creation.

The industrial policy action plan is guided by the national industrial policy framework aims to implement governments approach to industrialisation through the objectives listed below:

* To facilitate diversification beyond current reliance on traditional commodities and non-tradable services. Through the promotion of increased value-add characterised particularly by movement into non-traditional tradable goods and services that compete in export markets as well as against imports.
* The long-term intensification of South Africa’s industrialisation process and movement towards a knowledge economy.
* The promotion of a more labour-absorbing industrialisation path with a particular emphasis on tradable labour-absorbing goods and services and economic linkages that catalyses employment creation.
* The promotion of a broader-based industrialisation path characterised by the increased participation of historically disadvantaged people and marginalized regions in the mainstream of the industrial economy.
* Contributing to industrial development on the African continent, with a strong emphasis on building its productive capacity.

The IPAP II has a specific focus on the manufacturing sector and has clustered its focus into three clusters:

**Cluster 1 – Qualitatively new areas of focus**

* Realising the potential of the metal fabrication, capital and transport equipment sectors, particularly arising from large public investments
* ‘Green’ and energy-saving industries
* Agro-processing, linked to food security and food pricing imperatives

**Cluster 2 – Scale up and broaden interventions in existing IPAP sectors**

* Automotives, components, medium and heavy commercial vehicles
* Plastics, pharmaceuticals and chemicals
* Clothing, textiles, footwear and leather
* Biofuels
* Forestry, paper, pulp and furniture
* Strengthening linkages between cultural industries and tourism
* Business process servicing’

**Cluster 3 – Sectors with potential for long-term advanced capabilities**

* Nuclear
* Advanced materials
* Aerospace

*Source: IPAP II document*

The Industrial policy action plans to implement sector specific programmes in the manufacturing sector with a view to stimulate and promote growth and develop in these industries.

Programmes that is specific to industries in the manufacturing sector:

**National Tooling Initiative (NTI)**

This initiative aims to rehabilitate South Africa’s tool, die and mould making industry. The NTI plans to improve and strengthen competitiveness and human capacity within the tooling industry with a view to improve the overall competiveness of the manufacturing sector as a whole.

The decline of the tooling industry over the past 20 years has led to underperformance of the manufacturing sector and contributed significantly to the trade deficit, as South Africa is a net importer of tools.

**National Foundry Technology Network (NFTN)**

The key objective of the NFTN is to facilitate the development of the South African foundry industry through appropriate skills training, technology transfer, and diffusion of state-of-the-art technologies.

This initiative aims to reduce import leakage, increase investments in key manufacturing activities as well as create employment.

**Facilitate the upgrade of manufacturing facilities and capabilities to increase domestic production and growth of exports**

This programme aims to facilitate capital investment into the white goods industry, to meet technological requirements that will, in turn, help to increase productivity, volumes and efficiencies. Additional interventions will be explored to reduce input costs and protect the domestic industry from imports.

**Roll-out of national solar-water-heating programme – manufacturing and installation capacity**

This programmes ties into the Green Industry and aims to develop solar water heater production in order to increase the local market size and provide manufacturers with sufficient time to upscale production. A phased approach to this programme will result in an increase in local manufacturing of Sola Water Heaters, skills development, employment, and ultimately a stable market that will promote investment.

**Solar and Wind Energy**

This intervention relates to renewable energy supply and the manufacturing of local content for this supply. The aim of this programme is to increase local involvement in this industry to increase the employment intensity of the electricity generation sector.

**Clean and Multi-Energy Stoves**

This intervention aims to support universal access to clean energy through a technology-appropriate intervention at the household level that also holds low-tech local manufacturing opportunities. This intervention will also improve rural energy security and create low-tech jobs within the energy sector.

**Industry Standards and Accreditation**

This programme aims to develop safety and quality standards for the boatbuilding industry in order for local firms to adhere to international standards with a view to increase competiveness and access to international markets.

**Establish aquaculture hatcheries**

The aquaculture sector is dependent on the reliable supply of juvenile aquatic animals for further growth by aqua-farmers. This intervention entails the establishment of two hatcheries to provide a reliable and continuous supply of high-quality juveniles to the aquaculture sector. DST is establishing two abalone hatcheries as the extension of the pilot Hondeklip Bay intervention.

**Development of the organic food sector**

This programme is directed at the implementation of the Organic Produce Strategy. This sector has high-value subsectors which hold the potential to create 20 000 jobs over a five-year period in the primary and processing phases of the Agro Processing value chain.

**Enhancement of competitiveness in the fruit and vegetable canning industry**

This programme is directed at an initiative to improve the competiveness of the fruit canning industry to enhance the long term sustainability of the industry.

**Automotive Production and Development Programme (APDP)**

This programme encompasses Regulatory amendments and implementation of the tariff regime, production incentives and volume assembly allowance elements of the APDP this programme deals more with the policies surrounding production and development within the automotive manufacturing sector.

**Identification of opportunities to broaden and deepen automotive component manufacturing**

This programme is an OEM let strategy to further advance the technology of suppliers in key subsectors of the automotive industry; they are electronics, body parts, interiors, exteriors, chassis, and drive-train.

**Competitiveness Improvement of Automotive Component Manufacturers (CIACM)**

This programme seeks to improve competiveness amongst manufacturers through benchmarking, gap identification, and assistance to close competitiveness gaps, with a view to enable local component manufacturers to compete better with their counterparts based in the Far East. This will also lead to more local content being used in the vehicle assembly sector.

**Enterprise Reference Architecture (ERA) portal for small and medium enterprise (SME) suppliers**

This programme attempts to provide manufacturing firms with a platform by which they can optimise existing technology investments through best practice, which can also be used as a tool to enhance competitiveness and technology utilisation amongst third and fourth tier manufacturers.

**Mentorship of SME component manufacturers**

This programme is essentially a learning project for SME component manufacturers through mentors over a specific period of time.

**Gold loan scheme to promote jewellery production**

This scheme is an initiative that attempts to assist local jewellery manufacturers to acquire gold from financing agencies at a stable price with competitive interest rates.

**Skills development to meet the pharmaceutical manufacturing sector’s and the SA public and private healthcare sector’s demand for qualified staff**

This programme aims to cater to the needs of the skills shortage within the pharmaceutical sector including research and development as well as manufacturing. The programme will address scarce skill training by adjusting training programmes to meet the demand.

**Clothing, Textiles, Footwear and Leather Competitiveness Programme**

This programme aims to enable the sector as a whole to compete effectively with foreign competitors both in local and the export markets; this will also have a substantial effect on improving company level competiveness.

**Illegal imports programme**

This programme is designed to eradicate the illegal importing of clothing and textile products to South Africa. The programme also aims to promote the policy of Country of Origin labeling. The total elimination of illegal imports will level the playing field for local manufacturers.

**Skills development**

This programme focuses on the improvement of skills within the textiles sector. The programme will involve the finalization of funding agreements with the National Skills Fund (NSF). The strategy will be implemented through the Textiles and Clothing Centre of Excellence established at the CSIR in Port Elizabeth in order to speed up the implementation process.

**Accelerated development in the biofuels sector**

This programme aims to speed up the development of the biofuels sector at farm and manufacturing level. In order for the accelerated development in this sector to become a reality a more conducive and improved regulatory environment. This program also seeks to solidify certainty around the demand for biofuels.

**Skills transfer and technology upgrading programme for small scale saw millers**

This programmes aims to improve the current skills and technology upgrading programme in order to provide small scale saw millers with production efficiency measures that will ultimately eradicate wastage that results from operations.

**Furniture Sector Strategy**

Due to the fragmented nature of the furniture industry there is a need to finalise a strategy and action plan for the furniture industry as a whole. This intervention seeks to address the constraints regarding skills transfer and the lack of appropriate institutional framework including the potential for clusters. The benefits of cluster formation includes economies of scale, shared infrastructure, shared transport costs, sharing of information and reduced input costs.

**Charcoal manufacturing enterprises**

This programme aims to support and establish charcoal plants in both the Eastern Cape and KwaZulu Natal as the inputs (jungle Wattle) are relatively cheap and in abundance. The activity requires unskilled labour but is labour intensive.

## Policies at a Provincial and Local Level

Provincial and local governments have developed and implemented growth and development strategies based on national strategies at a local level.

Most policies are industry specific but lend heavily from current national frameworks and strategies, such as

* National Spatial Development Perspective (NSDP)
* Accelerated Shared Growth Initiative South Africa
  + The core objective of this initiative is to halve poverty and unemployment by 2014.
  + The ASGISA is an initiative that includes all stakeholders in the economy including government to provide input in developing strategies that will speed up the process of growth and development in South Africa by addressing the constraints that hinder growth on a provincial and local level ultimately impacting at a national level.

## Provincial and Local Economic Development Strategies

### Gauteng

#### Gauteng Provincial Growth & Development Strategy

**Overview of Strategy**

The Gauteng Provincial Government has identified a number of key mechanisms that would drive the objectives of the growth and development strategy the main objective of these mechanisms is to increase and drive investment and growth in the provinces economy.

These mechanisms identified are not an exhaustive list, and can be applied and implemented across all industry sectors; however the following three objectives are specific to the manufacturing sector.

* Investment, Support and Economic Growth
* SMME Support
* Skills Development

**Investment, Support and Economic Growth**

The manufacturing sector was targeted as one of six potential growth sectors by the new growth path based on the potential and opportunities that these sectors offer in investment growth, Value add growth, **employment growth** and productivity.

**SMME Support**

Small, Medium and Micro enterprises (SMME) have been identified as key drivers in the quest to create more employment in all economic sectors and specifically the manufacturing sector. The Gauteng provincial government intends to support and grow SMMEs in the manufacturing sector by developing partnerships with successful SMME initiatives through agencies (governmental and nongovernmental) and local municipalities within the province.

**Skills Development**

In line with the objectives in SA’s human resource development strategy to ensure that the skills and capacity base of the manufacturing sector is matched with sustained economic growth and development, the GPG intends to develop partnerships with the tertiary and academic sector, the private sector and non governmental institutions to introduce skills development and training programmes that will act as a catalyst for industry based skills development.

SMMEs in the manufacturing sector will benefit from these programmes by using the opportunities available to skill current employees as well as have a skilled labour force from which to employ ne staff.

***Source: Gauteng Growth and Development Strategy***

***COJ Economic Development Strategy***

***GEDA***

#### Growth and Development Strategies at Municipal Level

The Gauteng province is made up of three main municipalities that have large manufacturing industrial areas. These three municipalities are The City of Johannesburg (CoJ), Ekurhuleni Metropolitan Municipality (EMM) and the City of Tshwane (CoT). These three municipalities house the majority of manufacturing activities in Gauteng. Each of these municipalities has their own growth and development strategies that affect the manufacturing sector.

We will briefly look at these municipal strategies in relation to the manufacturing sector by briefly discussing the strategy overview, the focus on the manufacturing sector and strategies SMME support and development structure.

##### **The City of Johannesburg Growth and Development Strategy 2040**

##### **Strategy Overview**

As a result of the economic recession of 2008/2009, approximately one million jobs were lost with Johannesburg bearing the brunt of the effects. This put the local economy under immense strain, coupled with the added pressure of a migration of unemployed individuals from other cities to Johannesburg in search of employment and opportunities. This had forced the City of Johannesburg to take the lead in job creation interventions. The recession also impacted on investment, with investors being reluctant to commit to long term investments, choosing rather to wait and reassess priorities to when the economic climate improved. With the recession firmly behind us, the City of Johannesburg Metro is aggressively approaching investors and intensifying efforts to obtain resources from private, local, and international investors to accelerate growth and development in the economic sectors.

In Line with the new Growth path adopted by parliament the COJ intends to address the area of employment creation as a critical area of change, through the extended public works programme and skill development programmes to provide unemployed citizens with skills to find employment.

##### **Focus on Manufacturing**

The city of Johannesburg has undertaken the responsibility of creating extensive support structures and initiatives that are designed to create sustainable employment opportunities in the manufacturing sector. The structures include:

* A drive to ensure that the manufacturing sector is supported by a vibrant SMME component, indicating that SMMEs in the manufacturing sector will be enhanced through support and funding initiatives.
* Through the City of Johannesburg’s five year economic development plan, a manufacturing sector intervention has been earmarked to provide infrastructure and business support to the SMME entities in the manufacturing sector.
* An investment of R35 million by the province will be allocated over a five year period to assist with achieving these goals.
* Another key driver in stimulating the manufacturing sector is the production of green technologies (solar geysers and alternative building materials).

##### **SMME Support and Development**

The City of Johannesburg indicated that mechanisms will be put into place to ensure that SMMEs become the key driver’s in growth and development not only in the manufacturing sector but across all economic sectors in the local economy. The City of Johannesburg plans to develop and support SMMEs with Financial, strategic and institutional support through initiatives such as:

* Jozi Equity Fund (JEF) which will assist SMMEs with funding over a 5 year period.
* Jozi rising Programme which developed with the DTI and Agencies to assist SMMEs with financing and institutional support.

***Source: CoJ GDS 2040***

#### Ekurhuleni Metropolitan Municipality (EMM) Growth and Development Strategy 2025

**Strategy Overview**

##### While Ekurhuleni is the hub of manufacturing activities in Gauteng there has to be a specific goal in terms of meeting the objectives of government by following and implementing strategies that have been designed to build a common vision across the borders of government, private sector, and society at large.

##### When analysing the strategic guidelines of the GDS, it is indicated that Ekurhuleni as is an area that is at an advantage. This is due to the fact that the EMM’s economic strength lies in the vast manufacturing sector that is based on the East Rand, along with a skilled workforce, the availability of raw materials, and the added advantage of good air, road, and rail transport linkages.

##### Industrial protection relating to import parity pricing and other regulatory policies are national programmes that have an effect at a local level; the municipality seeks to facilitate improvements to these programs to be effective at a local level.

##### By looking at these advantages relating to the manufacturing sector as a whole Ekurhuleni could be viewed as a key geographical area to promote job creation in the manufacturing sector for the province.

##### In relation to job creation which is a key focus area the EMM will pursue the following actions:

##### Alignment of national programs and interventions on skills development to the needs of the manufacturing sector.

##### Encourage and facilitate specific manufacturing Human Resource Development (HRD) through the identification and development of core capabilities, technology needs analyses and programme initiation, and the development of supply chain measures required to create viable local industries

##### **Focus on Manufacturing**

EMM intends to stimulate/boost the local manufacturing sector by:

* Facilitating advanced technological processes, as well as promoting labour intensity.
* The local transport and logistical industry will be positioned to support the manufacturing sector; the advantage of having two airports and major freeways, as well as the City Deep container terminal provides export opportunities for the manufacturing sector.
* The strategy also has a key focus in skills development training, particularly in the manufacturing sector.

##### SMME Support and Development

* EMM plans to facilitate linkages between SMMEs and large industries through local business chambers.
* EMM seeks to stimulate SMME activity in the manufacturing sector by reviving old industrial parks with plans to lease them to new and existing SMMEs which will provide the space required for SMMEs to grow.
* Another key area of SMME development is access to educational and skills development programmes which many SMMEs are not taking advantage of, the EMM plans to drive SMMEs to take advantage of these opportunities by facilitating access to skills development programmes as well as National SMME development programmes through the DTI and other national agencies.
* The development of a craft manufacturing and business park aimed at the international and domestic market from the JIA will be promoted. Partnerships have already been established with Dept. Of Trade & Industry (DTI) and Tourism Enterprise Programme (TEP).

***Source: Ekurhuleni GDS 2025***

#### City of Tshwane Growth and Development Strategy 2011 – 2016

##### Strategy Overview

In line with the Gauteng Provincial Government the City of Tshwane (CoT) lists one of its key economic priorities as reducing unemployment by 50%. The CoT plans to address these challenging issues through short medium and long term strategies such as:

* Economic Sector Strategies
* SMME strategies
* Human resource development strategies.

As one of three main metro’s in Gauteng, the CoT has to align its economic development strategies to that of the GPG strategic objectives and this includes re – aligning the manufacturing sector from heavy input markets with a low value add to a more refined and high value add input market. In relation to the nation spatial development framework the CoT formulated the City Development Strategy (CDS) in 2004.

A Key priority included in the CDS is a focus on improving manufacturing and business services through infrastructure development and the strengthening of the economic clusters to gain leverage from growth trends in these sectors. The CoT also plans to address the issue of job creation through a series of sector wide programmes and initiatives that will range from Skills development to infrastructure development such as the development of new and old industrial sites.

##### Focus on Manufacturing

The CoT plans to grow and expand existing business and industrial areas in all sectors of the economy with a specific focus on the manufacturing activities in order to maximize opportunities in existing industries such as the automotive industry. The CoT plans to focus on labour intensive manufacturing activities.

While there is a strong focus on the Automotive manufacturing sub sector the CoT is also home to other manufacturing activities that have the potential to expand and grow considerably such as:

* Chemicals and synthetic fiber
* Electrical machinery
* Metals
* Basic Iron and Steel products
* Machinery and equipment
* Furniture

##### **SMME Support & Development**

The development of interventions designed to impact on conditions and opportunities for SMMEs are vital to the economy of the city. While there is no development programme that is specific to SMMEs in the manufacturing sector. Manufacturing SMMEs can be included in current available SMME interventions and programs.

The City of Tshwane’s IDP intends to address the issues of economic growth and development through current SMME’ initiatives and programmes such as:

* Incubation of manufacturing businesses whereby 120 businesses are incubated per annum
* The SMME development programme whereby 4000 SMME owners are identified and provided with support

##### The trade and development programme which provides support to SMMEs with a specific focus on export trade.

***Source: CoT GDS & CoT IDP 2011 - 2016***

### Western Cape

#### Provincial Growth & Development Strategy

**Overview of Strategy**

The Western Cape has formulated its economic development strategies based on the priorities listed in the:

* The Accelerated and Shared Growth Initiative of South Africa (ASGISA)
* The National Growth and Development Strategy (NGDS)
* The Presidential Apex Priorities
* The iKapa Elihlumayo Economic Development Strategy.

Implementation and incorporation of these strategic points in relation to the manufacturing sector will be done via the Micro – Economic Development Strategy (MEDS), a provincial industrial development policy framework that seeks to limit the impact of government failure, market failure and network failure in the Western Cape economy. The overall objective of MEDS is to ensure that provincial government markets and networks are properly aligned. A key focus of MEDS is to identify interventions that will accelerate economic and employment growth to strengthen the economic foundations of the Western Cape.

Provincial Government has identified or earmarked the following manufacturing subsectors for development interventions.

* Textile and clothing
* Boat Building
* Green Technologies
* Metals
* Furniture

The MEDS framework seeks to enhance Growth/Participation and Competitiveness through various policy frameworks and strategies which include the Western Cape strategy for SMME support and special development.

##### **Focus on Manufacturing**

The Western Cape Strategic plan to stimulate the manufacturing sector intends to refer to policy mandates and in particular the National Integrated Manufacturing Strategy (NIMS) which is aimed at bringing together all role-players (Government; Industry leaders etc) in the sector to collectively ensure that there is sustainable growth and development. Another policy that the Western Cape government plans to draw from is the Advanced Manufacturing and Technological Strategy (AMTS) which focuses on sector based initiatives to advance the technological equipment and modern methods to manufacturing in order to stimulate declining industries such as Metal Pressing and the Automotive sector which has contributed largely to the Western Cape’s manufacturing sector recording double digit decline. The Textile sector requires re-stimulation in terms of a policy review on imports (China in particular), as well as technological advancement, as the textile subsector has the potential to stimulate job creation. The skills set for the textile industry is available due to the recent decline in this sector, resulting in large textile and clothing factories closing down.

The Agro processing industry is also an industry that the Western Cape provincial government has targeted to create employment in relation to wine making, as well as processed foods (jams, dried fruits etc). The boat building industry is one of the industries that were never formally targeted in the past, however since it emerged that this is a R2 Billion industry, it warrants focus on it to become a key driver of economic development.

Green Technologies is another industry that the Western Cape government plans to invest in, develop and grow, as this industry can assist in solving other –non-economic goals of the province, such as bio energy solutions and solar heating. Solar geysers are already being used in other provinces through government housing initiatives.

##### **SMME Support and Development**

Incorporated in the Western Cape integrated development plan (five year strategic plan) is the formulation of an SMME support base using the MEDS approach, guided by an oversight committee of industrial experts to enhance strategic insights into opportunities and constraints.

A key priority by Western Cape government, with the assistance of sector role-players (Public and Private) is to create an environment which supports SMMEs through development programmes and interventions to ultimately stimulate growth with the purpose of job creation.

The strategy seeks to support SMMEs by identifying and addressing challenges and constraints faced by SMMEs such as:

* Low access to competent mentors.
* Low numbers of procurement opportunities.
* Lack of programmes that stimulate the SMME Sector (implementation of national strategies).
* Low number of partnerships between SMME sector and Public – Private Entities.
* Difficult access to funding.
* Low access to business support initiatives.

The micro economic development strategy identifies the SMME sector as critical “creators” of economic opportunities and employment.

#### Municipal Growth and Development Strategy

#### The City of Cape Town (CoCT) Growth and Development Strategy

##### **Strategy Overview**

* The City of Cape Town is to promote infrastructure-led economic growth that will create economic growth and employment opportunities.
* In line with the Western Cape Provincial Growth and Development Strategy (WCPGDS) the CoCT seeks to achieve its economic development goals through shared economic development strategies on a National, Provincial and Local level.
* A key strategy of the CoCT is to create employment opportunities by stimulating the declining manufacturing sector through foreign and local investment and providing support to the SMME sector in the form of funding, business support and skills development.

##### **Focus on Manufacturing**

The CoCT economic development strategy aims to stimulate and number of industries within the manufacturing sector such as:

* Furniture
* Metal Pressing
* Agro - Processing
* Textiles and Clothing

There are new industries that the CoCT indents to investigate, analyse, and provide support to Boat Building and Green Technologies.

* Boat Building: is an industry that has been around in the Western Cape for many years but has never garnered the same attention as any of the other sector industries. The availability of material suppliers for boat construction such as sail-making, mast builders, naval architecture, outsourced manufacturing of component parts, as well as post-production parts – make the Western Cape ideal for Boat building.
* Green Technologies: This sector hold potential to grow and for employment opportunities as it can assist the CoCT in achieving its other socio economic objectives.

##### **SMME Support & Development**

The support of the SMME Sector is a key priority of the CoCT with the objective of reducing the cities unemployment issues.

* The CoCT aims to provide support to the SMME Sector through national and provincial initiatives as well as to develop programmes to assist SMMEs in the manufacturing sector
* The Economic and Human Development programme (EHD) will support strategic events in the business support space.
* The EHD will act as a knowledge and support hub for SMMEs.
* The CoCT has also identified skills development programmes to assist SMMEs with skills development, training, and advice to improve their business operations.
* The Cape Town Activa initiative is new approached focusing on creating a network where organisation individuals and business owners can share information, tools, and strategies.

***Source: City of Cape Town IDP; Western Cape PGDS***

### Mpumalanga

#### Mpumalanga Provincial Growth & Development Strategy

##### **Overview of Strategy**

As a developmental state, Mpumalanga was afforded developmental priorities which have been pursued with an interventionist and purposeful manner. The Mpumalanga Provincial Growth and Development Strategy are aligned to National Government goals, priorities, framework, strategies, and initiatives such as the Accelerated Shared Growth Initiative South Africa (AsgiSA).

Based on the development structures of Government in terms of the existing PGDS and development priorities in recent years, two stand out in relation to the manufacturing sector

* Economic Growth and Development
* Job Creation

The objective of the Mpumalanga PGDS is to provide a co-ordinated developmental policy and strategy to address strategic objectives. The objective that the PGDS aims to fulfill is to:

***“Actively promote and support economic growth and development in terms***

***Of the provincial economy, it’s linkages to the national and international***

***Economy and with an emphasis on provincial priorities such as targeted***

***Growth areas, priority sectors and corridors as well as developmental priorities***

***such as employment and eradicating poverty”***

***Source: Mpumalanga PGDS***

Mpumalanga’s Regional economy is significantly reliant on the primary sector which accounts for 22% of the Gross Geographical Product (GGP). Mining and quarrying account for 83% of the primary sector activities with the rest made up of agriculture and others.

The Secondary sector accounts for 22% of the GGP and is dominated by the manufacturing sector which is heavily reliant on inputs from the Primary Sector. The Secondary sector is made up of:

* Petrochemicals & Chemicals,
* Metal products(including machinery & equipment) from mining,
* Agro Processing (food; beverages and wood products from agriculture & forestry).
* Energy (Electricity and water are also included within the secondary sector contributing to 19% of the total value of secondary activities.

The province’s economic Growth strategy relies heavily on private sector investments and the facilitation of direct interventions, such as continuing to focus on public employment programmes.

The manufacturing sector, as well as the mining sector, has in the past created very few employment opportunities due to the capital intensive nature of the industries. Therefore, new capital-intensive industries need to be identified and pursued in the goal to create more employment in the province.

The PGDS scope of the priorities towards employment creation is expanded upon below, identifying three key components:

* Pioneering Initiatives that could act as catalysts in new fields;
* A range of options which might address some of the challenges in creating employment – although a thorough investigation and analysis complete to test the viability of these options.
* Provincial government’s existing programmes.

The provincial government plans to support the manufacturing sector through programmes that are linked to specific outcomes

Such as:

**Pioneering PGDS Initiative**

* Create a Food Technology Centre to identify, develop and commercialise new agro-processing technologies and opportunities.

**PGDS supporting options related to manufacturing**

* ***Target infrastructure maintenance, rehabilitation and extension*** –the key factor to support movement of goods and services and the lifeblood of the economy (including water, industrial parks, ICT and spatial development initiatives including the Maputo and Moloto Corridors)
* ***Target primary product value-chains*** – maximise synergies between provincial primary products, their use in manufacturing and the tertiary sector support required in this process
* ***Target agricultural beneficiation*** – Mpumalanga’s agricultural products permit a significant expansion of the agro-processing sector (agro value chain centres)
* ***Target forestry beneficiation*** – wood has traditionally been used for a variety of domestic purposes including house-roofs, floors, furniture, etc, so there is room for developing value-added products and to “reinvent” older technologies
* ***Target poverty reduction initiatives*** – these can offer opportunities for local benefit – for instance the manufacturing of stainless steel sinks for low-cost housing developments
* ***Target Eskom & Transnet capex plans*** – between them they plan to spend more than R 400 billion on new infrastructure over the next five years
* ***Target SMME development in all economic sectors –*** financial and non – financial support

**Key existing PGDS programmes and projects**

* Maputo Development Corridor Flagship Programme
* Moloto Rail Development Corridor Flagship Programme
* Industrial Park close to KMIA
* Siyatentela (women empowerment project in construction)
* Vul’ematfuba (bursary programme)

*Source: Mpumalanga PGDS Framework Page 68 of 83 August 2008*

##### **Focus on Manufacturing**

The Gert Sibande District was the largest contributor to the manufacturing GVA of the province at 54.8% in 2010, highlighting the potential that this district has in the manufacturing sector.

The Agricultural and Mining sectors play a critical role in the manufacturing sector value chain, through the supply of raw materials, especially for the production of wood products and the food processing industry.

The provincial government has earmarked key “Job Driver” industries in manufacturing to facilitate job creation:

* Agro processing
* Forestry (paper and pulp manufacturing)
* Mining
* Energy (Bio Fuels)

Overall, the manufacturing sector contributes approximately 20% to the provinces GVA, but is only the fifth most labour intensive sector, which highlights the capital intensive nature of the provinces manufacturing sector.

The provincial government has indicated that there are industries identified as key job creators in the manufacturing sector, however another industry has the potential to become a job creating industry and that is the production of charcoal, according to the Mpumalanga growth path strategy there is a steady increase in the demand for charcoal in the country and Mpumalanga through its forestry industry is in an ideal position to develop and grow this industry. The charcoal industry is seen as ideal for SMME development. Evidently large charcoal producer indicated a willingness to form partnerships with small‐scale producers to secure huge charcoal supplies on a regular basis. They are often prepared to provide funding, training and the initial investment required for small‐scale production plants.

According to the Mpumalanga growth path opportunities to grow, develop and expand the manufacturing sector lie in Beneficiation, Agro Processing and the ferrochrome industry as they have readily available markets locally and internationally.

When looking at the mineral resources that the province has available, investment in the manufacturing sector is critical to expand the sector as well as to develop capacity to contribute meaningfully to the economy in terms of growth and development as well as job creation.

Key areas for intervention to facilitate growth and job creation in the manufacturing sector:

1. Invest in industrial infrastructure to encourage enterprise development.
2. Enhance skills development, especially in the areas of engineering, artisan, business and project management.
3. Provide comprehensive support to SMMEs development.

##### **SMME Support and Development**

According to the province’s growth path, SMME support and development is mentioned in every economic sector strategy highlighting the importance of SMME development not only in the manufacturing sector but in the provinces economy as a whole.

The province aims to provide support to SMMEs by facilitating the implementation of national SMME development strategies, programmes and interventions at a provincial and local level.

The provincial government would further solidify existing relationships with the DTI and enterprise development agencies.

The province has targeted Financial and Non financial support for SMMEs.

#### Municipal Growth & Development Strategy

#### Mbombela Local Municipality (MLM)

##### **Strategy Overview**

The MLM integrated development plan is aligned to the priorities, goals, and objectives of both National and Provincial government, The MLM IDP is linked with the following national and provincial initiatives:

* Accelerated shared growth initiative South Africa (AsgiSA)
* The National Spatial Development Perspective (NSDP)
* Provincial Growth and Development Strategy(PGDS)
* Medium Term Strategic Framework (MTSF)
* Mbombela Long Term Growth and Development Strategy. (MGDS)

Key priorities:

* Job Creation,
* Growth and Development.
* Skills Development

##### **Focus on Manufacturing**

One of the major constraints affecting the forward development of the manufacturing sector is the lack or absence of skills amongst the areas workforce. The MLM aims to address the issue of skills development by implementing:

* government skills development initiatives and programmes at a local level
* Develop internship programmes.

The MLM plans to enhance and expand the manufacturing sector by:

* Developing Industrial Development Zones (IDZ) which will also enhance the competiveness of the manufacturing sector and to increase exports to neighbouring African countries.

Key objectives of the programme include:

* Attract Foreign Direct Investment (FDI)
* Attract advanced foreign production and technology methods in order to gain experience in global manufacturing and production networks
* Develop linkages between domestic and zone-based industries
* Provide world-class industrial infrastructure

##### **SMME Support & Development**

* The SMME sector is seen as a key sector in the quest to create employment on a national, provincial, and local level.
* The MLM does have a funded programme to assist SMMEs across all economic sectors however more funding is required than what is currently available.
* The MLM does not have manufacturing sector specific programmes to assist SMMEs in the manufacturing sector it is assumed that national programmes and interventions will be adopted and implemented.

#### Gert Sibande Municipality (GSM) Integrated Development Plan

##### **Strategy Overview**

The Gert Sibande municipality’s growth and development priorities are aligned with that of national and provincial government. The GSM economic growth and development strategy is largely based on the PGDS and the AsgiSA strategies as well as the NSDP. Although the LED strategies are developed around mining (coal and gold) the Manufacturing sector is a major contributor to the economy of GSM. The GSM intends to enhance local economic development across all sectors with the establishment of the GSM development agency which will streamline support and focus on the implementation of national and provincial development strategies to deliver on its mandate. Which is to?

* Co–ordinate and manage the identified economic development initiatives.
* Co–ordinate and manage stakeholders in the economy.
* Facilitate marketing and investment opportunities.
* Solicit funding and technical support.
* Facilitate development initiatives.
* Facilitate SMME support.

##### **Focus on Manufacturing**

The GSM’s manufacturing activities are dominated by the petro chemicals subsector due to the Sasol plants located in Secunda. The GSM aims to commission feasibility studies on the development corridors to promote and harness growth and development by developing downstream industries for the petrochemical and mining industries. While the GSM does have an established manufacturing sector base, it still intends to:

* Develop a manufacturing hub- IDZ
* Host industrial workshops through partnerships with national government and the private sector.
* Development of agro processing facilities
* Storage and Cold room facilities.
* Forestry downstream industries and manufacturing hubs.

The following sectors have been identified for investment and development due to their high growth, export, and job creation potential. These sectors are:

* Chemicals, plastic fabrication and pharmaceuticals.
* Capital or transport equipment and metals sector.
* Mining and Industrial Workshops.
* Forestry, pulp and paper and furniture manufacturing.

##### **SMME Support & Development**

In an endeavour to harness the prospects of SMMEs within the District, the GSM intends to address the following issues:

* Promotion and Development of Local enterprises;
* Ensuring access to the finance
* Initiating and Supporting job creation projects;
* Building capacity of Service Provides; and
* Supporting development of Cooperatives

***Source: Mpumalanga PGDS / Gert Sibande Municipality IDP / Mbombela Local Municipality***

### Free State

#### Provincial Growth and Development Strategy

##### **Overview of Strategy**

The Free State growth and development strategy (FSPGDS) is based on the same rational that the Provincial growth and development strategy is based on in that is aims to address economic development challenges through shared growth and development strategies.

The Free State provincial government seeks to stimulate their provincial economy through integrated National, Provincial and Municipal programmes and interventions, as well as National spatial development programmes.

The FSGDS has a strong focus on employment creation and has identified the manufacturing sector as one that is a key driver in alleviating unemployment in the province. Another factor is that due to other conditions in the province such as the HIV / Aids problem, and the decline of mining in the province, focus has to be placed on other economic sectors for growth and development.

The FSGDS incorporated elements from the Accelerated Shared Growth Initiative of South Africa.

A key aim of the FSGDS seeks to revitalise a former economic hub, that of Goldfields as much of the manufacturing sector in the Free State was based around the mining industry, however with the closure of many mines in the area, the manufacturing sector has suffered losses as well that resulted in manufacturing businesses closing its doors. The FSGDS plans to re-start the Goldfield manufacturing sector through investment, policy review, and intervention programmes.

According to the FSGDS the following key objectives are set for economic development:

* To achieve an economic growth rate of 6%-7% per annum.
* To reduce unemployment from 30% to 15%.
* To reduce the number of households living in poverty by 5% per annum.
* To provide adequate infrastructure for economic growth and development.

The key strategy drivers to realizing the above mentioned objectives:

* Expanding the manufacturing sector in key sub-sectors.
* Focusing on diversification in agricultural development.
* Developing tourism.
* Developing and expanding the transport and distribution industry.

To enhance these drivers, the following enabling strategies are followed:

* Emphasising SMME development.
* Providing economic infrastructure.
* Promoting human resource development.
* Creating an enabling environment.

***Source: FSGDS***

##### **Focus on Manufacturing**

The manufacturing sector in the Free State is in decline due to a number of reasons such as:

* Low skill levels.
* The declining mining industry.
* The decline in the importance of the agricultural sector.

The Free State provincial government has identified a lack of skills as a key contributor to the decline in the manufacturing sector, as well as an inhibitor of employment creation and seeks to address this issue by aligning its priorities with national skills development programmes.

The largest manufacturing industry in the Free State is that if the Petro Chemicals industry due to the Sasol plants located in the Free State. The Petro Chemicals industry (Sasol) contributes to 20% of employment in the manufacturing sector in the Free State.

The large manufacturing hub in Goldfields has severely declined in recent years due to the decline in the mining sector and the large exodus of people from the area, which resulted in the shutdown of the major manufacturing businesses.

A spatial characteristic of the Free State’s economy is the large-scale manufacturing infrastructure in the former homeland areas. This infrastructure was created through the policy of economic decentralisation under apartheid, where large manufacturing estates were erected in the Phuthaditjhaba, Thaba Nchu, and Botshabelo areas, however these manufacturing areas suffered once the government subsidizing was phased out and jobs were lost.

The Free State Development Corporation (FDC) has already put strategies into place to restart the manufacturing activities in these areas and by 2003 up to 90% of the premises was occupied.

The Free State provincial government has identified the following manufacturing industries that require further development in addition to the petrochemical industry

* Manufacturing of farming machinery and equipment
* Manufacturing of Leather goods ( Leather Tanning)
* Jewelry Manufacturing
* Agro Processing (Foods)

The expansion of the manufacturing sector is a key priority of the Free State provincial government.

##### **SMME Support & Development**

***“The role of established SMMEs is growing in significance in the provincial manufacturing economy, both in terms of their contribution to the total* *manufacturing enterprise and of their share of total employment”.***

***“In the Free State 68 % of manufacturing enterprises were SMMEs in 1994. By 2003, this percentage* *had risen to nearly 80%. The number of people employed in SMME manufacturing* *nearly doubled from 10 000 to 18100 between 1993 and 2004. In the process, the* *share of manufacturing SMMEs, in terms of employment, increased from 20% in* *1994 to 38.9% in 2003. High levels of enterprise growth were experienced in* *food, fabricated metals and clothing (Premier’s Economic Advisory Council, 2004).* *The SMME manufacturing sector has clustered mainly around Bloemfontein and* *Harrismith, with a notable decline in the small towns. There has also been a* *decline of SMMEs delivering products and services to the gold mines.”***

***Source: Free State Growth and Development Strategy 2007***

From the above text it is clear that SMMEs have since 1994 played a vital role in the manufacturing sector of the Free State both in employment creation and contribution the provinces GRP. Therefore SMME development is seen as a core objective in the Free State, especially in the more rural areas of the province.

The Free State provincial government has targeted manufacturing industries for SMME development:

* Agro Processing (food)
* Metal fabrication
* Clothing
* Mining equipment and machinery

The SMME sector has clustered around two areas Bloemfontein and Harrismith and has declined in the smaller towns around the province. There also appears to be a decline in SMMEs delivering products and services to the gold mines.

The Free State provincial government aims to provide support to SMMEs by:

* The promotion and intensification of the sector-political dialogue between SMMEs and the government through capacity building.
* The improvement of framework conditions and the creation of an enabling environment through advice to local economic development (LED) units and other relevant public institutions on the design of economic, legal, and institutional frameworks for the private sector.
* The organisational development of SMME to enable them to improved competitiveness through enhanced lobbying capacity and professional competence.
* The facilitation of access to business development services through the development of markets for services.
* The support of horizontal and vertical cooperation between enterprises, specifically by using cluster and value chain approaches, including advice for building up links between several SMMEs, and between SMMEs and large or international enterprises.
* The promotion of export for the SMME sector through brokering of contacts with African and European importers and information about quality standards, market trends, and participation in trade fairs.
* Management and business consulting at enterprise level through capacity building of local consultants and consultation with firms, including advice, to increase efficiency in all enterprise domains.

Experience in promoting SMME has indicated that improvement in SMME competiveness cannot only be achieved by focussing on the enterprise alone. What is required is a strategy that targets, through interventions different levels at the same time, namely:

* **The Macro Level:** stability oriented and enabling economic policy
* **The Meso Level :** capacity building of private sector organisations, development of support strategies and policies for enterprises
* **The Micro Level:** enhancing enterprise performance and their horizontal and vertical integration into a network of links and subcontracting relationships

Each level will have to be looked at individually and programmes and interventions will have to be allocated to specifically support SMMEs at each level.

### Municipal Growth & Development Strategy

#### Mangaung Local Municipality Growth and Development Strategy

##### **Strategy Overview**

The Mangaung Local Municipality has outlined the Local Economic Development Strategy (LEDS) as its primary tool in initiating and facilitating economic development in the municipal area.

When analysing the Municipal Integrated Development Plan (IDP) the following is clearly outlined:

* Job creation is a core goal with the target to increase overall job creation.
* The development of an industrial development zone (IDZ).
* The renovation of existing industrial districts to expand manufacturing industries.

Due to the sector’s labour absorbing qualities, the manufacturing sector is viewed with special preference when it comes to infrastructure development. However, there seems to very little planned in promoting and re-stimulating the manufacturing sector at a local level.

##### **Focus on Manufacturing**

The manufacturing sector in Mangaung is supported by a large labour force located in Botshabelo to support the economic sectors in Bloemfontein. Manufacturing in Mangaung is dominated by the following subsectors:

* Agro processing.
* Metal Fabrication.
* Equipment (Farming & Mining).

##### **SMME Support & Development**

The SMME sector has been identified as a sector associated with job creation opportunities, thus SMMEs are given high priority. The MLM aims to provide support to local SMMEs through investment and the National development programmes aimed at SMME’ Development. The MLM plans to develop the SMME Support strategy that looks at financial in institutional support for SMMEs and skills development initiatives for SMMEs.

***Source: Free State PGDS***

### Northern Cape

#### The Northern Cape Provincial Growth and Development Strategy

##### **Overview of Strategy**

The Northern Cape Provincial Growth and Development Strategy NCPGDS aims to bring together stakeholders from the public, private and parastatal sectors to collectively develop a plan for the sustainable growth and development in the economic sector.

At a provincial government level, the PGDS seeks to develop an avenue where it is possible to establish links between governmental policies regarding economic development and National, provincial and local strategies to enforce quick effective implementation of strategies, programmes and initiatives.

It aims to this by:

* Engaging with national government departments to facilitate policy reviews relating to economic growth and development.
* Engaging with financial and funding institutions to deliver sufficient financial support to promote growth and development.
* Engaging with all stakeholders in the economy in order to create an environment that is conducive to achieving economic growth targets.
* Developing and implementing programmes and interventions for SMMEs

The NCPGDS is based on the analysis of socio-economic conditions prevalent in the Northern Cape and has identified needs that must be focussed on:

* Sector specific strategies defining where public and private sector intervention is necessary and justifiable;
* Key macro-level interventions and support required from relevant national line ministries to reinforce provincial initiatives;
* Programme and project level opportunities and interventions;
* A comprehensive provincial spatial development framework and strategy;
* Leveraging adequate financial resources to finance growth and development;
* Identifying appropriate institutional delivery mechanisms; and
* Monitoring and evaluation systems and procedures.

***Source: NCPGDS***

Key Programs with intervention and strategies will address sector specific strategies defining, where public and private sector intervention is needed.

In order to harmonise the IDP’s, PGDS’s and the NSDP the development of a conceptual model based on the presidencies Policy Co-ordination and Advisory Services (PCAS) Unit is underway so that a more workable efficient and effective planning system is developed. The unit will comprise of the Departments of Provincial and Local Government, Land Affairs, Trade and Industry and National Treasury.

Through interaction with both national and provincial governments, the Northern Cape government aims to ensure alignment of the NCPGDS with the IDP’s, the NSDP and various sector planning initiatives of national government, in order to promote co-operative approaches to governance, with a view that this approach will result in the creation of improved growth and development strategies.

The Northern Cape economy is the smallest economy of the nine provinces, with the largest economic sector being the mining sector, which has been in decline over recent years. Northern Cape agriculture being the second largest sector. The manufacturing sector is quite small in the Northern Cape and only contributes approximately 4.2% to the Northern Cape Gross Geographical Product (GGP).

##### **Focus on Manufacturing**

The Northern Cape’s Manufacturing sector has been in steady decline since 1996 with the contribution to the GGP of only 4.2 %, resulting in the contribution to the national GDP being relatively insignificant in relation to the national manufacturing statistics. However the manufacturing sector does make a contribution to the local economy that is significant in areas where there is some concentration of manufacturing activities (Kimberley & Upington).

Manufacturing in the Northern Cape has the ideal climate for competitive manufacturing in the sense that it has direct access to raw materials, low cost energy, low labour cost, and immediate access to both Namibia and Botswana.

Manufacturing activities in the province is concentrated around value add products to the province’s mineral and raw material industries. There is definite room for expansion and improvement in specific manufacturing subsectors if conditions are conducive, and investment is increased in the sector through institutional support and reform.

The manufacturing subsectors with the most potential to develop and grow due to the availability of primary inputs are the:

* Agro processing of Grape products such as wines and juices as well as meat products.
* Textiles relating to the production of yarn, wool and mohair due to the primary activity of sheep farming.

Although the manufacturing sector has not performed well in recent years, the sector is due for expansion through economic diversification, and is seen as a job creator. Thus the development of the manufacturing sector is a priority on the agenda of the provincial government.

The manufacturing sector does provide a locus for economic empowerment and job creation. The local government will continue to promote the manufacturing sector as a viable answer to the unemployment and economic empowerment issues in the province.

Two key strategies will be implemented when stimulating the manufacturing sector by provincial government:

* The Micro – Economic Reform Strategy to remove obstacles in the way of policy and competitiveness.
* The integrated Manufacturing Strategy which comprises of interventions related to competitiveness to enhance prospects for processing raw materials into manufactured goods.

##### **SMME Support & Development**

One of the key objectives of the NCPGDS is the developing and implementing of strategies for Small, Medium and Micro Enterprise (SMME) Development.

Due to the low levels of private sector development in the province, it is clear that the province has experienced problems in implementing national SMME development programmes. The provincial government seeks to address the issues through the micro economic reform strategy.

There is a need to adopt a more integrated and segmented approach to SMME support. Support for the SMME sector will be attained through partnerships with the DTI and SMME development agencies (Seda) as well as institutional support from the private sector.

### Northern Cape Municipal Growth & Development Strategy

#### Siyanda District Municipality (SDM) Integrated Development Plan

##### **Strategy Overview**

According to the SDM IDP for 2012/13 the strategies employed by the municipality are aligned with national and provincial strategies and directives as these strategies formed the basis of the SDM IDP. The NSDP identifies categories of which, Production and Labour-intensive, mass-produced goods (more dependent on labour costs and/or natural resource exploitation) fall into and manufacturing falls into this category; the SDM has allocated a medium importance rating indicating that this sector does require meaningful intervention and investment. In relation to the PGDS the SDM has to work in partnership with the provincial government to achieve the objectives identified in the NCPGDS.

##### **Focus on Manufacturing**

The Siyanda District Municipality has indicated the importance of expanding and developing the manufacturing sector, there is no focus on the manufacturing sector in the IDP for 2012/2013.

##### **SMME Support & Development**

The SDM has indicated in the 2012 / 2013 IDP that there is a definite lack of SMME activity within the municipality across all economic sectors and will rely on national and provincial government programmes and initiatives to develop the SMME sector in all areas of the economy to be implemented at a local level.

***Source: Siyanda District Municipality IDP***

#### Namakwa District Municipality (NDM) Integrated Development Plan

##### **Strategy Overview**

When analysing the IDP of the NDM it is clear that the NDM will address the issues of economic development through national provincial and municipal programmes and initiatives across all economic sectors.

The identified local development programmes that relate to the manufacturing sector are:

* PROJECT NO. LE02: RENEWABLE ENERGY SECTOR: the objective is to ensure the participation of the NDM in the development of a synergy between wind energy, natural gas, solar, bio-fuel and wave energy so that the energy sector can enhance competitive and comparative advantage of the Namakwa region.
* PROJECT NO. LE7: AGRICULTURE AND AGRO PROCESSING CLUSTER: The objective is to ensure the participation of the NDM in the transformation of the Agricultural sector with emphasis on (1) the participation of Namakwa farmers taken part in the commercial goat farming project, Land care , CASP and (2) to develop the community in Swartzkop to earn money from farming activities.
* PROJECT NO.LE08: MANUFACTURING CLUSTER: THE DEVELOPMENT OF THE MANUFACTURING SECTOR: To ensure the participation of the NDM in the development of the manufacturing sector with emphasis on building a secondary industry on the Working for Water project.

##### **Focus on Manufacturing**

In Namakwa district, the manufacturing sector is virtually nonexistent due to the overdependence on mining and agriculture. However there are spin off manufacturing opportunities in the different subsectors:

* Mining Value Chain: opportunities for manufacturing of machinery and tools.
* In the agriculture value chain: opportunities lie in the manufacturing of Hoodia products.

One of the major constraints facing the manufacturing sector in the NDM is the distance to markets as local markets are small and the distance to larger market is great, rendering many manufacturing initiatives unsuccessful due to the high transports cost. Manufacturing activities should focus on products that are in demand by emerging markets such as green products and energy efficient products.

##### **SMME Support and Development**

SMME support will cut across all economic centres in relation to specific SMME opportunities identified.

The overall SMME development strategy of the NDM is focused around opportunities for new businesses and skills development as well as capacity building.

LED lead programmes and initiatives will also support the SMME sector through National SMME specific interventions and programs.

***Source: Namakwa District Municipality IDP***

### Eastern Cape

#### The Eastern Cape Provincial Growth & Development Strategy

##### **Overview of Strategy**

Sectoral policies of Provincial and Local Governments consists of three inter-related national economic policy frameworks that are relevant to the development of the 2004 – 2014 Provincial Growth Development Plan (PGDP) for the Eastern Cape: The Reconstruction and Development Programme (RDP), the Growth, Employment and Redistribution Strategy (GEAR),

This framework lays the ground for the creation of policy options, the prioritisation of objectives, and the consequent development of sectoral strategies, plans, and programmes. It was formulated with extensive participation from government, public entities, organised business, labour, non-governmental organisations, academics, and faith-based organisations.

Three growth and development objectives were identified by the province:

* Continuing with the current emphasis on the manufacturing sector for growth.
* The viability of aggressive capital investment for growth and development.
* The importance of growing the agrarian economy for the poor.

The PGDP’s analysis of the constraints and opportunities of the Eastern Cape suggests a strategic approach to growth and development that will focus on the spread and incidence of poverty and unemployment; and the spatial inequality between different regions of the Province.

In line with governments review of its policies every five years, the PGDS for the EC 2010- 2015 under its Economic Development policy for the province the key objectives is focused around Integrated Economic Development and Trade and Investment which are aligned to the 2004- 2014 PGDP and IPAP 2.

* Enterprise development
* Regional and Local Economic
* Development
* Economic Empowerment
* Trade and Investment Promotion
* Sector Development
* Strategic Initiatives
* Job creation

Manufacturing is one of three key sectors identified in the upward growth path of the province. The allocation of two of the five IDZs in South Africa to the province is an indication and confirmation of the growth potential of the province with shipping traffic that operates between Europe, Asia and the Far East.

Logistically the province is well served, with 2 major airports in Port Elizabeth and East London and also several facilities serving smaller towns such as Mthatha and Bhisho.

##### **Focus on Manufacturing**

The province is dominated in manufacturing by four large vehicle manufacturers Mercedes Benz and VW in East London, General Motors and Ford in Port Elizabeth, as well as downstream products for the automotive industry. The Eastern Cape’s excessive reliance on the automotive market as a catalyst for economic growth, manufacturing activities and job creation remains strong.

* Mercedes Benz has spent R2 billion on upgrading its production plant in East London and now has the capacity to, and is currently producing both right and left hand drives for domestic and export sales. They have also trained over 6000 apprentices in the province.
* Volkswagen South Africa employs 6500 people. The company is also spending R500 million on a new press shop at its Uitenhage plant. Furthermore, the company has spent R100 million on training over the past three years.
* Ford is spending R3 billion expanding its two South African facilities.
* General Motors is spending R250 million on a Pan African Parts Distribution Centre (PAPDC). The company employs 1900 people.

The completion of the new port at Nqgura within the Coega IDZ has brought the number of effective ports in the province to three. The Nqgura port has surpassed PE port and is now the third largest in South Africa. These developments are crucial to the success of the vehicle manufacturers who are manufacturing products for the export market.

The second most important manufacturing sector in the Eastern Cape, after the Automotive sector, is the Food and Beverages sector.

A new dairy has been opened in the East London Industrial Development Zone (ELIDZ) that has led to 1000 jobs being created.

Major companies include:

* Clover
* Cadbury
* Ouma rusks
* South African Breweries
* Sasko

Potential for growth is also strong in the machine tools sector, the development of electronics for automotive applications and plastics. The plastics industry is a key supporter of the automotive industry, but is also active in the moulding, packaging and construction industries.

There is also great potential that exists in the processing of fibre in the province and there are plans to establish a textiles mill within the ELIDZ, where Da Gama Textiles factory already has the capacity to produce 45 million square of fabric per annum.

There are synergies in the province between large manufacturers, retailers and smaller SMME groups in the province. The Greater Uitenhage Sewing Co- operative has secured a contract with Woolworths to make their reusable shopping bags. Operating from premises originally lent to them by VW- SA, the groups of women make 7600 bags every day.

The provincial government diversification strategy is targeting sectors where the province already has a competitive advantages that are labour intensive, will have a broad impact and low barriers for SMME entry. These sectors include manufacturing and will have a positive effect on job creation.

##### **SMME Support and Development**

Nearly R100 million in loans were made available to SMMEs in the 2010/ 2011 financial year by the ECDC. A further R8.2 million was made available to Co- operatives. The Eastern Cape Provincial Government is committed to spend about R16 billion on infrastructure and development in the province between 2010 and 2016. Grant funding provided by the ECDC saw the creation of over 2500 jobs in a variety of manufacturing sectors.

4000 jobs have been created by the Coega IDZ and with the introduction of the Nqgura port; potential for further job creation as capacities improve is expected.

The other major stakeholders in the province are:

* SEDA
* IDC
* Uvimba Finance
* Vulithuba Development
* AgsiSA- EC

### The Eastern Cape Municipal Growth and Strategy

#### Buffalo City Metropolitan Municipality Growth and Development Strategy

##### **Strategy Overview**

The Buffalo City Metropolitan Municipality has focused most of its strategic objectives around East London.

There are three key areas of focus on manufacturing sector:

* SMME Development
* Construction of the Industrial Development Zone (IDZ)
* Trade and Investment opportunities
* Job creation initiatives

##### **Focus On Manufacturing**

* A major development for the Eastern Cape is the establishment of **a bio fuel industry.** ECDC has been instrumental in facilitating and driving a strategic planning process that will culminate in an integrated, three-tiered Eastern Cape bio fuel project.
* The Eastern Cape government has set aside R9.5-million for fencing land and planting canola, and R8-million for planting sugar beet in the Mbhashe area to kick-start the project.
* The bio fuel project will create a huge new market for agricultural products, including canola, soya beans, and sunflower. It involves establishing 500,000 hectares of now under-used land for integrated rotational cropping.

##### **SMME Support and Development**

At the East London IDZ, we understand that global competitiveness is ultimately about the bottom line.  As such, locational incentives have been created that will assist in managing operational costs and ensuring maximum business profits.    An investor that locates in the East London IDZ can take advantage of various specialised local incentives including:

* Preferential land rental and utility rates
* Competitively priced land
* Duty-free imports for inputs used for export oriented manufacturing
* Zero rate on value added tax for locally procured supplies used in export manufacturing

#### The Nelson Mandela Bay Municipality Growth and Development Strategy

#### Strategy Overview

The Economic Development Strategy identifies the following key economic enablers for the Nelson Mandela Bay:

* Skills development.
* Infrastructure development.
* Visionary governance.
* Meaningful business, civil society, and governmental partnerships.

Not enough focus is prevalent in the NMBM IDP in terms of manufacturing and the policies that are aimed at development are very wide.

Less than 2% of its budget for 2011/ 2012 is set aside for the Coega IDZ.

#### Focus on Manufacturing

Key to industrial growth and innovation in Nelson Mandela Bay are the following programmes:

* Infrastructure and logistics
* Skills development
* Investment facilitation
* Industrial finance and incentives
* Research and development
* Small business support

Pharmaceuticals are one of the key chemical industries in the Eastern Cape. Nelson Mandela Bay is home to Aspen Pharmaceuticals, the largest generics manufacturer in the southern hemisphere and the leading supplier of generic medicines to both the private and the public sectors in South Africa. Aspen is one of the top twenty generic manufacturers worldwide and South Africa’s number one generic brand

The dti’s industrial policy action plan of February 2011 identified the following key opportunities:

* Domestic production of active pharmaceutical ingredients for key ARVs;
* Local production of reagents for AIDS/HIV diagnostics, under licence;
* Domestic production of vaccines under licence;
* Domestic production of biological medicines such as erythmpoietin, monoclonal antibodies and vaccines

From the IDP for NMBM, it is clear that they are very reliant on funds from government support organizations to try and bridge the gaps for business development, job creation, and sustainable growth in the manufacturing sector.

#### SMME Support & Development

The UDDI focuses on local economic development projects in and around Uitenhage and Despatch. Key UDDI projects include the following:

* Nelson Mandela Bay Science and Technology Centre.
* Investment promotion.
* Despatch Developers Day, in partnership with other stakeholders.
* Uitenhage Aerodrome Project.
* Uitenhage Lower Yard Project.
* Agricultural Sector Development Programme.
* Environmental Management.
* Enterprise Development and Social Development Programme.

The Coega Development Corporation (CDC) is a state owned entity formed in 1999 mandated to develop and operate the Coega Industrial Development Zone (IDZ) which is located adjacent the modern deep water port facility, Port of Ngqura-developed and owned by Transnet National Ports Authority. The CDC attracts investors from all over the world and in different business sectors through investment promotion, as well as Foreign Direct Investment (FDI).

The Coega Development Corporation provides custom developed SPACE to global and local businesses who wish to make the most of investing. South Africa offers a premier industrial development zone at Coega. Here 11 000 ha of sector specific zoned land with purpose built infrastructure translates into astute business opportunities in South Africa

The Nelson Mandela Bay area including Coega IDZ is home to:

* 4 of the 8 vehicle assemblers present in South Africa
* 7 of the top 10 global component manufacturers who have invested in SA
* 3 of the 4 largest global tyre manufacturers

There are currently some 400 1st and 2nd tier component suppliers to the automotive industry in South Africa, of which more than 150 are located in the industrial area around Coega IDZChemin is a technology incubator specializing in supporting the start-up and growth of SMEs in the downstream chemical industry. Chemin is located in Port Elizabeth but operates nationally.

### Kwa Zulu Natal

#### Provincial Growth & Development Strategy

#### Overview of Strategy

The Provincial Government of Kwa Zulu Natal has a range of strategies and policies, but for the purpose of this study we will look at strategies and policies that affect and support the manufacturing sector in Kwa Zulu Natal.

The Kwa Zulu Natal government through its Provincial Growth and Development Strategy (PGDS) plays a crucial role in the promotion of sustainable development and implementing government’s concept of a developed state through:

* Growing the economy through business and financial support.
* Reducing unemployment through initiatives such as the Dube Port, Richards Bay Industrial Development Zone as well as trying to rejuvenate the clothing and textiles sector in the northern regions of Newcastle and surrounding areas.
* Eradicating poverty through job creation initiatives, skills development of unskilled labour and the promotion of business incentives for companies who comply.

SMMEs and Co- operatives play a critical role in the development and growth of the economy in Kwa Zulu Natal. They also contribute substantially to job creation and thereby poverty alleviation as the sector has an immense landscape. Over the years, the demand for support by SMMEs and Co- operatives has grown faster than what government can provide/ deliver.

The Integrated Economic Development Services Programme provides a much wider range of services to SMME enterprises, municipalities and other LED stakeholders in order to alleviate unemployment, poverty and to broaden participation of vulnerable groups into the mainstream economy.

Key objectives and priorities of the programme include, but are not limited to:

* Initiatives that will promote job creation and the broadening economic empowerment of vulnerable and marginalized groups in the groups in the mainstream economy.
* Enterprise Development and Local Economic Development through the facilitation of business support services and access to factors of production.

The National Cleaner Production Centre of South Africa (NCPC- SA), which was commissioned by the DTI as its key industrial sustainability programme, drives this strategy through various business support initiatives in the Kwa Zulu Natal area. The focus is on low-cost energy and resource efficiency solutions, aimed at assisting companies and plants in their efforts to become ecologically responsible, productive, low carbon, competitive businesses (Green business). Some achievements of the programme include:

* In 2010 the NCPC- SA expanded its activities to the metal fabrication, capital and transport equipment sector. An MOU was signed between the South African Stainless Steel Development Agency (SASSDA) and the Responsible Packaging Management Association of Southern Africa (RPMASA) to facilitate participation of their members in the programme which resulted in the identification of potential savings of R16.6 million for 2010/ 2011.

#### Focus on Manufacturing

As the province is viewed as a competitive region for foreign investment particularly through the Dube Port and the Port of Durban, nine prime targets for inward investment were identified under manufacturing in the province. These are:

* Textiles and clothing
* Plastic products
* Chemicals
* Fabricated metal products
* Automotive components
* Wood and wood products
* Footwear
* Machinery
* Appliances

The manufacturing sector in Kwa Zulu Natal is geared for export as it is responsible for nearly one third of South Africa’s manufactured exports.

The increase in vehicle sales has created a considerable multiplier effect in the component and service providing businesses of the Automotive Industry. Industries are found across Kwa Zulu Natal at Newcastle, Ladysmith Dundee, Richards Bay, Hammarsdale, Richmond, Pietermaritzburg and Mandini where vehicle components, leather goods and electronic components are produced.

The eThekwini Metropolitan Municipality is home to 2 international safety footwear which operate out of Pinetown (Beier and Beta). These companies are important to the development of the KZN economy as well as its distribution lines which spread across the country. (Driver for poverty alleviation and job creation)

In the Amajuba District, the clothing and textiles industry is showing potential for growth and development. This process is hindered by the Department of Labour’s insistence that Chinese- owned companies in and around Newcastle should pay the minimum wage. Labour is mostly unskilled and is readily available from Newcastle and its surrounding areas such as Madadeni and Osizweni. Potential for job creation is evident with government attempting to assist the sector through the Clothing and Textile Revitalization Project which established a central warehouse with 18 hubs around the province to support co-operatives.

The Richard’s Bay Industrial Zone (RBIDZ) is seen as the gateway to the world’s markets and is a fusion of both Greenfield and Brownfield industrial development neighboring an already existing industrial area compromising a total of 345 hectares of land, with a future potential of more than 2100 hectares.

Richards Bay is home to the following industries:

* Bell Equipment, the Richards Bay company that makes earth-moving equipment of every sort and has grown into a global competitor, has made several changes to its B30L dump truck which has led to an increase fuel capacity and improves the environment for operators.
* It is the centre of operations for the South African aluminium industry.
* It is also home to Richards Bay Minerals which is the largest sand mining and mineral processing operation in the world.

The potential exists in all regions of Kwa Zulu Natal and has to be driven by the implementation of government strategies and policies through business support agencies, funding agencies, local municipalities and their led departments.

#### KwaZulu Municipal Growth and Development Strategies

#### eThekwini Metropolitan Municipality

The strategic approach to the development of the Municipality is underpinned by strategic national and international policy. The development objectives of these policies have influenced the development of the strategic direction that the Municipality has identified. Whilst we have assessed and identified key policies, the most recent and relevant developmental policies - Millennium Development Goals, Service Delivery Agreement Outcome 9, National Government Programme of Action 2009 – 2014 and the Provincial Government Priorities for 2011.

Stakeholders in the IDP process are key role players with an interest in the integrated development of the Municipality.

Whilst the Eight Point Plan represents the eight key areas that the Municipality has targeted for the period 2011/2012 until 2015/2016, the following priorities have been identified by the Council as key areas to be addressed during the 2011/2012 financial year in the manufacturing sector:

* Eradicate extreme poverty and hunger
* Develop a Global Partnership for Development.
* Build a developmental state, improve public service and strengthen democratic institution.
* Ensure strategic use of city resources for economic growth and job creation.
* Develop skills for the future economic sectors.
* Promote small and medium enterprise;

#### Focus on Manufacturing

Through various business support initiatives, the city has improved trade conditions, administered the business incentives schemes, unlocked potential for local manufacturers in the down streaming of certain manufactured goods.

The city has development plan for manufacturing is in line with the New Growth Path and the local led department focuses on the implementation of government policies through agencies, support organizations, and local municipalities. The provincial government set aside R30 million in the 2010/ 2011 budget to implement a provincial Clothing and Textile Revitalization Strategy through which 19 hubs will be created to support 141 Co- operatives. King Shaka Airport and the Dube Trade Port are between Richards Bay and Durban. This will assist to increase KZN’s export capacity to almost 80% of total exports in the country.

#### SMME Support and Development

The key drivers for growth and development are not only in the manufacturing sector but cover all economic sectors in the local economy. The eThekwini Metropolitan Municipality has developed and implemented programmes to assist SMMEs with financial, business and support services through initiatives such as:

* Kwa Zulu Natal Clothing and Textile Cluster who renders support to the clothing textiles industry.
* Enterprise ILembe is an agency established to drive the led sector plan for the province.
* The Richards Bay IDZ
* Trade and invest KZN
* The KZN Growth Fund.

#### The uThungulu District Municipality

#### Strategy Overview

The development strategy in relation to manufacturing of the uThungulu Municipality is centred on the development of the Richards Bay Industrial Development Zone (RBIDZ. Manufacturing will be centred on the RBIDZ and will encompass the majority of manufacturing activities within the municipality. There is a strong focus on the promotion of SMMEs to involve them within the RBIDZ.

#### Focus on Manufacturing

The Richards Bay Industrial Development Zone (RBIDZ) is a purpose built and secure industrial estate on the North-Eastern South African coast. It is linked to an international sea port of Richards Bay, tailored for manufacturing and storage of goods to boost beneficiation, investment, economic growth and, most importantly, the development of skills and employment.

Tata has invested more than R700 million but the RBIDZ is targeting a further investment inflow of R5-billion over the next five years.

#### SMME Support and Development

SMMEs in uThungulu add a disproportionately small contribution to the local economy due to the presence of large manufacturers and exporters. Government support has been focussed on large investments, with only modest assistance offered to develop and support SMMEs in uThungulu, especially in the rural and underdeveloped areas. Private and non-governmental support has been fragmented and uncoordinated.

Aligned to IPAP2 and the New Growth Path, the district has identified the following key areas to be addressed:

* Poverty alleviation through assistance of SMMEs to be able to access work/ contracts from larger manufacturers and break into the mainstream economy.
* The promotion of SMMEs
* Skills development through learnerships and internships.

The RBIDZ aims to encourage international competitiveness through tax and duty-free incentives, as well as world-class infrastructure.

Support organizations include:

* SARS
* Enterprise ILembe
* The DTI
* SEDA

#### The Amajuba District Municipality Growth and Development Strategy

#### Strategy Overview

The ADM is the second highest economically active population in KZN. The ADM has been proactive in establishing a number of LED forums and structures. The following is a summary of the LED objectives for the district.

* Ensure the municipality has adequate financial resources & controls to meet the annual performance objectives of the district.
* To ensure progressive compliance with institutional and governance requirements by 2015.
* To facilitate and plan for ongoing sustainable human settlement and economic development in the district.
* Source alternative funding for appropriate projects.
* Maintain ongoing intergovernmental relations among the three spheres of government.
* To facilitate and plan for ongoing sustainable human settlement and economic development in the district.
* Compliance with relevant guidelines.
* Compliance with legislation.
* To contribute towards facilitation of access to skills development, economic empowerment, human rights for vulnerable groups.
* To ensure ongoing partnership development and coordination among various stakeholders.

#### Focus on Manufacturing

The ADM has participated in the National Spatial Development Perspective (NSDP) Pilot Project back in 2009 which has ensured that there is alignment between the NSDP and the IDP, the SDF and the IDP sector plans. It was concluded that in the Pilot that there was good alignment between the ADM’s SDF and NSDP.

To achieve the opportunities inherent in the ADM, five strategic

Thrust were identified to revive the manufacturing sector of

Amajuba, namely:

* Sector development;
* Removal of manufacturing development barriers;
* Creation of conducive business environment;
* SMME and Entrepreneurship development
* Human resource development.

#### SMME Support & Development

The introduction of cluster programmes to the area has been an economic boost to the industry and has given rise to job creation and skills development. Other support programmes in the area are funding initiatives through the DTI, the ADM and local municipalities.

The Automobile sector has also grown significantly in the KZN and there are 84 SMME companies that manufacture Automobile related products.

The KZN Growth Fund is an initiative that drives job creation through funding, support, and business services.

### Limpopo Province

#### Limpopo Provincial Growth and Development Strategy

#### Strategy Overview

It is the policy of the government to encourage economic development through private sector initiatives. Foreign and local investment in all business sectors is welcomed by the province and emphasis is put on improving the injection of investment funds from abroad, which is essential to ensure proper exploitation of the province's vast natural resources. This will in turn enhance the continued development and advancement of all the people living in the province, as well as create jobs in the province.

Limpopo boarders on South African commercial and industrial heartland in Gauteng Province and key Southern African Development Community (SADC) nations, thus providing easy access to South African and African Markets.

Contributing only 1.5 % to the national manufacturing GDP, more focus should be put on the thriving mining, farming, and tourism sectors.

Of the programmes that the Provincial Government Development Plan is implementing for 2011- 2016, only the Economic Development Programme is relevant to the manufacturing sector. It encompasses the development of the provincial economy is encouraged through Integrated Economic Planning & Research, Enterprise Development, Trade & Industry Development, as well as Business Regulation & Governance and seek increased added value from existing and new projects.

* Increase the Limpopo added value content of exported products.
* Create sustainable new jobs and maintain existing jobs.
* Increase equity and Broad-Based Black Economic Empowerment (BBBEE).
* Create a competitive environment in Limpopo through improved capacity and by removing obstacles to competitiveness.
* Make Trade and Invest Limpopo the most effective learning organization in Limpopo through knowledge management and sharing.

To achieve its development objectives, the province identified focused goals that are aligned to the main objectives:

* To ensure the promotion of economic planning, conducting of research and management of economic development information
* Lead and integrate provincial local economic development planning and research
* To stimulate economic growth through industry development, trade and investment promotion
* To ensure fair and healthy business practice

#### Focus on Manufacturing

The changing international environment, which places pressure on all regional economies to improve trade and investment conditions, calls for a more creative industrial development plan to enhance the productive capability, capacity and efficiency of industrial sectors, specifically the manufacturing sectors.

Industries in Limpopo need to:

* Diversify export products and markets;
* Create a conducive business environment;
* Invest in the necessary physical infrastructure; and
* Develop industrial technology at the firm level in order to raise the technical capabilities and global competitiveness of domestic industrial firms.

With its wealth of mineral and agricultural resources, its sophisticated infrastructure, and its proximity to growing consumer markets in the rest of the sub-continent, the Limpopo Province offers many investment opportunities in the manufacturing sector.   
Investment opportunities range from tanning, the cultivation of fruit and vegetables, the processing of meat, and the manufacturing of jewellery, furniture, and industrial chemicals and the rendering of light to medium sized engineering services.   
Complimentary to the mining efforts, opportunities are available for private sector investment in the manufacturing and utilization of magnesium oxide, cement, lime-based products, and granite. Seven economic development clusters have been identified for immediate expansion and abundant factory space and sound support infrastructure already in place. These development clusters are Waterberg, Vhembe, Mopani, Capricorn, and Sekhukhune. A good example is Ellisras in the Waterberg District that can benefit from the East / West Corridor for the export of processed goods.  
Various organizations have already been successfully established in the Limpopo Province, which include the following:

* Silicon Smelters (silicon smelting);
* Anglo Platinum (platinum smelting);
* Eskom (electricity generation);
* Granor Passi (fruit juices);
* Bonanza (furniture manufacturing);
* Kanhym (meat processing).

#### SMME Support

Research studies and other benchmarking analysis show that to establish a more vibrant and dynamic SMME sector that contributes to the province's growth and development, SMMEs located in the province need to be able to compete successfully in provincial as well as national and international markets and provide a diverse range of new and lasting decent employment opportunities for women and men.

The following principles inform the design and management of Enterprise Development Programme in the province:

* The Limpopo Provincial Government provides oversight and leadership in the development of the SMME sector in the province, liaising closely with key national government departments and agencies, as well as with all district and local municipalities.
* SMME development services enhance the potential for economic transformation in the province, removing the dualism that is currently found in the economy and practically supporting opportunities for broad-based black economic empowerment.
* All SMME development services are carefully targeted, demand oriented, responsive, and integrated.
* Wherever possible, all actors engaged in the SMME sector – public, private and community, as well as national, provincial and local agencies, and the SMME sector itself (as represented by business membership organisations) – work together to ensure their actions are complementary and coordinated.
* Provincial SMME development pays special attention to the constraints and challenges facing women, young people, people with disabilities, and enterprises operating in previously disadvantaged areas in the province
* New methods and instruments are developed to promote SMME development in the province, including the use of pilot and flagship projects, which test new approaches to SMME incubation, innovation and development.

### North West Province

#### The North West Provincial Growth and Development Strategy

#### Strategy Overview

The **North West Province**, through its **Provincial Growth Development Strategy** (PGDS) aims to increase economic growth to 6.6% by 2014.

The economic challenge to the **North West Province** is to adapt its Provincial Growth and Development Strategy (PGDS) to reflect the initiatives identified in ASGI-SA.   
INW adopted the following priority sectors in accordance with the New Growth Path and Industrial Policy Action Plan (IPAP2).

* **Manufacturing and trade**
* **Growth and investment**
* **Agriculture and rural development**
* **Mining and energy**
* **Tourism**
* **Construction and infrastructure**
* **SMME Development**
* **Training and skills development**

Agriculture, construction, and infrastructure are not relevant to this study and focus is put more on the other pillars.

The strategic objectives are underpinned by the following:

* National and Provincial Prioritized Economic Strategies, e.g. PGDS, IPAP2, etc.
* Trade & Investment Facilitation Best
* Practice (WAIPA)
* Policy advocacy
* Export development

The Jobs Fund is aimed at piloting and up scaling existing innovative approaches to employment creation and the Minister of Finance appointed DBSA as an implementing agent in the North West Province.

What is interesting is that the implantation of the strategy comes with a cost of 50% of the total funded amount and hence its effect is diluted. Focus should be shifted to the introduction of partnerships between relevant government support organizations and then firstly, there needs to be an audit of duplicated services in the province.

#### Focus on Manufacturing

Based on output and average annual growth, the province offers excellent opportunities and prospects in various industries, particularly within the fabricated metal and food industries. The outlook for chemical processing, especially for value-added exports such as phosphate and nitrogen based fertilizers, is also becoming increasingly buoyant.

Due to the province’s strategic location, natural resource endowment, easy market access, and low production costs, attractive forward and backward horizontal integration opportunities exist in almost all of the manufacturing sub-sectors within the province. The following investment opportunities offer investors a healthy return on investment as well as excellent diversification prospects:

* North West Tyre Recycling Project:  Recycling of used tyres in order to provide the market with a range of products such as crumbs, granules, buffing dust and garden mulch.
* North West Marble Project: Mining and beneficiation of locally available marble dimension stone.
* Hardboard Manufacturing: Production of pressed wood products from readily available agricultural waste, emanating from crop farming operations in the Eastern and Western regions of the North West Province.
* Sawdust Recycling: The production of briquettes (charcoal) from sawdust for local and export markets, using extrusion technology.
* Tile Cement Manufacturing: The project is aimed at producing tile cement (floor and wall tile adhesive) of superior quality using locally available silica sand as basic raw material input.
* Agro-processing:  The province provides a number of potential investment opportunities in agro-processing. These would include, amongst others Fruit juices, Essential oils, Meat processing, Milling as well a myriad of opportunities in horticulture and aquaculture.

#### SMME Support

In the province, the SMME support is aligned to the objectives of the IPAP2 report and is geared towards the creation of jobs, investment opportunities and the development of business from being small, to being able to access the larger economy. Support favours previously disadvantaged individuals and business with high-growth potential that could spark jobs in the manufacturing sector.

Investment promotion

* Business Process Outsourcing and Off shoring
* Critical Infrastructure Programme
* Enterprise Investment Programme

Small Enterprise and Equity

* Black Business Supplier Development Programme
* Cooperatives Incentive Scheme

Trade Facilitation

* Export Marketing and Investment Assistance
* Sector Specific Assistance Schemes by the DTI and local government.
* Project Funding for Emerging Exporters
* South African Capital Projects Feasibility Study
* Create jobs by starting small food manufacturing plants

# SECTION 5: MANUFACTURING SUB SECTOR ANALYSIS

**Introduction**

The manufacturing subsector analysis provides us with a detailed qualitative analysis of the subsectors that make up the manufacturing sector as a whole. This section of the report will provide the reader with an overview each subsector, a description of the activities present in the value chains as well as current and future opportunities for SMMEs in this subsector and an identification of constraints and barriers that SMMEs face within these subsectors.

## The Agro – Processing Subsector

#### Overview

The definition of Agro-processing is the process or action taken by manufacturers of converting primary (raw) agricultural products into consumable commodities suitable for consumption.

The Agro – Processing process begins with the primary activity of agriculture whereby activities such as Farming, livestock, horticulture and forestry take place. Thereafter these “raw materials are supplied to manufacturers, who then begin the activity of processing the raw materials through actions such as Milling, Fermenting, Slaughtering, Blending, Cutting and Moulding. The manufactured products are then packaged and supplied to the wholesale and retail markets to be sold to consumers. See Diagram 1 for visual description.

Agro Processing is a widely diverse subsector and is vital to the production of food products as well as the processing of wood for furniture and paper products.

**Value Chain Description of the Agro Processing Subsector**

Figure : Agro Processing Value Chain



When looking at the different stages of the value chain of the agro – processing subsector it is clear that the area where SMMEs can operate in phase 3 (actual processing/manufacturing of raw materials) and phase 4 the packaging of processed products. SMMEs can also operate in phase 1 and 2 as suppliers of inputs, tools and fertilisers to the primary sector. SMMEs in the manufacturing sector could also be consumers of the processed products as inputs into other manufacturing activities e.g. Bakery use of flour, sugar, milk etc.

The Agro processing subsector could be a vehicle for potential job creation, the Agri-food complex has a number of competitive advantages making it an important trading partner and a viable investment destination as the world class infrastructure, counter seasonality to Europe, vast biodiversity and marine resources as well as competitive input costs make South Africa a world player on the worlds markets.

The Agro-processing/food processing industry consists of various subsectors including:

* Meat processing
* Dairy products
* Fruit and vegetable processing
* Grain mill products
* Sugar mills and refineries
* Wine
* Fruit juices
* Beer
* Cocoa
* Chocolate and sugar confectionery
* Bakery products
* Prepared animal feeds
* Other food products/ ingredients:
  + Starch and starch products
  + Baby food
  + Chips
  + Baking powder
  + Yeast
  + Condiments
  + Mustard
  + Vinegar
  + Edible salt refining
  + Tea and coffee processing and packing
* Tobacco
* Essential oils
* Leather

#### Training and Development in the Agro-Processing subsector

Training and development in the agro processing subsector includes specialised skills and training or skills development. This would be quite costly for SMME businesses, however training could be provided through on the job training, internship or learnership programmes. SMME businesses could also register with MerSeta or other training institutes to assist with the skills improvement.

#### The following traceability requirements may also be required from food business operators. They should:

* establish the traceability of food products at all stages of production, packing, handling and distribution;
* be able to identify any person or supplier from whom they have been supplied with food products, or any substance intended to, or expected to be used in the production or processing of these food products;
* have in place systems and procedures to identify other businesses to which their food products have been supplied;
* ensure that adequate procedures are in place to withdraw food products from the trade where such food products present a serious risk to the health of consumers;
* immediately withdraw food products from the trade which were identified as food products that present a serious risk to the health of consumers;
* immediately inform the Executive Officer of such withdrawal;
* keep records of the information mentioned as well as any other
* relevant information for at least two years;
* registration with DAFF as a food business operator.

#### Opportunities for SMMEs in the Agro Processing Subsector

Opportunities for SMMEs in the Agro – processing subsector lie in:

1. The actual processing activities i.e. Milling, Fermenting, Slaughtering, Blending, Cutting and Molding. This will include activities such as the processing and manufacturing of:
   * Meat products (traditional and processed meats products, biltong).
   * Organic foods (vegetables, fruit).
   * Indigenous tea products.
   * Bio fuels.
   * Fruit and vegetable products such as Jams and dried fruit.
   * Juice production.
   * Confectionary products such as chocolates and sweets
   * Animal Feed products
   * Table condiments and spices
   * Paper manufacturing
   * Furniture manufacturing.
   * Baking products, bread, biscuits and cakes
2. The packaging of the processed commodities for human consumption.
   * The Manufacturing of packaging items for agro processed goods such as containers and plastic bags.
3. As suppliers to the primary phase of agro-processing

* The manufacturing of farming tools and equipment.
* The Manufacturing of fertilizer and related products
* Animal feed products.

### Challenges and Barriers Facing the Agro Processing Subsector

* Rural retailers are mainly affected by the depressed state of rural economies, overtrading, the lack of finance and financial infrastructure, the lack of business training, ageing infrastructure and the weakness of local government and of social capital.
* Informal traders’ main challenges include the poor quality of their equipment and infrastructure, competition, cash flow and stock shortages.
* For independent, small wholesalers stumbling blocks arise from vertical integration and wholesaler consolidation, price pressures, the tendency of market giants to expand their ranges of products and services, the lack of skills relating to technological improvements and the lack of integrated supply chain management techniques.
* E-tailers are severely confronted with the difficulty of setting up a competitive business model under the price pressure exerted by shop-based retailers, Web site design and marketing challenges, customer gaining and delivery and logistics are complex tasks. The low penetration of the Internet in South Africa, especially the lack of affordable access to broadband, currently strongly restricts the business opportunities of e-tailers, causing them very low profits and low life expectancy.
* Finance, i.e. scope and allocation of financial resources;
* Human resource capacity, i.e. the number of people and level of skills available in critical technological sectors;
* Technology, i.e. lack of access, affordability, appropriateness and lack of a coordinated innovative culture;
* Lack of information on opportunities;
* Competition barriers;
* Distribution barriers;
* Regulatory barriers; and
* Price of raw materials.

### The Job Creation Ability of the Agro Processing Subsector

|  |  |  |
| --- | --- | --- |
| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Agro processing Subsector** | The agro processing sector is potentially the strongest driver for job creation, especially in the primary and secondary phases. The weaker rand makes the market attractive to foreign investment. Due to the current local and international demand for convenience foods (canned products and processed foods) the impact is positive for south African companies in the agro processing sector. In the primary phase the has been initiatives to form cooperatives to supply the large food processing companies with produce / raw materials, by communities in rural areas in the process creating employment in large rural communities. In the food processing sector smaller existing companies require access to the international market to expand and grow. | High potential for job creation due to foreign investment and expanding markets as well as the increase in demand for processed foods. |

### The Agro Processing Sector: SWOT Analysis

|  |  |
| --- | --- |
| **Strengths**   * **Alternative season production** * **Low power costs** * **Labour availability** * **Integrated production systems** * **Technology institutions** * **Government support organisations** * **Potential for diverse production** * **Presence of multi-nationals** * **Sector-specific incentives** * **Water quality and availability** | **Weaknesses**   * **Lack of infrastructure for perishables** * **Transport inland/port charges/long distances** * **Small domestic market** * **Production volumes are small** * **Distances to global markets** * **Skills (Management)** * **Access to local markets** * **Value adding technologies** |
| **Opportunities**   * **Biotechnology** * **Sustainable utilization of indigenous and other genetic resources** * **SADC** * **Smart farming** * **Sector specific incentive schemes** * **Technology** * **Shift to less intensive natural resource use production system** * **Competition Commission** * **Support partners** | **Threats**   * **Environmental issues**    + **Soil degradation**   + **Resources planning and management**   + **Water quality and availability** * **Cost of entry into markets** * **Subsidised production/exports in developed nations** * **Trade barriers** * **Compliance with target markets** * **Cheap imports** |

**Table 9:** SWOT analysis for Agro processing sub sector

## The Automotive Subsector

### Automotive Manufacturing

#### Overview

The Automotive industry is classified into four major segments:

* Passenger Vehicles;
* Light commercial vehicle (LCV), including bakkies and minibuses;
* Medium commercial vehicle (MCV); and
* Heavy commercial vehicle (HCV) comprising of the truck/bus segment

#### Sector Operations:

Various sectors contribute to the final product and the manufacturing process involves:

* Foundry Operations, whether they are integrated with motor vehicle assembly facilities or independent shops, cast metal products that play a key role in the production of motor vehicles and motor vehicle equipment;
* Metal Shaping and Machining where vehicle parts, including bumper bars, hubcaps, and body parts are manufactured in metal galvanising and electroplating shops;
* Metal Coating to inhibit oxidation, prevent corrosion and extend the life of the product;
* Motor Vehicle Assembly
* Motor Vehicle Painting and Finishing

There are several well established original equipment manufacturers or OEM’s that produce well known brands of high quality.

South Africa currently has manufacturing facilities for the following vehicle brands which are located in Gauteng, KwaZulu-Natal and the Eastern Cape:

Table : Vehicle brands that have manufacturing facilities in South Africa

|  |  |  |
| --- | --- | --- |
| **Manufacturer** | **Location** | **Recent Investment** |
| BMW | Rosslyn, Pretoria | R2.2 Billion |
| Ford Motor company South Africa | Pretoria, Silverton & Port Elizabeth ,  Struandale | R3 Billion |
| General Motors South Africa | Port Elizabeth | R4 Billion |
| Mercedes-Benz SA | East London | R2.2 Billion |
| Nissan / Renault | Pretoria, Rosslyn | R1 Billion |
| Toyota | Durban, Prospecton | R8 Billion |
| Volkswagen South Africa | Uitenhage, Nelson Mandela Metropol | R5.5 billion |

*Source: South African Business 2010/2011*

Table : OEM’s which manufacture other types of vehicles and not LCV’s such as:

|  |  |  |
| --- | --- | --- |
| **Manufacturer** | **Location** | **Recent Investment** |
| **Man Truck & Bus** | Durban & Gauteng | Trucks and Busses |
| **Bell Equipment** | Richards Bay | Articulated Dump Truck loaders and  other heavy duty vehicles |
| **BAE Systems** | Gauteng | Armoured and Tactical vehicles |

*Source: South African Business 2010/2011*

### The Automotive Components Sector

While South Africa has a well-established automotive components industry, majority of the manufactured components are for export with almost R30 billion of components being exported in 2010, this was a marked increase of 12% from 2009. South Africa exports components to more than 70 countries including Japan, Australia, USA, and the United Kingdom.

The automotive parts sub-sector has been identified by the IDC as a specialist field in which South Africa has a competitive edge. This sector has a strong reputation for producing products of excellent quality and this is supported by the success of the catalytic converter sector. What initially began as a start-up industry in the 1990’s has grown immensely, and now 14% of the world’s market for catalytic convertors is manufactured in South Africa.

Other key automotive products produced in South Africa are:

* Engine
* Silences
* Exhausts
* Radiators
* Wheels and tyres
* Stitched leather car interiors
* Car radios and axels

To reduce warehousing space and costs, most manufacturers employ a ‘just in time’ system which means that the components are brought into the manufacturing plant only when required. Components are manufactured from a variety of raw materials, including steel, rubber and plastics. They are manufactured separately and sourced locally or imported. An automobile part may carry the designation Original Equipment Manufacturer (OEM) if the same manufacturer produces it and is the original part used when building and selling the finished products.

Table : above indicates the automotive component sales by product type from 2006 to 2010.

****

Source: AIECS/SARS

displays the total components exports for South Africa from 2006 to 2010 in Rand value. What is clear from the above table is that while in 2006 and 2008 the export figures were on an upward trend but declines sharply in 2009 due to the global financial recession. The export figure has only started to recover in 2010 and was only back to its 2006 level at the end of 2010. Currently the manufacturing levels are healthy and in particular the top 6 to 10 component categories. Opportunities for SMMEs exist in other metal based components such as axels, body paints and panels as well as gearboxes. Locally based manufacturers of these components should be encouraged to enter the export market.

#### State of the industry

The South African automotive industry was severely hit by the financial crisis in 2009, with vehicles sales down and many major automotive companies experiencing financial difficulties. There have, however, been positive signs in the last two years indicating that the industry is beginning to recover, although attention needs to focus on lowering costs and improving efficiencies in the industry. According to Supply chain foresight, an industry research study sponsored and initiated by Barloworld Logistics, the top short-term objectives of the auto sector in 2010 were:

* Reducing inventory;
* Lowering procurement costs;
* Risk sharing with suppliers;
* Improving communication with customers; and
* Optimising inbound transportation.

Due to the stringent cost cutting exercises employed by the manufacturing sector, the new vehicle sales in South Africa grew by 31% in February 2011 compared with February 2010 sales.

Compared to 2009 and 2010, the sector is experiencing growth in recent months, but what is of most importance is not short term peaks and troughs but the long term sustainability of this sector. The National Association of Automotive Manufacturers of South Africa (NAAMSA) indicated that the current strength in the market reflects strong underlying momentum and it was encouraged that total industry sales for the first two months of 2011 were 21.9% ahead of the corresponding two months in 2010.

Attractive special incentive packages offered by a number of manufacturers/importers during the month of February 2011 also contributed to the rise in sales volumes. NAAMSA indicated that for 2011, domestic new car sales are projected to improve by 10% to 15% in volume terms. New commercial vehicle sales could improve by up to 15%.

The worst of the economic crisis, however, seems to be over and the industry had begun to see positive signs from as early as the first half of 2010. In April 2010, Ford Motor Company of Southern Africa announced that it would increase its investment from R1.5bn to R3bn, to produce a pick-up and engine range locally. The Trade and Industry Minister, Rob Davies, noted during the announcement of the Ford Motor Company South Africa T6/P: Puma investment that investments made by vehicle manufacturers in South Africa, for the period 2009 to 2013, totalled R9bn, creating 3 500 direct assembly jobs, while also acting as a catalyst for R4bn in investments in the component industry *(Speech by Min. R. Davies Ford/Puma Investment announcement 8 Apr 2010)*.

#### Regulations

According to National Treasury, the proposed carbon dioxide (CO²) vehicle emissions tax, which came into effect on 1 September 2010, would be implemented as a specific tax and not as an ad valorem tax. The CO² emissions tax is expected to encourage South Africans to move towards more energy-efficient and environmentally friendly vehicles. New passenger vehicles will be taxed based on their certified CO² emissions at R75 per gram per kilometre (g/km) for each g/km above 120g/km. Tax advisory firm Deloitte pointed out that the tax could add between R5 000 and R10 000 to the price of the average new passenger vehicles and could raise R1bn a year in revenue for the National Treasury.

The automotive industry has also expressed concern that the tax, which will be implemented while the country is still recovering from the recession, could hamper the car sector's recovery and affect job creation. The local automotive sector also criticised the emissions tax, stating that the industry could not import or produce certain vehicles with lower CO² emissions, given that South Africa's fuel specifications were not yet up to standard with such vehicles.

According to NAAMSA's Director, Nico Vermeulen, South Africa presently conforms to Euro 2 engine emissions levels, whereas many of the newer vehicles already have Euro 5 compliant engines. “Vehicle producers and importers are presently constrained as a result of the unavailability of Euro 4/Euro 5 enabling fuel in South Africa, in offering latest highly fuel-efficient products to the domestic market.” He added that while the South African motor industry and oil industry were involved in extensive research and negotiations to fast-track the introduction of the new fuels locally by 2012, “the introduction of CO² new car taxes and the introduction of Euro 4 enabling fuel in South Africa should go hand in hand.” *(NAAMSA website)*

Current regulations that affect companies active in the automotive field in the sector include the following:

* ISO 9001:2000 Quality Management Systems
* ISO TS 16949:2002 Automotive Quality Management Systems
* ISO 14001 Environmental Management Systems
* OHSAS 18001 Health and Safety Management Systems
* SABS Mark Scheme Product Certification

Manufacturers of parts and accessories are governed by quality management systems with a TS code, which is an international certification for manufacturers wanting to export or supply the OEM market. TS16949 is a regulation that provides for continual improvement, emphasising defect prevention and the reduction of variation and waste in the supply chain and supersedes the SABS approval. TS16949, based on ISO 9000, applies to the design/development, production and, when relevant, installation and servicing of automotive related products throughout the supply chain. Three Acts provide for the national co-ordination of regulation and law enforcement, the registration and licensing of motor vehicles, and the training and appointment of traffic officers.

These are:

* The Road Traffic Management Corporation (RTMC) Act, 1999;
* The National Road Traffic Amendment Act, 1999 (Act 21 of 1999); and
* The Administrative Adjudication of Road Traffic Offences Amendment Act, 1999 (Act 22 of 1999)

#### The Automotive Supply Chain

Figure : The automotive supply chain

Raw materials are supplied to the automotive subsector by other sub sectors in the manufacturing sector, such as the metal subsector (metal and steel), the plastics subsector (plastics products), the chemicals subsector (rubber and oils)

The automotive components sector which is also supplied with raw materials by other subsectors then supplies the manufactures or OEM’s with finished products used to build motor vehicles, in the supply chain this is the area or sector where SMMEs can flourish the most as the input and setup costs are not high as with the manufacturing OEM’s.

The finished product is then sold to local and international markets through distribution channels such as dealerships.

#### Training and Development

The Motor Industry Development Programme (MIDP), which was implemented on 1 September 1995, encourages OEMs in South Africa to specialise in one or two high volume models on behalf of parent companies, obtain economies of scale benefits via exports and in turn import those low volume models not manufactured in the country to complement their domestic model mix. This approach also assists the component suppliers in obtaining higher volumes.

According to the Industrial Policy Action Plan the following programmes are required within the automotive sector:

* **Automotive Production and Development Programme (APDP)**
  + Nature of the intervention: Regulatory Amendments and implementation of the tariff regime, Production Incentive and Volume Assembly Allowance elements of the APDP.
  + Economic rationale: The automotive industry works with long forward timelines and therefore a stable and transparent policy environment is required to enable investment decision making.
* **Identification of opportunities to broaden and deepen automotive component manufacturing:**
  + Nature of the intervention: An OEM-led strategy for further localisation of technologically advanced suppliers of identified products in five key sub-sectors such as electronics, body parts, interiors, exteriors, chassis and drive-train.
  + Economic rationale of the intervention: Identification of opportunities of joint sourcing opportunities across OEMs to broaden, deepen and raise economies of scale.
* **Competitiveness Improvement of Automotive Component Manufacturers (CIACM)**
  + Nature of the intervention: Firm level manufacturing competitiveness improvement through benchmarking, gap identification and assistance to close competitiveness gaps by engineers/advisors and post intervention assessment.
  + Economic rationale: Improving firm level manufacturing competitiveness will enable local component manufactures to better compete with their counterparts based in areas such as India and China leading to increased local content of locally assembled vehicles. This situation will lead to sustainability of the local industry and employment.
* **Enterprise Reference Architecture (ERA) portal for SME suppliers**
  + Nature of the intervention: Portal to help companies optimize existing technology investments through best practices.
  + Economic rationale: A complementary tool for the other competitiveness improvement initiatives focussed on technology utilisation improvement of 3rd and 4th tier manufacturers.
* **Mentorship of SME component manufacturers**
  + Nature of the intervention: This project will involve the facilitation of learning for component manufacturers, especially 3rd and 4th tier suppliers through the provision of mentors over a specified, short period of time according to pre-determined guidelines.
  + Economic rationale: Small manufacturers with advanced capabilities often fail because they are led by technicians/engineers with limited business skills/experience.

### Challenges and Barriers Facing the Automotive Subsector

While it is virtually impossible for SMMEs to compete with OEM’s and the large manufacturers within the vehicle manufacturing sector there appears to be a plethora of opportunities for SMMEs to operate in the manufacturing of vehicle parts and components sector. This is due to the relatively low capital investment required when compared with the capital expenditure required to set up a manufacturing plant. SMMEs manufacturing parts and components could act as suppliers to the larger OEM’s. This is possible with trade agreements between the parts and component manufacturers and the large OEM’s, facilitated by industry association such as NAACAM and NAAMSA.

These units are key contributors to the total production of auto components and also have a significant share in the exports of the industry. As part of a highly fragmented industry, these companies mostly are part of the unorganised sector. They operate in a tier framework, and most of the companies in the SME segment are in Tier II or below. Few of the suppliers to OEMs are medium scale enterprises.

Cost competitiveness, customer orientation, lead time, are some key factors the auto component SMMEs will have to imbibe to survive in the new global set-up. At the same time, these companies face the limitations of being SMEs such as:

**Rising costs of Materials, training, wage demands,**

The contact rising of input costs (materials, Electricity) coupled with high wage bills that are demanded by unions is having a detrimental effect on the manufacturing sector resulting a decrease in competiveness cutbacks and job losses.

**Economic Environment**

Having come out of the recent economic recession of 2008/2009 the manufacturing sector is recovering, but at a slow pace, the current challenge is or manufacturing companies to regain the markets that were lost during this period and fend off competition from other highly competitive markets e.g. (China, India)

**Access to accreditation and standards certification (ISO / SABS)**

Many smaller manufacturing firms find it difficult or too expensive to obtain accreditation and standards certification in order to make their product globally competitive resulting in manufacturers being unable to access and to take advantage of global markets.

**Labour Resources**

The high cost of labour is a serious issue which is dir3ecting firms to develop a more capital intensive operation hindering the job creation goals of government.

There is a definite shortage of skilled labour in the manufacturing sector with very little knowledge of skill’s development initiatives that are available; there is a perception that training and skills development is expensive.

Strikes are another challenge for manufacturing business as strikes hinder productivity resulting in further job losses.

**Counterfeit Parts**

In the automotive components sector the emergence of the pirate part market (imported cheap parts) are flooding the market increasing the difficulty for local manufacturers to remain competitive.

**Low capital base**

Most SMMEs start off on a low capital base and usually last only 3 years as there is a lack of access to funding with banks being apprehensive to provide loans after the recent recession.

**Limited generation of surplus funds for re-investment due to tight working capital cycle**

Operating costs are high leaving very little surplus funds available for reinvestment in machinery etc,

**Lack of Awareness of Business Opportunities**

There is a definite lack in the transfer of information regarding opportunities relating business, support and funding for SMMEs.

Inadequate exposure to the international environment

SMMEs in the manufacturing sector have limited or no access to global markets limiting business opportunities to local markets only which translates to a direct barrier to growth.

**Obsolete Technology**

The high cost of machineries coupled with the limited access to private finding forces manufacturing businesses to continue operations with old and obsolete technology.

The barriers to entry include significant capital expenditure to establish a manufacturing plant, skilled labour which is in short supply, and high cost pressures, which include raw materials, high electricity costs, the cost of training employees and rising wages. Remaining cost competitive and keeping up with the latest and highly specialised technology are the main challenges for new entrants. For entrants into the components sector, counterfeit parts and cheaper imports also pose a challenge.

### Employment Creation Ability of the Automotive Subsector

|  |  |  |
| --- | --- | --- |
| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Automotive Subsector** | In the automotive sector there are two areas where the potential for job creation is high. In the vehicle manufacturing sector and the vehicle components industry. In the vehicle manufacturing industry the job creation ability is largely dependent on the major original equipment manufacturers (OEM) and their ability to manufacture more vehicles by investing in and expanding their current infrastructures. Since 2009 each OEM has invested heavily in their South African operations but was somewhat hindered by the unexpected global recession; however the automotive industry seems to have turned the corner and is now making ground globally. There are plans from OEMS to expand their export product line which means more vehicles to be manufactured which translates into a larger labour force required. | High Potential for job creation in the vehicle manufacturing and automotive component industry. |
| In the automotive components industry there is potential for current SMMEs to expand and grow as the demand for vehicle increases. This is dependent on the success of OEM's and their ability to produce more vehicles for local and export markets. |

### The Automotive Subsector: SWOT Analysis

|  |  |
| --- | --- |
| **Strengths**   * **Abundance of raw materials** * **Established business relationships of parent companies** * **South Africa is an ideal location for specific R&D, such as technologies for rugged or tropical conditions.** | **Weaknesses**   * **Investment needed in training and skills development** * **A relatively small number of automotive components dominate exports and local content has stagnated.** * **Gaps in the manufacturing competitiveness levels of automotive component suppliers.** |
| **Opportunities**   * Automotive Production and Development Programme (APDP) to replace the MIDP from 2013 will enable vehicle manufacturers and their suppliers to plan strategically for the future and to finalise investment decisions the needed increase in local content levels. | **Threats**   * Global developments * Raw material and energy price increases * Currency movements * Union strikes * Fluctuating demand * Key suppliers closing down due to cost pressures * New legislation |

## The Plastic Subsector

The South African plastic industry, which is coal-based and dependent on feedstock from Sasol, is well established. The market is divided into six segments according to plastic type:

* Polypropylene (PP);
* Linear-low-/low-density polyethylene (LL/LDPE);
* High-density polyethylene (HDPE);
* Polystyrene (PS);
* Polyvinyl chloride (PVC); and
* Polyethylene terephthalate (PET).

Polystyrene is completely imported and is not manufactured in South Africa at all, while the other commodity polymers are manufactured in South Africa, with shortfalls being imported. While the end-user industry is diverse, the primary users of polymers are the packaging and construction industries, which use approximately 52% and 7% respectively. Exports comprise 25% of total South African polymer sales.

The primary driver of the South African plastics market is supply and demand, meaning that the product supply and demand are the main drivers of plastic production in the plastics sector, there are other factors that have a bearing on the industry as a whole, factors such as a growing environmental consciousness, peculiar trading realities, including the vexed issue of import parity pricing (IPP), as well as government initiatives aimed at the development of downstream beneficiation.

The South African market is small in global terms, with the per capita consumption of plastics averaging about 20kg per head. The per capita consumption of plastics in a country tends to reflect the development of the economy, and in developed countries such as the European countries and the United States of America, it is over 100kg per head. Below is a comparison of the estimated annual per capita consumption for 2009.

Per Capita consumption of plastics:

* India 7 kg
* South Africa 26 kg
* Brazil 26 kg
* Australia 80 kg
* UK 82 kg
* Japan 108 kg
* Italy 119 kg

*Source: Plastics SA*

Figure : Plastic Market Sectors (% Polymer converted)

#### Source: Plastics SA

#### Packaging plastics is by far the largest plastic market sector at 52%. The rest of the sectors are evenly spread with the exception of building and electronics at 7% and 6% respectively. This highlights the potential that the smaller plastic sectors have for growth and development. With the current legislation of packaging plastics and the drive to recycle packaging plastics, opportunities exist for SMMEs to take advantage of this new cheap supply of raw materials as a supply base to the plastic manufacturing process.

#### The Plastics Sub Sector Supply Chain

Figure : The Plastics sub sector supply chain

The plastic sub sector is supplied raw material by the agriculture, mining and chemical sub sectors which is then converted into plastic by businesses operating as plastic convertors and plastic product manufacturers who intern sell their products to other manufacturing subsectors as inputs or it is sold directly to the consumer market.

#### Size of the Plastics Industry

According to Plastics South Africa the plastic industry is estimated to be worth R35bn annually, employs approximately 40 thousand people throughout the plastics supply chain. This is made up of more than 1 800 companies, comprising polymer producers, polymer processors, plastics converters and plastics recyclers, supplying products to almost every sector of the economy.

Source: Plastic SA

#### State of the Industry

While the plastics industry did not escape the economic downturn of 2009, the industry fared better than others due to the fact that plastics are used by such a wide variety of other sectors such as the mining, chemicals, automotive, and retail sectors.

Prior to the global recession, the local plastics industry had experienced a number of good growth years on the back of strong consumer spending. Despite the global financial crisis the local industry has remained relatively stable. While there had been a decline in consumer goods, the food and drink-packaging sector, which accounts for 52% of plastics demand, had remained reasonably constant. *(Source: Plastics SA)*

This indicates that the plastics sector is robust and can remain relatively stable through negative economic climates.

Plastics products play an important role in the manufacturing of motor vehicles the recent decline in the automotive manufacturing sector did affect some smaller businesses within the industry; however there were also reports of growth as small companies that normally supplied the automotive sector began to diversify their business away from the automotive sector towards appliance, electronics and medical products.

This indicated the flexibility of the plastics industry and its ability to adapt in changing economic environments

#### The role of SMMEs in the plastics sector

There are two main areas in the plastic sector that have been identified as the areas of operation for SMMEs these are:

* Plastic Convertors
  + Due to its low raw material input costs and labour intensity
* Industries product manufacturing
  + Due to labour intensity and growth potential derived from high demand for plastic products.
  + Easy to diversify products
  + The packaging industry has the potential to accommodate SMMEs due to the growing demand for plastic packaging.

The major plastic converters in the packaging sub-sector are Nampak, Astrapak, Mondi Plastic Containers and Polyoak Packaging. While these companies are larger concerns and major players in the industry there is room for SMMEs to operate in the plastic convertors sector such as packaging and moulding. There are already a number of established companies that by definition fall into the category of SMME.

Table : List of major plastic sub sector manufacturers

|  |  |  |
| --- | --- | --- |
| **Company** | **Description of Product** | **Employees** |
| **Mondi Plastic Containers** | Manufactures industrial plastic products, which includes agricultural and material handling products and bulk plastic bins | 63 |
| **Premier Plastics (Pty) Ltd** | Manufactures plastic carrier bags and black refuse bags. | 152 |
| **Durattract Plastics (Pty) Ltd** | Design, manufacture and distribute plastic products for various industries including automotive, electronics, paint, catering, industrial, pharmaceuticals, chemicals, lighting, point-of purchase, cosmetics, medical, refrigeration, electrical, mining and tobacco. | 104 |
| **Flo Tek Pipes & Irrigation (Pty) Ltd** | Involved in the manufacture and distribution of HDPE and u-PVC pressure and sewer pipes and roto-moulded products. | 46 |
| **MacNeil Plastics (Pty) Ltd** | Involved in manufacture, wholesale and distribution of building supplies such as bathroom fittings and sanitary ware, brassware, plumbing fixtures and related products. | 137 |
| **Swan Plastics cc** | Involved in the manufacturing and distribution of PVC piping and fitting. | 110 |
| **Timber Plastics (Pty)Ltd** | Manufacturing of plastic bins, boxes, pallets, plastic outdoor furniture, recreational products (benches, pool accessories) from recycled plastic waste. | 68 |

### Challenges and Barriers Facing the Plastics Subsector

The main barriers to entry for polymer processors are the supply of necessary polymers at reasonable prices and the high capital cost of equipment. Newcomers and smaller market participants also experience difficulty in competing at the level of the already established producers.

Amongst the challenges in this industry, high technological barriers to entry are restraining local infrastructural growth. The high costs of equipment, together with the small market size, do not justify this investment. South Africa’s distance from high consumption markets restrains infrastructural development for exports.

Some of the challenges facing the plastics subsector are:

* With the current electricity crisis facing the country, the ever increasing electricity costs do pose a challenge for small business wanting to operate in this sector, as in the manufacturing process equipment which requires large amounts of power to operate.
* Imports from the Far East have posed a threat to local plastic manufacturers, especially in the secondary plastic products sector where secondary products are used in the manufacturing of consumer products.
* With the advancement of technology and new methods in manufacturing, expensive equipment is required. Small businesses could possibly find it a challenge to acquire expensive equipment.
* Environmental issues relating to waste management and the impact of plastic manufacturing on the environment.
* The economic environment has a large impact on the plastics industry, especially in relation to polystyrene, which is 100% imported. Much of the manufacturing equipment is imported, thus capital outlay is affected. Local polymer prices are based on import parity and as a result the exchange rate can have a significant impact on the cost of materials and therefore operating margins.
* The price of crude oil also has an impact on the price of plastics as oil and natural gases are major raw materials in the manufacturing of plastics.
* Chemical scare stories relating to rumours and internet spread myth about plastic products and the chemicals used to manufacture them. E.g. the current concern regarding the effects of bisphenol-A (BPA).
* Rising costs of raw materials has also recently become an enormous challenge for existing SMME manufacturers in the plastics industry.
* The local market is hampered by the common practice of import parity pricing (IPP). The practice involves the inclusion of notional charges, which are costs that are not actually incurred by the supplier, in the price of the products being traded on the local market.
* Labour resources have also proved to be a major constraint in this sector.

### Employment Creation Ability of the Plastics Subsector

|  |  |  |
| --- | --- | --- |
| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Plastics Subsector** | The plastics industry is large and diverse, currently the plastics industry is worth R35bn annually, employs approximately 40 000 people throughout the plastics supply chain. This is made up of more than 1 800 companies, comprising polymer producers, polymer processors, plastics converters and plastics recyclers, supplying products to almost every sector of the economy. The plastics sector is robust and can remain relatively stable through negative economic climates. With the steady increase in demand for consumer goods and food and drink packaging which accounts for 52% of the plastics industry the sector and with the future growth outlook of the automotive sector is poised for sustained growth. There is also the growth in demand for plastics pipes in the government state housing plan as well as the developments in the country wide water supply distribution plans. The future outlook is positive locally for the plastics sector and could potentially be one of the drivers of job creation in the future. | Although the plastics sector is capital intensive there is huge potential job creation in specialised areas. |

### The Plastics Subsector: SWOT Analysis

|  |  |
| --- | --- |
| **Strengths**   * **For plastic packaging the retail sector is an established market.** * **The food packaging sector and food consumption is least affected by economic downturns.** * **Large established export market.** * **South African companies have a geographical advantage to supply Africa.** | **Weaknesses**   * **Export market is affected by the strength of the rand.** * **Demand for plastic for the building sector and the manufacture of automobiles is highly dependent on the strength of the economy.** * **Plastic conversion sector is dependent on polymer pricing.** |
| **Opportunities**   * Government’s state housing and infrastructure spend, especially for plastic pipe manufacturers. * The countrywide water supply and distribution problems provide opportunities for plastic pipe manufacturers as plastic pipes are used for 60% of the pressure pipe market and in the non-pressure pipe market up to 500 mm diameter, about 75% of the pipes used are plastic. The focus is on piping systems that are leak free and durable for long-term use and also on the rehabilitation of old lines. * Consumerism is on the rise due to increased ‘working parent’ families and a growing black middle class. * Regional growth of other African economies. * For Hosaf, the only local manufacturer of PET, there is the possibility of adding a bottle-making plant of its own, instead of sending all its pre-forms to be re-blown at a customer’s plant. * The new wine-in-PET application, which has many advantages. | **Threats**   * Increasing electricity costs. * Cheap imports. * Ever-increasing unaffordable cost of world standard technology necessary for capacity expansion. * In the beverage market, consumers are becoming more concerned about the effects of bisphenol-A (BPA). * Growing environmental concerns * A weak rand / dollar exchange rate. |

## The Chemicals Subsector

The chemicals industry in South Africa has a long history, having been founded in the latter part of the nineteenth century as a result of the demand for explosives and chemicals to support the mining industry. Because the country has no significant upstream oil reserves and, until recently, little natural gas, its chemical industry has primarily developed around the gasification of coal.

The establishment of a petrochemicals industry can be traced back to the 1950's, when the first oil from coal plant was built at Sasolburg. It was, however, only in the sixties and seventies when the possibility of a chemicals industry based on local raw materials rather than imported feedstock became possible.

This followed the establishment of two large synthetic oil-from-coal plants by Sasol at Secunda during the early 1980's to provide strategic self-sufficiency in fuels. The synfuel sector, while serving the South African oil industry as a source of fuels, is now also the major source of chemical feedstock’s and intermediates in South Africa.

The chemical industry has been shaped by the political and regulatory environment which created a philosophy of isolationism and protectionism during the apartheid years. This tended to foster an inward approach and a focus on import replacement in the local market. It also encouraged the building of small-scale plants with capacities geared to local demand, which tended to be uneconomic.

Through isolation of the industry from international competition and high raw material prices as a result of import tariffs, locally processed goods have generally been less than competitive in export markets. Now that South Africa is once more fully part of the global community, South African chemical companies are focusing on the need to be internationally competitive and the industry is reshaping itself accordingly.

Another consequence of the focus on import replacement has been the building of chemical plants at inland locations close to the coal-based synthetic fuels plants which provide feedstock. This strategy was attractive at the time due to the additional benefit of being sited close to the heavily populated Gauteng area which is the largest domestic market. These plants are generally smaller than world scale and their cost structures are not highly competitive in export markets, partly because of the high transport costs to coastal ports. They are nevertheless, well placed for exports to neighbouring African countries such as Zimbabwe, Namibia and Botswana.

The industry is the largest of its kind in Africa. It is highly complex and widely diversified, with end products often being composed of a number of chemicals that have been combined in some way.  
The primary and secondary sectors are dominated by Sasol (through Sasol Chemical Industries and Sasol Polymers), AECI and Dow Sentrachem. These companies have recently diversified and expanded their interests in tertiary products, especially those with export potential.

#### Subsectors within the Chemicals Industry

The chemicals industry is made up of approximately 11 subsectors:

* Basic chemicals; which includes liquid fuels, olefins, organic solvents and industrial mineral derivatives.
* Plastic Products
* Pharmaceuticals
* Inorganic chemicals
* Primary polymers and rubbers
* Organic chemicals
* Rubber products
* Bulk formulated
* Consumer formulated chemicals
* Pure functional
* Specialty chemicals

Figure : Percentage Contribution by Subsector to the Chemicals Industry

While three of these subsectors – fuels, bulk formulated chemicals and pharmaceuticals have a larger output than would be expected given the overall size of the economy, South Africa's chemicals industry is relatively small by global standards.

Of the roughly 80 000 types of basic or pure chemical currently manufactured on a commercial basis in the world, South Africa manufactures around 300, most of which are commodity, low-value and high-volume products.

### Key Subsectors within the chemicals industry

#### Plastics

South Africa's plastics industry is in good shape, according to a recent overview in Engineering News, with many downstream manufacturers turning out products "that can complete globally from a quality and performance point of view. Packaging dominates, at over 50% of the local market. The industry was hard hit in the past with the introduction of a plastic bag levy to limit environmental pollution, but the outlook is positive, with the government having identified plastics fabrication as a key jobs creator. Polymer production is one potential area of expansion. Most plastic companies in South Africa are small to medium entities, with over 800 companies involved in the plastics converting sector. Some are highly innovative, such as Timber Plastics, which recycles plastic waste such as soft drink bottles, moulding them into structural forms such as poles, planks and beams.

#### Pharmaceuticals

Huge opportunities exist for pharmaceutical manufacturers in South Africa, with the government planning to develop the local industry by encouraging local production of high-demand pharmaceuticals, such as the antiretroviral drugs used to treat HIV/Aids and generic low cost pharmaceutical products. The government also aims to assist in the development of the scientific and technological skills necessary to support the growth of the sector. There are however, limited opportunities within the pharmaceutical sector for SMMEs due to the specialised nature of the industry and the high input costs that is associated with this industry.

#### Gas-to-liquid technologies

South Africa is a world leader in coal-based synthesis and gas-to-liquid technologies. It is among the lowest-cost producers of ethylene and propylene in the world, due to abundant access to low-grade coal and leading-edge process technology.

#### Industry Structure

South Africa's chemical industry is of substantial economic significance to the country, contributing around 5% to GDP and approximately 25% of its manufacturing sales. The industry is the largest of its kind in Africa. It is highly complex and widely diversified, with end products often being composed of a number of chemicals which have been combined in some way to provide the required properties and characteristics. It can be divided into four broad categories:

* Base chemicals
* Intermediate chemicals
* Chemical end-products
* Specialty end-products

#### Base chemicals

Base chemical Include the petrochemical building blocks, ethylene, propylene, butadiene, benzene, toluene, xylenes, and methanol, which are all important chemical building blocks sourced from the petrochemical industry. Inorganic chemicals such as ammonia, caustic soda, sulphuric acid, chlorine, sulphur, soda ash, bromine, fluorine and phosphorus, are also base chemicals.

Petrochemicals production in South Africa is largely centered on the Sasol ll and Sasol lll plants at Secunda and the Natref refinery at Sasolburg where Sasol generates various feedstocks and olefins which facilitate the downstream manufacture of polymers and other products. Using the Fischer Tropsch process, Sasol produces about two million tonnes per annum of a range of various olefins for the petrochemical industry. About 0.6 million tonnes of olefins are used by the chemical industry and the remaining 1.4 million tonnes is used in fuels. A small proportion (about 25,000 tons) is recovered from crude oil refineries. When compared with international petrochemicals plants based on natural gas or ethane, the local synfuels plants tend to be less competitive and reinvestment in the synthetic coal- based technologies would currently be difficult to justify. As a result Sasol has looked to Mozambique and its gas fields for readily available feed-stock. In consequence a gas pipe-line has been completed and natural gas is now piped through to the Secunda site.

Some benzene and other aromatics are produced by the Engen refinery in Durban. A modest amount of propylene is produced at the Sapref refinery in Durban where a splitter owned by Safripol is in operation. The Mosref plant generates mixed alcohol and ketone streams which are currently exported. Phosphoric acid is sourced from phosphate rock mined at Phalaborwa by Foskor.

#### Intermediate chemicals

Intermediate chemicals is a term which can be used to describe a plethora of products such as ammonia, waxes, solvents, phenols, tars, plastics, and rubbers.

#### Chemical end-products

Includes processible plastics, paints, explosives, and fertilisers

#### Speciality chemical end-products

These tend to be lower volume, higher added-value chemical products. Many pharmaceuticals, agro-chemicals, bio-chemicals, food-, fuel- and plastics - additives fall into this category.

The base, intermediate chemicals and chemical end products are produced by the larger companies such as Sasol, Omnia, African Explosives Ltd, Chemical Services, NCP Chlorchem, Dow Agrosciences and Dow Polymers. Other players which are active in these categories include Hoechst SA, Afrox, Bayer, Shell Chemicals, BASF, African Products, Engen Petroleum, Ineos Silicas SA (Pty) Ltd, ICI, Rohm and Haas, Air Products and Lanxess. Traders and agents are also active in this market.

There are a number of companies involved in local production or importation of speciality and performance chemicals. Included are Chemserve, Fine Chemicals Corp (S.A. Druggists), Noriscel, Henkel, Revertex, CH Chemicals and various companies in Protea Chemicals which is now part of the Omnia Group. There is an active trading sector comprising traders and agents who handle the importation and marketing of speciality and fine chemicals. Included are Saarchem, Protea Chemicals, Crest Chemicals, Carst & Walker, Lewis & Everitt and T&C Chemicals.

#### Business Linkages

Table : Business linkage opportunities for the South African Manufacturing sector

|  |  |  |
| --- | --- | --- |
| **Industry** | **Linkage to Industries** | **Links to SMMEs** |
| **Mining** | The chemicals industry provides speciality chemical solutions for the mining sector such as extractive chemicals, tailings treatment, water treatment products and systems as well as providing logistics, storage preparation and dosing of potentially dangerous chemicals. | SMME businesses operating in the chemicals, plastics and metals subsectors |
| **Agriculture** | The chemicals industry provides and supplies specialised chemical products to the agricultural sector such as insecticides, fungicides, herbicides as well as plant nutrition and fertigation products. | SMME businesses operating in the Chemical subsector and wood and furniture subsectors. |
| **Paper & Packaging** | The chemical sector supplies speciality chemicals for the pulp, paper, tissue and board industries | SMME businesses operating in the Agro processing and chemical subsector |
| **Toiletries, Cosmetics & Pharmaceuticals** | The chemicals sector supplies the chemical, cosmetic and toiletries industry with base and specialised chemicals. | SMME businesses could manufacture and supply cosmetics such as deodorants, hair products and make up to the retail sector. |
| **Food and beverage** | In this industry the chemicals sector provides speciality ingredients, additives, water purification chemicals and systems. | SMME businesses operating in the food manufacturing industries and chemical industries |
| **Oil & Refinery** | Supply of petro chemicals, fuel additives | SMME businesses operating in the chemical industries |
| **Automotive** | Supply of base to speciality chemicals for paint products, polyurethanes and polymers | SMME businesses operating in the chemical, plastic and component subsectors |
| **Paint, coatings inks and adhesives** | Wide range of chemical supply for paper coatings Print inks and industrial adhesives. | SMME businesses operating in the chemicals subsector |
| **Plastics and Rubber** | Provides base chemicals used in the manufacturing of polymers, gum, oil resins, pigments and polymer converting products | SMME businesses operating in the Chemicals subsector |
| **Detergents** | Provision of surfactants and other speciality additives for heavy duty industrial and domestic applications. | SMME businesses operating in the chemicals subsector |
| **Explosives** | Raw material (base top speciality chemicals) supply for explosives | SMME businesses operating in the chemicals subsector |
| **Appliances & furniture** | Supply of polyurethanes and polymers for divers’ applications in this sector as well as paint finishes and coating products. | SMME businesses operating in the chemical and agro processing subsector |
| **Engineering and foundries** | Supply of refractory coatings, pressing lubricants, fire resistant hydraulic fluids and aluminium catalysts. | SMME businesses operating in the Chemical subsector. |
| **Construction** | Supply of polyurethanes and urea formaldehyde resins | SMME businesses operating in the chemicals subsector and agro processing of wood products |
| **Steel and metal** | Supply of electroplating chemicals, resins, lubricants, coatings | SMME businesses operating in the chemicals Subsector |
| **Textiles and leather tanning** | Supply of speciality chemicals, including biocides, liming auxiliaries, fungicides, tanning agents, defoamers and finishing products. | SMME businesses operating in the Chemicals and Agro processing subsector |

#### End Market Segments

Table : End market segments

|  |  |
| --- | --- |
| **Market** | **Product** |
| **Personal Care** | * Hair Care * Skin Care * Cosmetics * Dental Hygiene * Personal Hygiene * Cosmeceuticals * Fragrances |
| **Health Care** | * Equipment (medical devices) * Supplies (Disposables) * Pharmaceuticals Biotechnology |
| **Household** | * Non Durable household goods |
| **Nutrition** | * Packaged foods and meat * Beverages (distillers, brewers and soft drinks) * Nutraceuticals |
| **Transportation** | * Aircraft manufacturing * Ship and boat manufacturing * Railway manufacturing |
| **Mining and Metal** | * Precious Metals * Iron Ore for steel * Base metals * Aluminium |
| **Machinery** | * Construction Machinery * Other Machinery * Lubricants |
| **Automotive** | * Passenger cars * Truck and buses * Tires and rubbers |
| **Construction & Infrastructure** | * Residential * Non residential buildings * Infrastructure |
| **Electronics** | * Global electronic equipment and instruments * Global semiconduct and electrical components * Office electronics * Consumer electronic * Cables * Televisions |
| **Paper & Packaging** | * Printing * Packaging (Plastic & Paper) * Fiber (Pulp) * Toiletries |
| **Commercial Printing** | * Ink cartridges |
| **Energy** | * Oil and Gas * Energy / Electrical utilities * Wind * Solar * Battery |
| **Water** | * Water utilities (Purification) |
| **Agriculture** | * Pesticides * Fertilizer * Agricultural products |

#### The Role of SMMEs in the Chemicals Industry

The chemicals Industry could potentially contribute significantly towards employment opportunities, to the country’s GDP, and be the source of most innovation and new products. It is therefore vital to the broader chemical sector that the SME component be supported.

With a specific focus on SMMEs, opportunities do exist such as the manufacturing of simple detergents, cosmetics or chemicals compound. However when referring to more complex chemicals the larger multinationals such as Unilever dominate the market, e.g. it is unlikely that SMME firms will have the resources to enter sub-sectors such as Petroleum, Basic Chemicals and other commodities, which are driven by high volumes and heavy capital requirements. In terms of manufacture, the Other Chemicals sector is considered most appropriate for SMMEs, i.e.:

* Pesticides and Agrochemicals
* Paints, varnishes, coatings, printing ink and mastics
* Pharmaceuticals, medicinal chemicals and botanical products
* Soap and other cleaning chemicals
* Perfumes, cosmetics and other toilet preparations
* Other – polishes, waxes and dressings
* Not elsewhere classified (explosives being the major component)

#### Pesticides & Agrochemicals

This sector covers a very wide range of products, ranging from animal and plant pesticides, herbicides and fumigants, insecticides, fungicides, growth regulators, adjuvants (e.g. wetting agents), animal health care, trace elements and specialised fertilisers. Most of these products are designed for much focused application, and a large degree of technical know-how is required in companies producing and selling these products. Most of these products are developed by multinational chemical companies and are imported into South Africa. However, there is a fair degree of local R&D activity in this field, concentrating on local agricultural products and conditions. Research is conducted by the University of Pretoria, Wits and Onderstepoort, amongst others. Also, local companies have acquired the applications know-how and are able to add value by assessing needs and designing applications.

#### Paints, Varnishes, Printing Inks & Mastics

There are about 150 paint producers in South Africa. This can be compared with continental Europe, which has a total of 90 producers in all countries, and Australia with 20 producers. The disproportionately large number of manufacturers is caused by factors such as:

* Simple technology
* Low skills requirement
* Cheap equipment
* Availability of labour
* Price-sensitivity of consumers, especially contractors
* Lack of quality consciousness
* Lack of regulatory enforcement

This oversupply of manufacturers causes cut-throat competition, single-shift operation and ultimately low profitability in the industry. Also, smaller manufacturers have little buying power, and are therefore uncompetitive compared with the larger players. The larger players such as Plascon, Dulux and Prominent are much more profitable due to lower input costs, better retail prices as a result of strong branding and more efficient production and distribution.

#### Soaps, perfumes, cosmetics, detergents, polishes & waxes

This sector is the largest and most important sector in the Chemicals Subsector. The sector can be divided into 2 major segments:

#### Consumer formulated products

These are the well-known FMCG products like soaps, shampoos, toothpastes, cosmetics, household cleaners, but excluding medicines. The output of this segment is almost R 8 billion p.a. At least 90% of this production is performed by large multi-nationals, such as:

* Pfizer
* Unilever
* Johnson & Johnson
* Procter & Gamble
* Colgate Palmolive

As input materials are mostly imported, production is based at the coast (mainly Durban, Cape Town and East London).

#### Cosmetics and Hair Care

The South African cosmetics industry is a fast-developing sector, with most of the turnover arising from the downstream services sector (e.g. salons, hairdressers, therapists). Product categories are:

* Hair care
* Facial and body skin care
* Perfumes and fragrances
* Colour cosmetics
* Bath and shower products
* Deodorants
* Oral hygiene products (mainly toothpaste)
* Men’s shaving products

There are about 120 members of associations and a further 100 non-registered participants, ranging from importers, distributors, manufacturers, packers, and direct sales organisations. The industry directly employs 65,000 people, with another 60,000 in supporting industries.

The retail sector consists of about 33,000 outlets, including 2,000 urban Black hair salons and 10,000 to 12,000 informal salons. The ethnic markets account for approximately 60% of all spending in this sector. There are a number of products specifically designed for this market, some of which have been developed and are produced in South Africa. However, most cosmetics are fully imported, with only about 5% locally manufactured. Although this is a fast-growing sector, most products sold are international brand names.

The key success factor in this sector is a large marketing and distribution budget, required to develop a well-known brand. Most opportunities exist in development of downstream services and supply of ancillary products to exiting manufacturers. However, growth of exports is being reported in this sector, showing that there is an opportunity for niche manufacturers.

The biggest success story in this sector is that of Black Like Me and its founders Mr. Herman Mashaba and Mrs. Connie Mashaba, the brand was developed over a period of 26 years. The main driving force responsible for the success of Black Like me in the cosmetics sector was the entrepreneurial appetite displayed by its founders, the solid foundation of marketing and distribution channels, and the fact that the company is ISO compliant and IQNet certified amongst other quality certifications. This supports the importance of quality in this “high risk” sector, where products, if not manufactured with quality measures in place due to the chemical compositions, could have an adverse reaction on consumers.

#### Industrial products

Worth approximately R 3, 2 billion, these products are mainly for cleaning, de-greasing, sterilizing and disinfecting in industrial applications. There is also a range of specialized cleaners, polishes and lubricants. A number of SA-based companies manufacture products for the industrial market.

#### Other Chemicals

The Other Chemicals sub-sector includes the broader definition of fine chemicals. In addition to this sub-sector, activities such as Plastics and Rubber Conversion, and certain bulk formulated products may be opportunities, e.g. niche fertilisers.

Not included in the Manufacturing category, but of high significance to the chemicals industry, the Services sector is an area of major opportunity for SMMEs. Capital requirements are relatively low, and employment potential is high. Success depends on technical competence and market access. Services would include activities such as:

* Import of chemicals, warehousing and distribution
* Provision of technical services, e.g. consulting, analytical services, engineering
* Application of chemicals, e.g. painting & coatings, concrete rehabilitation, water treatment
* Waste disposal
* Packaging

There is unanimous recognition among business and government of the vital role played by Small and Medium-sized Enterprises (SMEs) in the economy. The chemical industry is a major contributor to employment, technology and wealth-creation. Small and medium-sized enterprises (SMEs) are an essential factor in its dynamism and entrepreneurship.

Due to their size and organization, SMEs are particularly responsive to the changing economic climate and evolving technologies. They are therefore a source of flexibility and key elements in industrial clusters. SMEs in the chemical industry actively participate in the development of new products and processes. More than in any other industrial branch, in-house innovation is increasingly vital for them amid ever fiercer international competition. By embodying innovation in the chemicals they manufacture, they widely contribute to its dissemination to industry as a whole.

#### Success factors for SMEs in the Chemical Industry

Due to the hazardous nature of the chemicals subsector there are numbers of factors that affect the success or failure of smaller businesses operating within this sector.

Success factors for SMEs:

* Access to skills
  + Access to a skilled labour force with the knowledge to combine hazardous chemicals to manufacture a product.
* Access to start-up capital
  + Access to financing from either private financing institutions or investors.
* Access to operating finance
  + Securing operating capital from banks or private investors.
* Access to Information
  + Technical knowledge on procedures relating to the manufacturing process
  + Regulatory/legislative laws and guidelines that regulate the manufacturing process.
  + Access to Market
* Access to wider market information to determine what the needs of local and international markets are.
* Access and ability to use Innovation
  + Investigating new technologies that could provide a platform to diversify products.
* Business support
  + Business support from government and non governmental agencies such as the department of Trade and industry as well as industry associations such as the chemical and allied industries associations.
* Minimal administrative load

In the chemical industry, skills, capital availability, information and access to markets are the most pronounced problem areas. Additionally, efficient logistics are necessary.

### Challenges and Barriers Facing The Chemical Subsector

SMEs in the chemical industry are faced with many challenges and difficulties which are common with SMEs in other sectors:

* Burden and complexity of legislation.
* Regulations due to the hazardous nature of the products.
* Stifling administration.
* Lack of management and marketing skills.
* Uneasy access to long term finance to due to the nature of the industry and the environmental impact.
  + - * Access to relevant information sources.
      * A lack of business know how in terms of business development, brand management and administration.
      * Lack of entrepreneurial appetite by qualified individuals within the sector.
      * Expensive equipment required.
      * Qualified staff in the chemical industry
      * High cost wages / salaries due to the specialised nature of the industry.

### Job Creation Ability of the Chemicals Subsector

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| --- | --- | --- |
| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Chemicals Subsector** | The industry is the largest of its kind in Africa. It is highly complex and widely diversified, with end products often being composed of a number of chemicals that have been combined in some way. The primary and secondary sectors are dominated by Sasol (through Sasol Chemical Industries and Sasol Polymers), AECI and Dow Sentrachem. These companies have recently diversified and expanded their interests in tertiary products, especially those with export potential. Due to isolationism and protectionism during the apartheid years this sector fostered an inward approach with a focus on import replacement in the local market which bode well for local companies , however in recent years importing of chemical from the far east has been steadily increasing limiting growth in this sector. Due to the complex nature for this sector, limited manufacturing plants and increase logistical costs the chemicals sector faces the challenge of being uncompetitive in the global market hindering growth. The industry is in a restructuring phase in order to become more globally competitive and could potentially be a driver of job creation in the future. Even though the sector is highly specialised the potential for job creation lays in the Chemical end products and speciality end products industries. | High potential for job creation especially in the petrochemicals industry and chemical end products industries |

### The Chemicals Subsector: SWOT Analysis

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| --- | --- |
| **Strengths**   * **Large contributor to the GDP** * **Large sector that is diverse.** * **Products manufactured are usable across many industry sectors.** * **Clear areas for SMEs to operate in.** | **Weaknesses**   * **Industry dominated by large multinationals** * **High percentage of imports** * **Highly specialized areas** * **Lack of management and marketing skills.** * **Lack of business skills and an entrepreneurial appetite.** * **Lack of university qualified professionals.** * **Lack of information on complex export laws.** * **Negative global markets.** * **Heavily regulated due to the hazardous nature of the industry.** |
| **Opportunities**   * **Large markets.** * **Large spectrum of products and uses of chemicals.** * **Large potential export market.** | **Threats**   * **Current Economic Climate** * **Cautious Consumer Spending** * **Weak exchange rate.** * **Lack of access to new technologies.** * **Legislative impact on business.** * **Environmental issues.** |

## The Textile Subsector

#### Overview

Since 1994, over US$1-billion has been spent on upgrading and modernising South Africa's textile, clothing and footwear industry, making it efficient and ready to compete internationally.

South African market demand increasingly reflects the sophistication of developed markets, and the local textile and clothing industry has grown accordingly to offer the full range of services, from natural and synthetic fibre production to nonwovens, spinning, weaving, tufting, knitting, dyeing and finishing.

With technological developments, local textile production has evolved into a capital-intensive industry, producing synthetic fibres in increasing proportions.

The Clothing sector represents companies that manufacture products such as men’s, ladies and children’s wear, underwear, sportswear, outerwear and millinery items such as hats and caps.   
The Textiles sector consists of companies that manufacture textile products through various processes, for example, the spinning of yarn from natural or manmade fibres, the weaving/knitting of fabrics from spun yarn, the dyeing and printing of fabrics, the manufacture of textile floor coverings (carpets), the manufacture of flock and felt products and the manufacture of industrial (performance) textiles.

The Footwear and Leather sector comprises of three distinct sub-sectors, namely, tanners and dressers of leather, manufacturers of footwear (from leather or other products) and the manufacturers of general goods and handbags (including luggage/travel goods) from leather or other products.

The members of the CTFL SETA are mainly concentrated in KwaZulu-Natal, Eastern and Western Cape and Gauteng. They are diverse in both their composition and manufacturing processes and vary in size from large manufacturing corporate companies to medium-sized factories, small family businesses and one man operations. The training needs of these companies are therefore wide-ranging and diverse.

Currently, about half of the South African industry is under threat - the half that steadfastly has not complied with wage rates set by the bargaining council. The bargaining council system forces non-signatory companies to implement union-employer negotiated wage and other agreements, which they say are too high for them to be viable.

After years of conflict between the bargaining council/union and noncompliant employers, the industry is heading for high noon -- writs are going to be executed soon, which could result in the closure of up to 470 non-compliant factories within the next six months, resulting in 18 000 to 28 000 job losses.

At the end of September, close to 58 000 people were employed in the textile industry, a slight improvement from the 56 985 employed in December last year. There is a steady incline in the sector which is due to Government incentive programmes for manufacturers amongst other factors.

105 companies had taken up the clothing incentives to the value of R112 million. Production incentives had been paid to 199 companies and the approvals amounted to R624 million.

#### Subsectors within the Textiles Industry

The Textile industry consists of various sub- sectors including:

* Textiles
* Wearing apparel
* Leather and leather products
* Footwear

#### Highlights in the industry

Although the industry is still relatively small, it boasts some impressive results in world markets:

* Local yarn manufacturer Sans Fibres supplies 80% of the sewing thread used in the world's apparel sewing operations.
* Local fabric mill Gelvenor Textiles supplies more than 50% of the world's demand for parachute fabrics.
* Local suit manufacturer House of Monatic has delivered its one millionth suit to the UK market.

#### Availability of raw materials

Other competitive advantages for the sector lie in competitive labour costs and the ready availability of natural fibre raw materials.

#### Cotton

South Africa produces in the region of 40 000 tonnes of cotton a year with above world average lint, providing the potential for the local cotton pipeline to become increasingly export-oriented. Cotton fibre and yarn can also be imported from the SADC region to supplement production for Agoa purposes.

#### Leather

SA has the raw materials needed to produce any type of footwear, from low end to high end. Bovine, ostrich, Nile crocodile, game leather, textile and PVC and PU synthetic raw materials can all be sourced locally without difficulty.

#### Vegetable fibres

South Africa is successfully growing and processing natural fibres such as flax and hemp, in response to increasing demand from the automotive and aeronautics industries for environmentally friendly body parts.

#### Wool and mohair

South Africa is the world's largest mohair producer and the fifth largest producer of wool.

THE International Wool Organisation (IWTO) is the international body representing the interests of the world’s wool textile trade and industry.  As such, its membership covers the wool growers, traders, primary processors, spinners and weavers of wool and allied fibres in its member countries, as well as all kinds of organisations related to wool products and the wool business in general.  It provides for them a forum for discussion of problems of joint concern and acts as their spokesman with all those bodies and authorities towards whom a common approach is deemed necessary.

#### Challenges Faced by the Textile Industry

* The lack of an industrial policy from the DTI over the past 10-15 years. With the current climate of uncertainty in the textiles industry due to the continued pressure of cheap imports manufacturers are unwilling/reluctant to invest in upgrading their machinery.
* A surge in imports (from China in particular). Industry complains that the quotas imposed, whilst welcomed, were ‘too little, too late’ and that government took too long to respond.
* A perception within government and the public that industry is calling for ‘protection’ from foreign competitiveness due to poor productivity and inefficiency, whereas all they want is a ‘level playing field’

#### Technological Advancement

A new generation of textile-related technologies is appearing, such as smart textiles, multifunctional textiles, body scanning, near-shape processing, knowledge-based expert systems, biomaterials and others. A recent technology commercialised by Textek revolves around ‘breathable waterproof fabrics’ an advanced technology for laminating microporous membranes on to fabrics to produce waterproof, yet breathable textile substrates. The military have obvious uses for this fabric, as well as numerous other applications, such as in the medical area where the risk of viral diseases transmitted to health workers by infected patients is ever-increasing. The medical laminates are impermeable to blood, body fluids, bacteria and viruses, and have a high comfort factor owing to their breathability. Additionally, it is durable and cost-effective, and thus can find application in surgical gowns and drapes, scrub apparel and garments for health-care workers.  
Other CSIR technologies at different stages of development and commercialisation include radio-frequency carbonising of wool, a yarn dismantler, a micrometer, a helical sewing machine for the construction of backfill mining bags, and a loose-stock chlorination process for wool. In textiles, reduce the use of phosphate containing chemicals, use ultraviolet lights instead of biocides in the cooling tower; in textiles, use ultrafiltration systems to recover dye-stuffs from waste water.

### Challenges and Barriers Facing the Textiles Subsector

* **Access to Inputs**:

Designing is significantly dependent on its key input fabric. There is a challenge in obtaining consistent quality of fabrics in adequate quantities timeously. It also requires other inputs such as buttons, patterns and threads etc. At present, a fair amount of the required materials are imported. Given the lag in demand to supply, the agents maintain a minimal inventory. If additional quantities are required, it means waiting for stock to arrive. In reality, when designers are able to obtain orders arising out of any publicity or event, they find it difficult to match or supply the requirements as there is no guarantee of availability of material.

Designers are also ill equipped to deliver on orders due to lack of a robust manufacturing set up. They do not have well developed linkages with reliable, efficient and economic C-M-T facilities. This fits back into the development of a robust integrated value chain between Clothing, Textiles and Fashion. In this, Fashion sector will be instrumental in setting up the necessary preferences; Clothing sector will fulfil the demands generated by the Fashion sector. In turn, the textile sector will receive necessary orders from the Clothing sectors to be able to produce the necessary orders.

* **Access to Markets**:

Given the high cost of retail space, it is quite challenging for young upcoming designers to present their creations to a broad range of potential clients. At present, the designers are working by sharing costs or pooling some shared facilities between them and their colleagues. This process could be operated in an organised and coordinated way through a collective effort. The institutional body would find an equitable way for all artists to be able to present their creations to their target markets. The resulting cooperation may be able to significantly reduce the overall costs of doing business. Financial assistance to bridge cash flow requirements among emerging design houses and small retailers can also help ease the pressure.

* **Access to skills**:

Designers face problems in this area at two levels.

**Firstly**, fashion designing requires inputs from specialised talent. These may be embroiderers, cutters or pattern makers. The skills in this area need to be developed so that the final deliverable product is able to include these skills. In some cases, the designers are able to import craftsmen from overseas to work for them. Their spare time may be utilised in taking on additional work for other designers as well. It would be desirable to develop necessary local skills through an exchange or mentorship programme using the skills of skilled overseas craftsmen. These could be used as shared resources.

**Secondly**, there is also a lack of local generic skills and the gap is being met on an ad hoc basis. The skills identified may need to be imparted accordingly through Technikons. In the case of the informal sector, specialised training programmes may need to be setup. This may be an area for the municipality or province to intervene. Existing training programmes can be upgraded through industry inputs.

* **Development of Entrepreneurship Skills**:

The designers consistently brought up the issue of access to finance, access to business acumen and access to market opportunities. This could be consolidated together under the umbrella of development of Entrepreneurship skills. At present, this lack of access to entrepreneurship skills is managed by learning through experience and by exchanging ideas with other peers. If they are lucky, they are able to seek the help of experienced professionals in the industry who sometimes may give them a helping hand.

What is required to overcome this barrier is a structured short course encompassing key business skills and developing better understanding regarding use of finance, access to markets and developing business teams. These inputs would be able to assist the designers in complementing their technical competence with business competence. Alternatively the designers could outsource the business side of their enterprise which include key business functions like sourcing, logistics, cash flow, accounts and costing.

In addition to the above, lack of finance and access to credit serves as a major stumbling block while buying fabric in bulk, or while buying shelf space in retail outlets. Most orders require cash down payments. Financial assistance to bridge cash flow during such times will help develop sustainable design enterprises.

* **Fragmented Industry**:

The fashion industry is nascent, fragmented, scattered and needs incubation. Fashion designers are generally busy grappling with routine logistical challenges or busy designing their creations. They find it difficult to take time out to attend to the overall organisational issues of the industry. Due to the fragmented nature of the industry, the fashion designers (emerging and established) are unable to network on a regular basis. They also do not have linkages into government structures and its support organisations.

* **Global Competitiveness:**

Young designers from SA generally grapple with lack of global exposure. This results in poor product sophistication, a lag in understanding global trends, tastes and designs and inadequate research and development of new products.

### The Job Creation Ability of the Textile Subsector

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| --- | --- | --- |
| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Textile Subsector** | The textiles industry has been under pressure for a number of years and has significantly decreased in size to the advent of cheaper foreign imports for the far east and has impacted negatively on the local economy. There seem to be little being done in the way of stimulating a recovery in this sector which in the past was a key driver in job creation. The largest challenge facing this sector is the imports of cheaper Chinese products. | The current job creation ability of this sector is very low due to the current decline in the sector. The textile sub- sector currently does not hold any positive incentives for job creation however with the correct interventions in place to stimulate investment and an overhaul of the entire subsector the future potential for job creation is quite significant. |

### The Textiles Subsector: SWOT Analysis

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| **Strengths**   * **Political stability** * **Entrepreneurial culture** * **Good telecommunication network** * **Cheap utility costs in comparison to other countries** * **The industry has government support programmes (DTI, SEDA, TEXFED,etc)** * **Free trade** * **Widely shared visions and goals between public and private sector** | **Weaknesses**   * **Approach to economic development** * **Transport inland/ port charges/ long distances** * **Physical infrastructure** * **Critical shortage of skills (Management)** * **The development of new fabrics is slow in the textile industry and some high quality fabrics are not produced in South Africa** * **Distances to global markets** * **Access to local markets** * **Value adding technologies** |
| **Opportunities**   * Research and development * Adding value to services (Knowledge, services) * SADC * Sector specific incentive schemes * Technology * Unexploited linkages between different economic sectors * Competition Commission * Support partners | **Threats**   * Significant current threats   + Energy cost   + Global financial crisis   + Increase in the costs of inputs   + Rising labour costs due to Unions * Cost of entry into markets * Subsidised production/ exports in developed nations * Increased competition due to trade liberalisation * Compliance with target markets * Cheap imports mostly from China and India |

## The Metals Subsector

#### Overview

South Africa's large, well-developed metals industry, with vast natural resources and a supportive infrastructure, represents roughly a third of all South Africa's manufacturing.

It comprises basic iron ore and steel, basic non-ferrous metals and metal products. The iron and steel basic industries involve the manufacture of primary iron and steel products from smelting to semi-finished stages.

Ranked the world's 19th largest steel producing country in 2001, South Africa is the largest steel producer in Africa (almost 60% of Africa's total production).

Primary steel products and semi-finished products include billets, blooms, slabs, forgings, reinforcing bars, railway track material, wire rod, seamless tubes and plates.

South Africa is a net exporter, ranked 10th in the world, to more than 100 countries. Approximately 500 000 tons of ferrous-scrap were exported by metal recyclers in 2001.

Imports accounted for only 5,8% of total domestic consumption of primary steel products in 2001. Sales to the local market increased by more than 6% during 2001, when compared with 2000.

Arcelor Mittal is South Africa's largest steel producer. Other industry players include Scaw Metals, Cape Gate, Columbus Stainless Steel, Highveld Steel and Vanadium and Cisco.

South Africa's non-ferrous metal industries comprise aluminium and other metals (including copper, brass, lead, zinc and tin). Aluminium is the largest sector but, as SA has no commercially exploitable deposits, feedstock is imported. South Africa is ranked eighth in world production of aluminium. Key players include Billiton (with smelters in Richards Bay) and Hulett Aluminium.

Other non-ferrous metals are small in relation, but are still important for exports and foreign exchange earnings. Although the country's copper, brass and bronze industries have declined, it is hoped that new mining and reclamation technologies will allow exploitation of previously unviable deposits.

The international and local steel industry has changed dramatically over the past two years. Several steel companies have fallen away and protectionism has increased.

To survive in these harsh conditions, the South African primary steel industry has taken major steps to become more efficient and competitive. Many of the local steelworks have engaged in ongoing restructuring processes and productivity improvements.

For example, Arcelor Mittal's steel and mining divisions were unbundled towards the end of 2001 and Saldanha Steel was 100% integrated into Arcelor Mittal early in 2002.

#### Primary Steel Industry

South Africa was ranked the 21'st largest crude steel producing country in the world by the World Steel Association (worldsteel) in 2010. South Africa is also the largest steel producer in Africa, producing about 47% of the total crude steel production of the continent during 2010.

Total South African crude steel production, as reported by the members of SAISI, amounted to 7,617\* million tonnes in 2010, an increase of 1.8%, compared with 7,484 million tonnes during 2009. This represents about 0.6% of world production which reached 1 411.9 million tonnes in 2010 according to the World Steel Association (worldsteel), an increase of 14.8% when compared with 2009.

Carbon steel deliveries by the South African primary steel industry amounted to 5,665\* million tonnes in 2009, a decrease of 13.5% compared with 2008. During 2009 3,884\* million tonnes of carbon steel products were sold on the local market, representing a decrease of 28.3% compared with 2008. During 2009 1,772 million tonnes of primary carbon steel products were exported, an increase of 58.2% compared with 2009.

Imports of carbon and alloy primary steel products (excluding semis, stainless steel and drawn wire) during 2010 amounted to 0,657 million tons, an increase of 36.3% compared with 2009.

The range of primary carbon steel products and semi-finished products manufactured in South Africa includes billets, blooms, slabs, forgings, light-, medium- and heavy sections and bars, reinforcing bar, railway track material, wire rod, seamless tubes, plates, hot- and cold-rolled coils and sheets, electrolytic galvanised coils and sheets, tinplate and pre-painted coils and sheets.

The range of primary stainless steel products and semi-finished products manufactured in South Africa includes slabs, plates and hot- and cold-rolled coils and sheets.

A volume of 1,225 million tonnes of ferrous-scrap were exported and 0,054 million tonnes were imported in 2010.

#### Metallurgical beneficiation and shaping

This process is performed by the steel manufacturing industry and typically involves smelting to convert iron ore into pig-iron (in South Africa primarily via the blast furnace route) and then refining (e.g. using a basic oxygen furnace) and shaping it in rolling mills into steel products (e.g. HRC - hot rolled coil). Other input materials in steel manufacturing are scrap, manganese and coking coal. The most expensive component in this process is coking coal (mainly imported into South Africa), which is used to produce coke, needed both as the chemical reductant and as the source of energy in the process. An alternate steelmaking technology also used in South Africa is the electric arc furnace (EAF) route.

Although this process uses small quantities of iron ore, most of the iron is obtained from smelting scrap metal using significant quantities of electricity as the energy source.

#### Conversion/Fabrication and Manufacturing/End user industries

This final step in the value chain encompasses two groups of players:

* converters/fabricators that convert standard steel products into intermediate products (e.g. wire and tube); and
* manufacturers / end users that consume both standard steel products and intermediate products from converters

The largest end user industries in South Africa are building and construction (40%), automotive (11%), machinery (9%) and mining (7%).

#### Structural Steel Industry

Structural metal products are largely linked to construction and building activities (where construction is seen as mainly civil projects and building refers to offices and residential housing). In recent years, the global world trade in structural steel products grew at 11% per annum in value terms.

In South Africa the structural steel industry is dominated by the big five:

* Group-5
* Murray & Roberts
* Grinaker-LTA
* McBride and
* Status.

The South African construction sector has experienced revived growth in recent years and should continue to do so up to 2010 at least. The soccer World Cup is creating a construction upsurge with the building or upgrading of stadiums, airports, roads and hotels.

#### Stainless Steel Consumer Goods and End user

Over recent years, this sub-sector has been driven by the cookware and cutlery sector. There are further opportunities in a broad range of consumer goods including garden furniture. However, the downstream industries are dominated by imports. No less than 75% of stainless steel consumer goods are imported, mostly from Asia. There is thus a great potential for growth in this sector, but in the face of tough competition.

The smaller South African producers are financially challenged and currently earn marginal returns over their cost of investment. The South African steel industry made significant contributions to the economy in 2008, contributing R12.7 bn in GDP (0.6%) and R4.0 bn. to the fiscus. The steel industry lost approximately 5 000 jobs between 2002 and 2008, having directly employed approximately 12 800 people in 2008, down from 18 400 people in 2002.

#### Metals in Relation to the Automotive Industry

There is enormous potential for the consumption of steel, aluminium, chrome and PGM in metal products fabricated for the automotive industry. Aluminium is used to make cast and forged products, such as rims, while stainless steel (that includes chrome) and PGM are used extensively in various components of the exhaust system, particularly in catalytic converters. The production and export of catalytic converters have grown enormously over the past ten years.

South Africa supplies about 12% of world demand and in 2003 exports of no less than R8, 1 billion took place.

#### Tank Container Industry

The tank container industry was the third largest consumer of stainless steel in South Africa up to 2003. From 1996 to 2003 the industry produced about 6 000 tanks per year and generated annual export earnings in excess of R800 million. The main use of tanks is for bulk transportation of foodstuffs, beverages and chemical liquids including petroleum.

However, as from 2004 the industry started to shrink. Its consumption of stainless steel in 2004 had fallen to slightly more than a third of its 1998 consumption. This contraction of the industry led to the closure of Trencor Containers and Consani Engineering.

One reason for the contraction of the tank container industry was that the entry of competitors into the market, particularly China, led to a fall in tank prices. Another reason was the increase in stainless steel prices (DTI, 2005:40-44).

Conversion/fabrication and manufacturing/end user industries

#### Current position

South African converters and manufacturers are, in most cases, very competitive in domestic and regional markets, but cannot export due to high logistics costs and/or lack of scale. Simultaneously, the volatility related to foreign exchange fluctuations adds further risk to building an export oriented industry. The specific competitiveness of the South African industry in the domestic and export markets is as follows:

#### Converters/fabricators:

The Southern African market is typically very regional and supplied from South Africa as a result of the existence of domestic steel supply and natural proximity to customers. South African players’ market position is strong against imports (e.g. from China). Due to high logistics costs relative to product value, exports beyond Southern Africa are not competitive for most product categories.

#### Manufacturers/end users:

Low steel intensity sectors: The current competitive position differs across industries depending on the nature of demand. In sectors that are purely domestic in nature (e.g. building and construction), the South African industry is essentially meeting domestic demand fully, as there is limited possibility for foreign competition. However, in manufacturing sectors (e.g. automotive) the South African industry is often subscale and far from major export markets. In many of these industries, South Africa’s cost position is also disadvantageous and is mainly driven by labour costs, or these industries lack critical success factors, such as technological know-how (e.g. heavy machinery). With government support, the industry is competitive enough to supply the domestic market in most of these sectors (e.g. automotive), but has thus far not been successful in building a competitive industry (e.g. in mobile mining equipment) that would rely mainly on exports.

#### High steel intensity sectors:

In most product categories (e.g. packaging), South Africa is domestically competitive and supplies most local demand. However, exports of these products are seen as challenging, since logistics costs and inconvenience factors are high, relative to product value.

Growth prospects and requirements for success given the varying competitiveness of the different groups, growth prospects and requirements for success are group specific:

* Converters/fabricators:

There is limited potential to increase exports, since logistics costs limit reach to Southern Africa. Most domestic demand is already supplied locally. However, the production of a small set of niche product categories could be increased by replacing import leakages or increasing regional exports. The most effective lever for growing economic activity among converters would be to accelerate growth in some of the key end user industries (e.g. infrastructure building and construction projects and mining).

* Manufacturers/end users:

Low steel intensity sectors: Increasing exports in most industry sectors is not seen as feasible as it is not cost competitive (e.g. due to labour costs). It is also highly unlikely that local production can be grown by replacing imports, since current imports are either from countries with a significantly lower cost base or are highly specialised products requiring global scale and special technology. Growth in this sector is thus limited to the growth of the Southern African economy in general. The key requirement for maintaining high local content and responding to domestic sales growth is a sustainable competitive steel industry with a high quality product portfolio.

To synthesise, there are three material growth opportunities, each with specific requirements:

* Growing converters as a result of increased South African demand, e.g. spending on infrastructure and mining projects;
* Growing converters of niche products through targeted competitive measures to increase exports or replace imports; and
* Increasing local production in high steel intensity sectors with a low current share of domestic production through strategic government spending.

### The Job Creation Ability of the Metals Subsector

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| **Sector** | **Synopsis** | **Job Creation Ability** |
| **The Metals Subsector** | The metals sector has the potential to be a key driver of job creation in two areas within the sector. The first being the primary phase (mining & extraction) which is both capital and labour intensive but dominated by large multinational conglomerates. However this sector has links to almost all the other manufacturing sectors in South Africa such as Chemicals, Plastics Agro processing etc. Due to this sectors large size and the increase in demand of services and products from other sectors which the metals industry acts as a supplier to, the potential for job creation is positive. | High Potential for Job creation as most industries in the metals sector are labour intensive. |

### The Metals Subsector: SWOT Analysis

|  |  |
| --- | --- |
| Strengths   * South Africa is the world's biggest producer of platinum, and one of the leading producers of gold, diamonds, base metals and coal. * South Africa holds the world's largest natural reserves of gold, platinum-group metals, chrome ore and manganese ore, and the second-largest reserves of zirconium, vanadium and titanium. * Apart from its prolific mineral reserves, South Africa's strengths include an extremely high level of technical and production expertise, and comprehensive research and development activities. * Stainless Steel is the fastest growing in a grouping of competitor metals. In a recent global growth comparison, stainless steel had grown a significant 6.16%, beating aluminium at 3.51%, steel at 3.47%, copper at 3.23%, zinc at 3.02% and lead at 2.41% annual growth. * The country has world-scale primary processing facilities covering carbon steel, stainless steel and aluminium, in addition to gold and platinum. It is also a world leader of new technologies, such as a ground-breaking process that converts low-grade superfine iron ore into high-quality iron units. | Weaknesses   * Limited access to raw material for local beneficiation * Infrastructure – Shortages of critical infrastructure such as rail, water, ports and electricity supply have a material impact on sustaining current beneficiation initiatives and a major threat to future prospects of growth in mineral value addition. * Research and Development: South Africa’s limited exposure to break-through research and development programs thwarts the prospects of innovation in creating new products for beneficiation * Skills sought for expediting local beneficiation - While the challenge for skills is not limited to South Africa, the skills-supply pipeline for scientists and engineers requires specific attention. * Access to international markets for beneficiated products – the current trade barriers (both tariff and non-tariff) in some prospective recipients of South Africa’s beneficiated products limit access to these markets. |
| Opportunities   * There is enormous potential for the consumption of steel, aluminium, chrome and PGM in metal products fabricated for the automotive industry. Aluminium is used to make cast and forged products, such as rims, while stainless steel (that includes chrome) and PGM are used extensively in various components of the exhaust system, particularly in catalytic converters. The production and export of catalytic converters have grown enormously over the past ten years. * There are further opportunities in a broad range of consumer goods including garden furniture. * Growing converters as a result of increased South African demand, e.g. spending on infrastructure and mining projects; * Growing converters of niche products through targeted competitive measures to increase exports or replace imports; and * Increasing local production in high steel intensity sectors with a low current share of domestic production through strategic government spending. | Threats   * Cheap imports from other countries such as China. * High labour production costs locally. * There is also a negative knock on effect of a strong currency. * Port costs out of Transnet’s Durban harbour, the most important facility for manufactured exports, are also higher than in many of Europe’s biggest ports. * Cosatu, a key constituency of the governing party, is unlikely to agree to a less regulated labour market if employment remains stable and no new jobs are created. There is simply no incentive for them to create jobs, rather their interest is to retain members’ jobs. * Cost of latest technologies to process metals. |

## Wood Product, Publishing and Printing

**Overview**

The Fibre Processing and Manufacturing Sector consist of 12 sub-sectors. Clothing, footwear, forestry, furniture, general goods, leather, packaging, printing, publishing, pulp and paper, textiles and wood products. Wood products, publishing and printing fall underneath this section, as well as pulp and paper. These products are derived from the primary resources, which is part of the sub- sector Forestry.

The wood products sub-sector makes use of its product by providing materials to several industries, which all processes timber in one form or another. Wood products are diverse in their very nature. These products are used in a number of industries, including the building and construction, furniture, and transport industries.

This sub-sector incorporates activities such as saw milling and preserving of timber, saw doctoring, wet milling, lumber drying, lumber grading, dry milling, finger jointing and laminating, mill maintenance, charcoal production, wattle extract manufacturing, manufacturing of veneer sheets, plywood, laminboard, particle board and other panels and boards, manufacturing of fibreboard and chipboard products, manufacturing of builders’ carpentry and joinery products, manufacturing of trusses, manufacturing of matches, manufacturing of pallets and bulk bins and other articles of wood, cork, straw and plaiting materials.

(Careers in the Fibre Processing and Manufacturing (FP&M) Sector: 2011)

**Pulp and Paper Manufacturing**

These are also products that are derived from wood and forestry. Most products used every day are made from pulp, paper and tissue products such boxes, tissues, posters, newspapers, books and magazines. The final products made from these raw materials might seem obvious but there are also the less obvious final products made from theses raw materials such as viscose, cigarette filters and detergents.

(Careers in the Fibre Processing and Manufacturing (FP&M) Sector: 2011)

**Publishing**

Publishing is the process of production and distribution of literature or information – the activity of making information available to the public. Traditionally, the term refers to the production of printed works such as books, magazines and newspapers (print media). Today, with the advent of digital information systems and the Internet, the scope of publishing has expanded to include electronic resources, such as the electronic versions of books and periodicals.

Publishing includes: the stages of the development, acquisition, copy-editing, graphic design, production – printing (and its electronic equivalents), and marketing and distribution of newspapers, magazines, books, literary works and recorded media.

(Careers in the Fibre Processing and Manufacturing (FP&M) Sector: 2011).

Printing and Print Media

The Printing sub-sector is responsible for the printing of newspapers, books, magazines, packaging, labels and other related materials. The printing process is demand-driven and technical. People who are working in this sector must have good sense of colour and be able to manage complex technical processes to deliver against a defined deadline. There are many career areas in this field which range from factory manager, printers mechanic, and printer’s technician through to specialist rotary printing apprentices. The Print Media sub-sector requires occupations such as journalists and authors. Editors who do layouts and ensure accuracy and appropriateness to the marketable audience are also in demand. Generally, people who are good communicators through written media are required in this sector.

(Careers in the Fibre Processing and Manufacturing (FP&M) Sector: 2011)

#### Value Chain:

**Paper making process Wood making process**

**Forestry:**

Water quality, soil stabilization, regeneration, wildlife, harvest techniques, as well as relevant social concerns when growing trees.

**Saw mills**:

Debarking: bark removal and logs washed.

**Mills**:

Removing barks from logs, wood is cooked, pulp washed and fibre extracted, fibre converted to paper.

**Sorting, grading and drying of the wood**

**Pulp Production**:

Lignin used to dissolve fibres in paper.

**Blending and mat formatting**:

Chemical process

**Pulp Bleaching**:

To make the paper white. Adding of additional chemicals.

**Pressing of boards**:

Automatically or manually

**Papermaking**:

Pulp placed into a machine where water is extracted and paper is dried. Paper then rolled into a reel.

**Board Finishing**:

Cooling of boarding and sawing according to size

**Coating**:

Base paper is coated with and binding agents.

Packaging and sold. This paper can be recycled.

(Who knew paper has a life of its own. 2009-2011).

(Energy conservation in the mechanical forest industries: Descriptions of manufacturing processes)

From the above paper making processes. The paper is then sold and used in the printing and publishing sector for creation of newspapers, magazines, and books etc.

### Challenges Affecting Wood Products, Printing and Publishing

Many factors affect the forest production sector.

* Labour productivity decreases by 1.97% 2000-2008 for paper products due to the changes with productivity in this sector (Climate Change Risks and Opportunities for the South African Economy: 2009).
* “Of note for employment creation considerations is the fact that the paper and paper products segment is highly capital-intensive. This segment only requires 3.3 workers to generate 1 million Rand in value added. In contrast, 18.2 individuals are employed to provide 1 million Rand in value added in the wood segment10” (Climate Change Risks and Opportunities for the South African Economy: 2009).
* Timber supply is affected by timber prices, weather conditions and fires (Climate Change Risks and Opportunities for the South African Economy: 2009).
* For wood pulp, the abundance of water, electricity prices, capital investment costs, exchange rates and the level of tariffs on paper are material to wood pulp (Climate Change Risks and Opportunities For the South African Economy:2009).
* More generally, proximity to the plantations (a radius of about 100kms in South Africa) is also important because it strongly influences transport costs (Climate Change Risks and Opportunities For the South African Economy:2009)
* The new forest growers and beneficiaries of land reform do not necessary have the skills and relevant technology to grow the trees to optimal level requirements (Industrial Policy Action Plan: 2010).
* The forestry communities also require business skills to manage their operations effectively (Industrial Policy Action Plan: 2010).Tree planting cannot take place without securing investment finance. Manufacturers have to be a long time in their field before they can ensure long term investments Industrial Policy Action Plan: 2010).

### Opportunities in the Wood, Printing and Publishing Sector

* In South Africa, whilst production of paper is linked to GDP growth, pulp production appears to be cyclical (Climate Change Risks and Opportunities for the South African Economy: 2009).
* The subdued annual (2011) increase was mainly due to higher production in the different sectors. Wood, paper, printing and publishing was listed as one of the manufacturing sectors that increased production over the 2011 (Nedbank Company Report: 2012).
* Over the last year (2011), one of the largest increases in production were recorded in the wood and wood products, paper, publishing and printing industry. Production has increased by 10% (Nedbank Company Report: 2012).
* Labour productivity has grown, by about 1.7% per year since 2001 over its 2000 level. Firms have strongly engaged in labour efficiency improvements. (Improved relations between wood producers and their workforce possibly underlie these changes.) (Climate Change Risks and Opportunities For the South African Economy: 2009).
* Capital productivity has improved markedly since 2000 in paper and paper products (Climate Change Risks and Opportunities for the South African Economy: 2009).
* There has also been large amount of investments in wood and paper sectors since 2008 this has accounted to a 6.4% investment increase for wood products.

### Provinces in which this sector operates mostly

* South Africa has large areas of land under commercial plantations, particularly in KwaZulu- Natal and Mpumalanga (accounting for 38.3% and 40.7% respectively of the total commercial plantation area). The sector is characterised by the dominance of two main players, Mondi and Sappi (Climate Change Risks and Opportunities For the South African Economy: 2009).
* Manufacturing of wooden furniture also mainly takes place in the KZN region.
* The largest segment of the printing and publishing industry is located in Cape Town, Western Cape. Information and communications technology is one of the fastest-growing sectors in the province. These operations are rapidly being expanded to other provinces (SA Provinces: 2011).

### Policies Affecting Sector

* Changes in planting legislation, diseases, excess demand on the domestic market for paper and paper products have generated improvements in tree species (Climate Change Risks and Opportunities For the South African Economy:2009).
* Issuing of water licenses has become a serious obstacle for forestry

Development (Industrial Policy Action Plan: 2012).

* Most of the land that has been identified as suitable land for new forestry is tribal or land belonging to communities where land claims settlement issues still need to be resolved before tree planting can take place (Industrial Policy Action Plan: 2012).
* There is lack of proper consultation and mobilisation with communities in line with forestry development protocols (Industrial Policy Action Plan: 2012).

### SWOT ANALYSIS FOR THE WOOD, PRINTING AND PUBLISHING SECTOR

|  |  |
| --- | --- |
| **Strengths**   * Large forestry sector/ plantations. * Wood products are diverse. * Increase in production. * Increase in labour productivity | **Weaknesses**   * Maintaining forests is costly * Tariffs are increasing * Lack of skills technology to grow trees * Lack of management skills to run a business. |
| **Opportunities**   * Wood products are used in a number of industries such as: building and construction, furniture, and transport. * Communication sector has grown and so has the printing and publishing sector. * Paper can be recycled. * New communities have the opportunity to enter this sector. * Can create jobs in rural communities near forests and manufacturing mills and plants. | **Threats**   * Weather conditions in the forest could cause trees to be stunted in their growth * Fires could burn down forests. * Global climate change. * Uncertainty of land claims can halt investment. |

### Glass and Non- Metallic Mineral Products

This sector comprises of and glass products and of other non-metallic minerals, such as cement. Cement and glass dominate this sector. The sector’s structure is influenced by large firms. South Africa has world class companies in this sector e.g. PG Glass. This sector is diverse and produces a wide range of products; and it is an established source of domestic supply. The building as well at the automotive industry depends largely on this sector (Climate Change Risks and Opportunities For the South African Economy: 2009).

### Value Chain

**Gathering raw materials:** extracted from silica sand, soda ash and lime stone.

**Batching:** Raw materials are stored in silos. Weighed out and transported to batch mixers according to pre-programmed recipes. Placed into holding bin.

**Forming:** Molten glass placed into bottle making machine. Shaped and coated with oxide.

**Decoration:** Bottles are labelled.

**Design Process:** Custom and standard designs created.

**Inspection:** Bottles undergo tests and inspections.

**Palletising:** bulk palletising and shrink wrapping before dispatch and delivery to the customer

**Melting**: converted to molten glass and maintained at temperatures in excess of 1500ºC and then cooled to 1200ºC.

(The Consol glass making process)

### Constraints and Barriers within this Sector

* As mentioned above this sector is influenced by large firms therefore some threats are associated with this structure and with the situation regarding some of the final users of some of the products (e.g. glass for the automotive industry) (Climate Change Risks and Opportunities For the South African Economy: 2009).
* The cement sector has insufficient capacity currently; and the sectors need more competition (Climate Change Risks and Opportunities For the South African Economy: 2009).
* The global recession has impacted on sales (Climate Change Risks and Opportunities For the South African Economy: 2009).
* The motor industry is in a prolonged recession, therefore limiting demand (Climate Change Risks and Opportunities For the South African Economy: 2009).
* Tighter credit lines following the banking crisis will make consumers less likely to buy (Climate Change Risks and Opportunities For the South African Economy: 2009).
* Due to the fact that there is an increase in investment for a greater variety of products and greater costs for raw materials and energy rise the glass industry is faced with two challenges: on the one hand, market demand must be met, and on the other, cost control must be exerted (Glass focus:2010).

### Opportunities in this Sector

* The rand is relatively weak plus interest rates and inflation helping exports (Climate Change Risks and Opportunities For the South African Economy: 2009).
* Big infrastructure projects will maintain demand.

(Climate Change Risks and Opportunities For the South African Economy: 2009).

* Manufacturers diversified and produce not just one specific type of glass but a wide variety, often at a single factory (Glass focus: 2010).
* The key to sustain production in the glass industry is through innovation. By introducing new technologies, glass manufacturers can implement their processes more flexibly and more efficiently, improve their product quality, and reduce their consumption of resources (Glass focus:2010).
* Another opportunity in this sector lies in the fact that the solar energy industry is growing even more rapidly than the IT sector worldwide. This has driven a rapid increase in demand for ultra white glass used in electricity generation systems (Glass focus: 2010).

### Policies affecting this sector

* Growing awareness of safety has also driven building regulations for laminated, toughened and fire protection glass, which further enriches the product mix of the industry.
* Lawmakers and the general public are also requiring proof that production is not harmful to the environment. In order to save resources and preserve the environment for later generations, the glass industry has to go “green.” (Glass focus: 2010).

### Provinces in which this Sector Operates Mostly

* The silicia sand, which is the raw material used in the production of glass is found in the Western Cape according to Consol Glass manufacturers (Consol Glass Making Process).
* Glass manufacturing seems to be taking place in a few provinces in South Africa such as Gauteng, Mpumalanga, Eastern Cape and Limpopo.

### SWOT ANALYSIS FOR THE GLASS AND NON-METALLIC MINERAL SECTOR

|  |  |
| --- | --- |
| **Strengths**   * The building as well as the automotive industry depends largely on this sector. * Big infrastructure project maintain demand. * Accessible raw materials. * Well developed recycling process. | **Weaknesses**   * More competition needed in the market especially for cement. * Safety of labourers. * Production needs to be done in a careful manner so that the environment is not harmed. |
| **Opportunities**   * Cement and glass dominate this sector. * There is a wide variety of glass products to be produced e.g. Glass beads. * Innovation to increase demand. * New technology introduced. * A number of Provinces in South Africa are involved with glass manufacturing. * Recycling of glass products. | **Threats**   * Large firms control this sector therefore structure of the firm’s influences product, quality and prices. * Recession especially the prolonged recession the motor industry is undergoing. |

## Furniture

Furniture and solid wood processing is an old and well-established manufacturing industry within South Africa, and one of the more traditional sectors that account for a significant proportion of employment. This sector has been experiencing a tough period for the last 10 years, however, the future outlook seems promising, with demand kicking in from the low to middle income households, and with opportunities for niche markets (South Africa Furniture Outlook:2010).

### Value chain

Forestry

Sawmills

Furniture

Manufacturers

(*The Global Wood Furniture Value Chain: 2003)*

### Barriers and Constraints

* Although the national output growth is stable, the sector in KZN has recently come under pressure, with output and employment growth moderating considerably (Furniture Manufacturing: 2007).
* Competitively priced Asian furniture imports have captured the significant market share from local producers and have kept prices for finished products low (Furniture Manufacturing: 2007).
* Local manufacturers are facing challenges to get retailers to buy locally produced products instead of cheap imports (Industrial Policy Action Plan: 2012).
* The demand of raw material far exceeds supply, which has resulted in the closure of most downstream processing industries especially in furniture and small-scale saw milling industry. Due to this more jobs will still be lost if the demand/supply equation is not addressed soon (Industrial Policy Action Plan: 2012).
* The small businesses in this industry are mostly affected by this due to the fact that companies own plantations and small businesses rely on supply from these plantations (Industrial Policy Action Plan: 2012).
* Quality standards to differentiate from cheap low quality imports need to be in place (Industrial Policy Action Plan: 2012).
* The main obstacle that the SMMEs are facing is the size of small time furniture manufactures. Because these manufacturers are so small, they struggle to meet the required quantities and quality for retailers. As a result they fail to secure sustainable contracts (Industrial Policy Action Plan: 2012).
* One of the furniture design manufacturers in the Western Cape called Wild Designs has mentioned that some of the many challenges they face are financing projects, and dealing with the manufacturing, designing and prototyping of all products by being a one man based manufacturer.
* Being a small manufacturer there are limited opportunities for wholesalers/ retailers to export the manufacturers products.
* Furniture Design schools are also limited especially in the Western Cape.

### Opportunities

* To make furniture manufacturing in KZN a globally competitive sector, the KZN provincial government has established the KwaZulu-Natal Furniture Manufacturing Cluster (Furniture Manufacturing: 2007).
* The few objectives of the cluster is to promote economic growth, competitiveness, innovation and export readiness of the sector in KZN, through marketing and promotion of the provincial furniture sector, co-operative input procurement policies, and the facilitation of joint ventures between local and foreign companies (Furniture Manufacturing: 2007).
* The development of clusters will first help small manufacturers to secure contracts (Industrial Policy Action Plan: 2012).
* Small furniture manufacturers will then benefit from economies of scales, shared infrastructure, shared transport costs, sharing of information, and reduce their input costs. This will result in efficiently operating business with improved competitiveness (Industrial Policy Action Plan: 2012).
* “Domestic consumer demand for furniture has been driven over the past couple of years primarily by strong demand growth for new houses and falling furniture prices, and fuelled by robust growth in real discretionary income due to lower interest rates, lower income tax, and rising real wages” (Furniture Manufacturing: 2007).
* Opportunities also exist to expand the small scale saw milling industry since most of the saw millers are located close to forests in rural areas (Industrial Policy Action Plan: 2012).
* A local furniture designer in the Western Cape mentioned that there is opportunity for furniture manufactures in South Africa to create furniture from simple raw materials. However, these manufacturers need design schools whereby they can improve their skills and be innovative using simple raw materials.

### Policies affecting this sector

* Issuing of water licenses has become a serious obstacle for forestry

Development (Industrial Policy Action Plan: 2012).

* Most of the land that has been identified as suitable land for forestry activities belongs to tribes or communities where land claims settlement issues still need to be resolved before tree planting can take place (Industrial Policy Action Plan: 2012).
* There is lack of proper consultation and mobilisation with communities with regard to forestry development protocols (Industrial Policy Action Plan: 2012).

### Provinces

* The furniture manufacturing sector in KZN employs about 7000 to 7500 people (Furniture Manufacturing: 2007).
* Nationally, the sector comprised 1.6% of total South African manufacturing output (Furniture Manufacturing: 2007).
* There are about 310 furniture manufacturers in the Province of Kwa Zulu Natal (Furniture Manufacturing: 2007).
* Two thirds of whom are small manufacturers employing between 2 and 20

Employees (Furniture Manufacturing: 2007).

* Geographically, furniture manufacturing areas tend to be clustered, over a very large area, in a few urban centres like Isithebe, Vryheid, Newcastle, Port Shepston, Pietermaritzburg, and the Durban metro (Furniture Manufacturing: 2007).
* The bulk of industrial output takes place in the Durban- Pinetown-PMB metro areas, consisting of about 80% of total furniture manufacturers accounting for roughly 70% of total the sectors employment (Furniture Manufacturing: 2007).

### SWOT ANALYSIS OF THE FURNITURE SECTOR

|  |  |
| --- | --- |
| **Strengths**   * Well established sector. * Account for a great number of employment. * Large forest sector therefore access to wood and timber, mostly at a cheaper price. | **Weaknesses**   * Time, effort, raw materials and hard work involved in production. * Lack of technology * Lack of innovation and skills (designers) * Increase wages, less profit therefore a decline in labourers and production. |
| **Opportunities**   * Offering a better quality product then cheaper imported products. * Demand far exceeds supply. * Small scale saw milling industry. * Can customise products for local housing needs / requirements. | **Threats**   * Imported products can be cheaper. * Restrictions on water licences for plantations. |

### Electrical Machinery (Appliances)

“Electrical Machinery and Apparatus” is a relatively large and growing sector in South Africa. The South African electronics industry has repeatedly proved itself in terms of world-class innovation and production. The industry is characterised by a handful of generalist companies with strong capabilities in professional electronics, while small to medium companies specialise in security systems and electricity pre-payment meters. Electrical appliances among other products in the country are exported on a larger scale when compared to other manufacturing sectors in South Africa (Manufacturing in South Africa: 2012)

This sector is composed of a range of sub-sectors that relate to distinct electric components. These are:

* Electric motors, generators and transformers, and parts thereof.
* Electricity distribution and control apparatus, and parts thereof.
* Insulated wire and cable and optical fibre cables.
* Accumulators, primary cells, primary batteries, electric filament or discharge lamps, arc lamps; lighting equipment.
* Other electrical equipment and parts thereof.

(Climate Change Risks and Opportunities For the South African Economy: 2009).

These components do overlap and cannot be seen in isolation.

### Value Chain of the Electronic and Appliance manufacturing Sector

Development of software

Sales

Service/ solution

Manufacturing and Assembly

Development and Design

### Barriers and Constraints within this Sector

* This sector underwent a long period of investment decline before 2008.
* Demand for particular types of workers with specific skill is still present in parts of the sector.
* The sector displays high levels of labour intensity, which has caused this sector to lose a number of employees.

(Climate Change Risks and Opportunities For the South African Economy: 2009).

### Opportunities within this Sector

* Production and value added in the sector have grown slightly in excess of output and value added growth in manufacturing.
* Electrical machinery and apparatus is one of the few manufacturing sectors in which real remuneration has increased for workers in this sector.
* While having the right skills companies have the opportunity to compete with international markets.
* The sector follows the trends of manufacturing activities closely – it appears to be a sector that supports manufacturing expansion.
* The sector is performing particularly well in terms of output production.
* Productivity has been enhanced over time.
* Export specialization is emerging though it seems to be in favour of African countries.

(Climate Change Risks and Opportunities for the South African Economy: 2009).

### Provinces in which this sector operates mostly

* Gauteng Province specialises in machinery, electrical machinery, appliances and electrical supplies (About SA provinces: 2011).
* North West Province also manufactures electrical machinery, electronic equipment (About SA provinces: 2011).

### Policies Affecting this Sector

* Occupational Health and Safety Act, 1993 (Act No. 85 of 1993).
* A number of Member States have import substitution industries that manufacture electrical goods and appliances under significant external tariff protection (The SADC Trade Protocol: Outstanding Issues on Rules of Origin: 2002).
* Domestic incentive structures facing such industries have relatively high tariffs on final goods, lower tariffs on imported components or kits, and sometimes additional incentives to source some inputs locally .This has encouraged the development of a number of high cost activities that are unable to compete internationally in terms of price or product quality (The SADC Trade Protocol: Outstanding Issues on Rules of Origin: 2002).
* “The small scale of production necessary to meet local market demand makes it difficult to achieve internationally competitive cost levels. These activities nevertheless remain a source of a certain amount of income and employment, supported at the expense of consumers and/or industrial users of the protected goods” (The SADC Trade Protocol: Outstanding Issues on Rules of Origin: 2002).

### SWOT Analysis for the Electrical Machinery and Appliances Sector

|  |  |
| --- | --- |
| **Strengths**   * Large companies have strong capabilities in producing professional electronics. * Large scale of exporting products. * Sector supports manufacturing expansion: follows manufacturing trends. * Increase in manufacturing performance. | **Weaknesses**   * Labourers with high skill in demand. * High levels of labour intensity due to increased wages and a decline in number of labourers, resulting in further labour lost. * High international quotation standards. |
| **Opportunities**   * Large and growing sector in South Africa. * Opportunities to compete with international market. * Labour intensiveness makes it a sub-sector with high job creation ability. | **Threats**   * Large number of exports at cheaper prices. * Safety of the labourers is a concern. |

# SECTION 6: RELEVANT STAKEHOLDERS IN THE MANUFACTURING SECTOR

The following table shows the relevant stakeholders in the manufacturing sector with their key role in the sector, overlaps with other sectors and contact details.

| **Stakeholder** | | **Sector** | **Role in Sector** | **Overlaps** | | | **Contact Details** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| TEXFED (Textile Federation of South Africa) | | Textiles | Industry Association concerned with the monitoring of the industry, training and development, State of the industry. | Mentoring, training and development of businesses in the sector. | | | Tel: (011) 454 2342  Fax: (011) 454 2652  Email: [texfed@jhbmail.co.za](mailto:texfed@jhbmail.co.za)  Website: www.texed.co.za |
| COTTON SA TRUST | | Textiles | All assets from the former Cotton Board are held in trust for the benefit of local cotton industry. | Fund and asset administrators | | | Tel: (012) 804 1464  Fax: (012) 804 8616  P.O. Box 912232  Silverton  Pretoria  0127 |
| SACGA (South African Cotton Ginners' Association) | | Textiles | Industry Association |  | | | Tell: (053) 474 0115  Fax: (053) 474 0692  P.O Box 1018  Hartswater  8570 |
| SACTMA (South African Cotton Textile Manufacturers Association) | | Textiles | SACTMA (South African Cotton Textile Manufacturers Association) is the representative body of RSA cotton spinners and weavers. |  | | | Tell: (011) 615 4007  Fax: (011) 615 9857  Email: [texfed@jhbmail.co.za](mailto:texfed@jhbmail.co.za)  Website: www.texed.co.za |
| ARC-IIC (Agricultural Research Council - Institute for Industrial Crops) | | Agri Processing / Textiles | The ARC-Institute for Industrial Crops is an Institute of the Agricultural Research Council in South Africa. | ARC-IIC is responsible for all the research on cotton, tobacco, hemp, flax, sisal, kenaf and indigenous fibre crops. | | | Tell: (014) 536 3150  Fax: (014) 536 3113  Email: [gthompson@arc.agri.za](mailto:gthompson@arc.agri.za)  Private Bag x 82075  Rustenburg  0300 |
| South African Cotton Producers Organisation (SACPO) | | Textiles | SACPO (South African Cotton Producers' Organisation) is the representative body and mouthpiece of RSA cotton producers. | Training and development | | | Tell: (012) 804 1462  Fax: (012) 804 8616  Email: [enquiries@cottonsa.org.za](mailto:enquiries@cottonsa.org.za)  P.O. Box 912232  Silverton  Pretoria  0127 |
| CFTL SETA (Clothing, Footwear, Textiles and Leather Sector Education and Training Authority) | | Textiles & Clothing | The main function of a SETA is to contribute to the raising of skills, to bring skills to the employed, or those wanting to be employed in their sector. | Develop a Sector Skills Plan within the framework of the national skills development strategy; Implement the Sector Skills Plan by – - establishing learnerships; - approving workplace skills plans - allocating grants in the prescribed manner to employers, education and training providers and workers; - monitoring education and training in the sector Promote learnerships | | | Tell: (031) 702 4482/3/4  Fax: (031) 702 4113  Email: [info@ctflseta.org.za](mailto:info@ctflseta.org.za)  Website: http://ctflseta.org.za |
| KZN CTC (Kwa Zulu Natal Clothing and Textile Cluster) | | Clothing and Textiles Sector | The KwaZulu-Natal Clothing and Textile Cluster is a not-for-profit public/private sector partnership of clothing, textile, footwear and retail firms in KZN. | Established in August 2005, the KZN CTC aims to boost the competitiveness of the local industry to ensure that it can compete in the global market. | | | Tell: +27 (0) 31 764 6100  Fax: +27 (0) 86 607 4510  Email: kznctc@bmanalyts.com |
| DTI (Department of Trade and Industry) | | All Sectors | Promote structural transformation, towards a dynamic industrial and globally competitive economy; Provide a predictable, competitive, equitable and socially responsible environment, conducive to investment, trade and enterprise development; Broaden participation in the economy to strengthen economic development; and Continually improve the skills and capabilities of the dti to effectively deliver on its mandate and respond to the needs of South Africa's economic citizens. | Various development programmes aimed at promoting the industry and its role players. Financial and business support for businesses in the industry. Assistance with access to markets both locally and abroad. | | | Tell: 0861 843 384  Fax: 0861 843 888  Email: [contactus@thedti.gov.za](mailto:contactus@thedti.gov.za)  Website: www.thedti.gov.za |
| Sasol Polymers | | Chemicals / Plastics Sector | Major Manufacturer of Polymers and plastic component chemicals | The Automotive Sector, The Chemicals Sector, The Packaging industry | | | Tell: +27 11 441 3111  Fax: +27 11 788 5292  Email: sasol.internet@sasol.com |
| (Div of Sasol Chemical Industries Ltd) | | Chemical Sector | Major Manufacturer of Polymers and plastic component chemicals |  | | | Tell:+27 11 344 2197  Fax: +27 11 522 2539 |
| Safripol (Pty) Ltd | | Chemical / Plastic | Major Manufacturer of Polymers and plastic component chemicals |  | | | Tell: +27 11 575 4549  Fax: +27 11 576 4549  Email: info@safari |
| Hosaf Fibers (Div of Feltex Holdings (Pty) Ltd | | Chemical / Plastic | Major Manufacturer of Polymers and plastic component chemicals |  | | | Tell: +27 31 460 4200  Fax: +27 31 460 4290 |
| Plastics SA | | Chemical / Plastic Sector | Industry Association, Assist and facilitate training and development, Important source of industry information. Umbrella Association for the entire plastics sector. |  | | | Tell: +27 11 314 4021  Fax: +27 11 314 3764/5  Email: enquiries@plasticSA.co.za |
| Plastics Convertors Association | | Plastic Sector | Industry Association | None | | | Tell: 011 314 0019  011 653 4789  Fax: 011 314 3765  Email: [johan@pcasa.co.za](mailto:johan@pcasa.co.za)  carol@pcasa.co.za |
| Plastics Institute | | Plastic Sector | Industry Association | None | | | Tell: (978) 934 2575  Fax: (978) 934 3089  Email: contactus@plasticsintitute.org |
| Plastic Mould Makers Association | | Plastic Sector | Industry Association | None | | |  |
| Merseta | | All Sectors | Training, Education and development |  | | | Tell: 010 219 3000  Fax: 0866 730 017 |
| Chemical and Allied Industries Association | Chemical Sector | | Monitor and promote responsible care in the chemicals sector, earn public trust, to improve effectiveness of its advocacy initiatives with government and NGO's. Support for education programs in Science, technology and engineering. Comprises of a board made up of CEO's of a range of chemical manufacturing companies. | | Umbrella Association for all Chemical and Allied industries. | | Tell: +27-11-482-1671  Fax: +27-11-726-8310  Website: http:// www.caia.co.za/ |
| Ethanol Producers Association of South Africa | Chemical Sector | | Industry Association concerned with the monitoring and governing of the manufacturing of Ethanol. | | None | | Tell: 082 453 1323  Fax: 086 655 8763  Email: alfstevens@icon.co.za |
| National Adhesives and Sealants Manufacturers Association | Chemical Sector | | Industry Association | | None | | Tell: +27 11 662 2893  Fax:+27 11 662 1592  Email: [info@nasma.co.za](mailto:info@nasma.co.za)  [balvrian@mwed.co.za](mailto:balvrian@mwed.co.za)  website: www.nama.co.za |
| Paper Manufacturers Association | Chemical Sector | | Industry Association | | None | |  |
| National Association of Pharmaceutical Manufacturers | Chemical Sector | | Industry Association | | None | | Tell: 011 321 6966  Fax: 086 529 4245  Email: napm@mweb.co.za |
| South African Chamber of Mines | Mining Sector | | The Chamber of Mines of South Africa is a prominent industry employers' organisation which exists to serve its members and promote their interests in the South African mining industry. | | N/A | | Tell:+27 11 498 7100  Fax: +27 11 834 1884  Email: [webmaster@bullion.org](mailto:webmaster@bullion.org).za |
| SAISI (The South African Iron and Steel Institute) | Metals Sector | | A non-profit, pro-competition and non-governmental representative organisation serving the collective interests of the primary steel industry in South Africa. | | N/A | | Tell: +27 12 382 0900  Fax: +27 12 382 0915  Email: sasi@sasi.co.za |
| SASSDA (The Southern Africa Stainless Steel Development Association) | Metals Sector | | Is one of the most active stainless steel industry associations in the world and has, since 1964, been involved in increasing the awareness and use of stainless steel in Southern Africa. | | As an association representing the stainless steel industry, Sassda ensures that it undertakes Lobbying on behalf of the industry. Sassda is currently working on a lobbying strategy to ensure that the industry remains a robust and competitive industry. Industry issues are taken up with relevant ministries and governmental agencies. | | Tell: 011 883 0199  Fax: 086 639 4280  P.O Box 4479  Rivonia  2128 |
| ISF (South African International Steel Fabricators) | Metal Sector | | A joint-venture marketing company representing the leading South African structural steel fabricators whose objective is to increase their export sales by pooling their resources | | Export sales and support. | | Tell: +27 11 726 6111  Fax: +27 11 670 8033  Email: neels@isf.co.za |
| SEIFSA (The Steel and Engineering Industries Federation of South Africa) | Metal Sector | | A national employer federation representing the metal and engineering industry. For 68 years, SEIFSA has provided active support for its members and lobbied for policies that have improved the business environment in which its members operate. | | Wage negotiations, advice on the business, dispute resolution, linkages to benefit funds, representation of companies on other industry bodies. | | Tell: +27 11 298 9400  Fax: +27 11 298 9500  Email: info@seifa.co.za |
| SAWA ( South African Wire Association) | Metal Sector | | In 1998, the need for a representative body for the Wire Industry was identified by a number of visionary individuals and companies in the industry. After a few years of ground work and teething problems, key role players in the Wire Industry agreed to join forces in the establishing of a full time office for SAWA. This office opened on 1st May 2002, near to the Johannesburg International Airport. | | Business linkages for wire products with local and internal buyers. | | Tell:+27 (0)11 455 3228  Fax: +27 (0)11 455 4277 |
| SAIW (South African Institute of Welding) | Metal Sector | | A non-profit technical organisation dedicated to furthering standards in welding-fabrication and related technologies. | | SAIW provides training programmes, consultancy and industry support services | | Tell: +27 (0)11 298 2102  Fax: +27 (0)11 836 6014  Email: kreouzid@saiw.co.za |
| DAFF (Department of Agriculture, Forestry and Fisheries) | Agro Processing Sector | | The custodian of South Africa’s agriculture, fisheries and forestry resources. It is primarily responsible for the formulation and implementation of policies governing the Agriculture, Forestry and Fisheries Sector. | | It addresses South Africa’s framework for sustainable development, co-operative governance and participation of local communities in forest management as provided for by the White Paper on Sustainable Forest Development (1996), the National Forestry Action Programme (1997) and the resultant National Forests Act (1998) and the National Veld and Forest Fire Act, 1998. | Tell: (012) 319 6000  Fax: (012) 319 0000  Email: [cosmin@daff.gov.za](mailto:cosmin@daff.gov.za)  Website:www.daff.gov.za | |
| ABC (The Agricultural Business Chamber) | Agro Processing Sector | | A voluntary, dynamic and influential association of agribusinesses. | | Its mission is to negotiate and position for a favourable agribusiness environment where members can perform competitively and profitably, and prosper as a result. | Tell:+27 (0)12 8076686  Fax: +27 (0)12 807 5600  Email: admin@agbiz.co.za | |
| CGCSA (The Consumer Goods Council of South Africa) | Agro Processing Sector | | A Section 21 company representing over 11,000 member companies in the retail, wholesale and manufacturing of consumer goods. | | To promote partnership amongst our stakeholders across the consumer goods industry in resolving shared non-competitive matters in the most efficient manner to the ultimate benefit of the consumer | Tell:+27 11 789 5777  Fax: +27 11 886 4966 | |
| Federation of Food Processors | Agro Processing Sector | | Was formed in 1997 after the South African Government entered into free trade agreement discussions with the European Union. Agri South Africa was the only grouping that was consulted in formalising the South African position. | | Trade and other agreements and policy issues. |  | |
| SACCI (The South African Chamber of Commerce Industry) | All Sectors | | The chamber movement represented by the South African Chamber of Commerce and Industry (formally known as South African Chamber of Business (SACOB)) and its almost 50 constituent chambers is a lifeline for business people. The SACCI membership comprises approximately 20 000 small, medium and large enterprises across the breadth of the nation and across all economic sectors. Large enterprises are generally direct members of SACCI while small and medium enterprises are members through more than 50 local and regional chambers and 15 national associations. | | The chamber movement addresses all the economic, social and political issues affecting the business community in one way or another. | Tell: 011 446 3800  Fax: 086 532 7357 | |
| SAAFoST (The South African Association for Food Science and Technology) | Agro Processing | | SAAFoST is a National Association which is concerned with advancing the knowledge of Food Science and Technology. | | Agro Processing, Food and Beverage Processing | Email: [VishoshaB@turnergroup.co.za](mailto:VishoshaB@turnergroup.co.za)  CarolRandall@tunergroup.co.za | |

# SECTION 7: TELEPHONIC PROFILING REPORT

The figures below show the results from the telephonic profiling survey that was performed during November and December 2011. The survey included 54 companies that included Seda members and non Seda members.

Figure : Designation of Respondent in the Business

48.1% of the 54 respondents profiled were managers in the business while 18.5% were the owners of the business. 9.3% of respondents indicated that they were directors of the business with low percentages of respondents indicating titles such as:

* Administrator
* Assistant
* Chairman
* CEO
* Partner
* Sales Rep
* Accountant

Due to the high investment and business set-up costs in small manufacturing businesses, investors with the capital who at times do not have much technical knowledge of the business hires a competent business manager with the required operational know how and skill to look after their interests in the business.

Figure : Gender: Male vs. Female

37.0% of respondents were female and 63.0% were male, indicating the rising level of female entrepreneurs in the manufacturing sector. This trend is almost in line with the established firm owner/manager ratio of 62% Male and 38% Female involvement in entrepreneurial activity during 2009 which change dramatically in 2010 to 53% Male and 47% female involvement respectively (GEM South African Report 2010, M. Harrington, J. Kew and P.Kew, 2012).

It also reflects that more females are encouraged through learnerships and other government programs to enter into the manufacturing sector. Even though some of the work in the sector is very labour intensive, ownership and management is not. Females are also highly weighted in the government’s BBBEE codes and this resulted in an increase in female partnerships in recent years.

Figure : Respondents Split by Province

While every attempt was made to contact respondents form all of the 9 provinces in South Africa, only respondents from six of the provinces completed the interview. 48.1% of the respondents were from Gauteng, 24.1% were from the Eastern Cape 14.8% were from Kwa Zulu Natal, 5.6% from Mpumalanga, 3.7% were form Limpopo and the Western Cape respectively.

Gauteng being the manufacturing hub of South Africa in terms of metal fabrication, steel products and tooling equipment manufacturing had the highest hit rate. In the Eastern Cape the manufacturing businesses are smaller, owner managed or part of a project/co-operative.

Figure : Respondents Split by Manufacturing Subsector

The above graph indicates the split of respondents by manufacturing subsector. The metals subsector produced the highest number of respondents with 25.9%; most of these respondents were from metal pressing and shaping industries. 25.9% of respondents were from the Textile clothing and footwear subsector. 7.4% of respondents were from the agro – processing sector with 9.3% of respondents were from the chemicals subsector. Respondents from automotive and ICT electronics subsectors were low in numbers at 3.7% respectively. Wood and furniture contribute 5.7% of the total respondents while 11.1% of respondents were grouped together in the “other” category. The Other subsector is made up of concrete manufacturing and optical eyewear manufacturing businesses.

Figure : Educational Qualification

When asked of their educational qualifications business owners and managers in the manufacturing sector do possess some form of qualification while a low 5.6% only have secondary level education. 50% of the respondents did not answer this question which indicates that either the percentage of respondents do not posses formal qualifications or minimal qualifications. This highlights the need to promote training and education in this sector by engaging with stakeholders to register staff for training initiatives and skills development programmes at both a staff and management level. The high percentage of respondents not willing to divulge their education levels is most probably also related to the high number of Opportunity and Necessity motivated entrepreneurs in South Africa.

It was encouraging that most of the respondents, who had qualification, were qualified in technical disciplines as manufacturing is generally regarded as technical. Respondents listed the following as the type of qualifications they have:

* BCom Degree: Logistics, Financial Accounting
* Industrial Engineering
* Electrical Engineering
* Mechanical Engineering
* Human Resources Diploma
* Accounting Diploma

## 7.1: Business Profiling

Figure : The Number of Years in the Manufacturing Sector

It is clear from that the businesses profiled are past the survivalist phase and already sustainable as over 85% has been operating for more than 4 years. Of the businesses profiled 37% indicated that they have been operating for 15 years or more showing that these businesses are well established and have good support structures. 20.4% of businesses indicated that they have been operating for 4 to 7 years and 8 to 10 years respectively which highlights that there was a high number of businesses that are in good positions and are ready to experience growth given that they are provided with the right support and favourable conditions.

Figure : Business Conditions – Improved or Deteriorated

shows that 44.4% of respondents indicated that business conditions for SMMEs within the manufacturing sector have deteriorated in recent years (2008 to 2010) due to factors such as the economic recessions of 2009, an increase in foreign imports and an overall slow-down in business, however respondents have indicated that conditions are beginning to improve through stable economic climate and recovery processes that have been put into place both by government and internally by the businesses themselves. 55.6% of respondents indicated that business conditions have improved overall despite challenges faced and that business has increased since 2010.

Figure : Businesses that have Procured Government Business Split by Government Level

Figure : Percentage of Government Business Procured.

and indicate the percentage of business that profiled businesses procure from government and at what level of government. 53.7% of respondents indicated that they do not do any business with government. Graph 9 indicates the percentage amount that government business contributes to the total amount of business of profiled businesses that do procure government business at some level. It is clear that SMME businesses in the manufacturing sector do not solely rely on government business. Of the respondents that do procure government business 58.8% indicated that government business makes up to 25% of their total business per annum, while 29.4% indicated that government business contributes up to 50% of their total business for the year. This highlights the importance of business contracts procured from the public sector. This highlights the importance of government business amongst SMMEs in the manufacturing sector. This also highlights the need for assistance amongst SMMEs to access new markets and to successfully do business in these markets.

Figure : Percentage of Full Time Staff Employed at Profiled Businesses

The number of employees that profiled businesses employ indicates that most SMME businesses in the manufacturing sector employs between 1 and 20 employees. The graph indicates that while only 9.3% of businesses employ 200+ employees, and 13% employ between 50 to 200 employees, these businesses could be used as models to assist other smaller businesses with a smaller staff complement to develop and grow. This could be done by analysing what were their specific conditions that contributed to the growth of these businesses. These insights can be used to formulate strategies that can be applied to the smaller businesses to promote growth and development and ultimately support job creation.

Figure : Percentage of Part time Employees

SMME businesses within the manufacturing sector require specialized skills and many employers retain their workforce due to the nature of the business as the cost of training a new employee is high. indicates there are a small percentage of businesses that employ staff on a part time basis and this presents an opportunity for government or training institutions to approach these businesses and use these businesses to provide on the job training and experience to people wanting to enter the manufacturing sector, through internships. This result also further supports the fact that the business profiled is sustainable and only a few benefitted from government infrastructure development programmes in recent years.

Figure : Total Percentage of Business Owners / Managers Previously Employed in the Manufacturing Sector

indicates that 51.9% of SMME business owners in the manufacturing sector were previously employed in the manufacturing sector and eventually started their own businesses. This also indicates that most SMME business owners do have the technical know-how in the industry that they are operating in, but what could be lacking is business management skill. 48.1% of respondents indicated that they were not previously employed in the manufacturing sector and rely on entrepreneurship and businesses skills to operate and manage a business within the manufacturing sector as their technical knowledge and ability is limited. For owners and managers there is a definite need to provide training in the area of business management. This also highlights the idea that an entrepreneur does not necessarily have to be previously employed in the manufacturing sector to own and manage a successful business within the manufacturing sector.

Figure : Total Business Owners / Managers that Received Formal Training & Education

displays the percentage of respondents that have received formal training and education that relates to the manufacturing industries. 42.6% indicated that they have received training / education while an high 57.4% indicated that they have not had any formal training or education and have only their experience to rely on, highlighting the need for training and development and business support initiatives.

Within the manufacturing sector, employees gain experience and work their way up to management with little or no formal training received at times, but the actual on the job training should be recognized as prior learning, and there is an opportunity for the relevant SETA agencies to investigate candidates that could qualify for Recognition of Prior Learning, in order to formalize their experience into a qualification. The graph clearly indicates that there is a need for training and skills development amongst existing SMME businesses in the manufacturing sector, not only amongst operational staff but in management as well. There exists an opportunity for Seda to partner with training organisations such as merSETA to develop and offer specialised training programmes that target management skills, operations skills and general manufacturing business management skills.

Figure : Attendance of trade fairs

indicates that only 50% of business owners in the manufacturing sector attend trade fairs and events, highlighting the need to expose developing SMME businesses to these events.

50% of respondents cited the main reason was not having time, as their businesses needed their attention on a daily basis. They indicated that these events are too far and they are unable to leave their businesses for two or three days.

Events such as trade fairs and events provides a platform for SMME businesses to showcase their products, networking opportunities, access to markets, access to information relating to new technologies, access to international standards etc. There exists a need to provide SMME businesses with knowledge regarding these events, as well as sponsorships to attend these trade events.

Respondents listed the following events that they have attended:

* Seda Outreach Event
* Business Expo’s
* Trade Fair in Durban
* Trade Fair in China
* Vision Africa Event

Figure : Business Owners/Managers Belonging to an Industry Body/Association

highlights a gap that exists between SMME businesses and industry associations within the manufacturing sector. From the above graph it is clear that a large percentage of SMME businesses do not have ties with industry associations. Forming links with these associations has many advantages in that they provide industry information, networking opportunities, updates on new technologies and access to research and development information that would normally be quite expensive for an SMME business to obtain.

The manufacturing industry has very strict product quality standards especially for products used on construction, electrical and telecommunication sectors. There exists an opportunity for Seda to form alliances with industry associations and facilitate the opportunity for their customers to register with these associations especially with manufacturing businesses that are located in the smaller towns away from the industrial sectors of the cities.

Figure : Association to a Business Chamber or Network

From indicates it is clear that a large percentage of businesses do not belong to any business chamber or network, although this is not a compulsory affiliation there are benefits to becoming a member of a business chamber or network in that it is a formal, professional network access point and provides SMMEs with the opportunity to network with larger companies and has the added value of uplifting the profile and credibility of the business. In established business environments where all manufacturing businesses are located in a central area, it is easier to affiliate to a business chamber as these businesses understand the value of these initiatives whereas business in smaller towns and rural areas feel that the distances they have to travel for such services is too great and that the value it adds to their business is nominal.

Figure : Growth Opportunities in the Manufacturing Sector

shows the difference in opinion amongst businesses operating in the manufacturing sector regarding new business opportunities in the manufacturing sector. The majority of respondents were positive and feel that opportunities for growth and development do exist, indicating positivity regarding the future of manufacturing sector. A combined 14.9% of respondents do not agree with the statement which indicates the view that the manufacturing sector is shrinking in terms of business opportunities, and there exists a need to inform businesses of the support structures available for SMMEs in the manufacturing sector. Respondents have cited four reasons for the view that the manufacturing sector is shrinking these are:

* High percentage of imports across all manufacturing subsectors.
* Job Losses.
* High cost of energy.
* The lack of a skilled labour force.

Figure : Employment Opportunities in the Manufacturing Sector

When asked if the manufacturing sector held future employment opportunities a total of 68.5% of respondents agreed to this statement with 16.7% of respondents somewhat agreeing, highlighting the positive belief amongst SMME businesses in the manufacturing sector, however respondents pointed out that employment growth can only be achieved if the following factors are promoted:

* Access to financing.
* Skills Development amongst labour force.
* Limiting of foreign imports.
* Reasonable cost of energy.
* Government support relating to sector strategies that support local businesses.

Figure : Promotion of Growth and Employment in the Manufacturing Sector

When questioned on the issue of the promotion of growth and employment opportunities in the manufacturing sector. Only 26% of respondents confidently agreed to this statement and 18.5% only somewhat agreeing, indicating that SMME businesses were not confident that mechanisms that will improve growth amongst SMME businesses and subsequent employment opportunities are not promoted enough, mechanisms such as:

* Financial support.
* Skilled labour force.
* Competition with larger companies
* Access to local and international markets.

SMME businesses felt that if the abovementioned factors are investigates and strategies are developed around these elements than definitely growth in the sector can take place and eventually job creation opportunities.

Figure : Constraints facing SMME Businesses in the Manufacturing Sector

When asked about the constraints facing SMMEs in the manufacturing sector, respondents agree that a lack of financial support from financial institutes is a huge constraint with 66.7% of respondents agreeing to the statement, meaning that SMME businesses do find it difficult to access financing from traditional financial institutions. 27.8% of respondents believed that there is a definite lack of institutional support regarding business guidance and financial guidance. 16.7% of respondents feel that there is a definite lack of industry accreditation and quality management systems (ISO / SABS) as acquiring these accreditations are expensive.

25.9% of respondents believe that there is a lack of access to markets both international and local which they feel is hindering growth and development amongst SMMEs within the sector.

27.8% of respondents believe that there is a lack of procurement / supply chain management Knowledge and opportunities, meaning that training on tender procedures could provide valuable knowledge in SMME businesses securing new business.

Other Constraints highlighted by respondents during the survey, included:

* Lack of skilled labour.
* High input costs (imports and locally produced).
* Recent job losses (due to the global recession).
* High cost of energy or power supply.

Figure : Challenges facing SMME Businesses in the Manufacturing Sector

Respondents highlighted that the lack of qualified staff is a major challenge in the manufacturing sector amongst SMME businesses with 48.1% of respondents indicating that this is a major challenge. Almost 30% of respondents indicated that a lack of the correct machinery and tools is a major challenge in their businesses, while 38.9% of respondents indicated that a lack of marketing tools and knowledge is a challenge when trying to promote their products locally and abroad.

Figure : Attendance of Trade Events

indicates the gap in the awareness of trade events with over 50% of respondents indicating that they do not know of and do not attend trade events. The promotion of trade events is an important factor in growth and development in the manufacturing sector as it is a gateway to markets both locally and internationally and businesses in the manufacturing sector will benefit immensely from attending or partaking in such events. Of the respondents profiled only 31.5% admitted to attending local trade fairs and events which reinforces the idea of marketing and promoting trade events within the sector. A small percentage of respondents (7.4%) are able to attend international trade events which indicates that there is a need for SMME businesses to be exposed to these international events through trade missions or sponsorship programmes.

## 7.2: Awareness

### Seda’s Role and Seda Products

The following section provides an overview of Seda’s role in the manufacturing sector.

Figure : Seda’s Role in the Manufacturing Sector

The above graph displays the feelings of respondents towards Seda and the services that Seda could provide to promote job creation within the manufacturing sector, each category represents a service or topic that could be employed to promoting job creation and business growth in the sector. This section will look at each of categories and the responses of the respondents towards the statements.

The categories are as follows:

* Seda plays an active role in the manufacturing sector as a whole
* Seda has products and services which adds value to the small businesses in this sector
* Seda's products and services are in line with the national governments drive to develop this sector
* Seda provides development support in this sector
* Seda provides guidance on financial support for small businesses in this sector
* Seda facilitates networking and mentorship opportunities for small businesses in this sector
* Seda facilitates procurement guidance and opportunities for small businesses in this sector
* Seda facilitates access to local markets and local trade opportunities for small businesses in this sector
* Seda facilitates access to international markets and trade opportunities for small businesses in this sector

Seda plays and active role in the manufacturing Sector

22.2% of respondents responded that they do not know of the type of role Seda could or has played in the manufacturing sector. The reason that these participants are unaware of Seda playing an active role in the SMMES in the manufacturing could be due to Seda not creating enough awareness in terms of advertising, promotion and marketing. 5.6% of respondents did not really agree, 22.2 % of respondents were not totally convinced that Seda plays an active role in the sector and only 16, 7 respondents somewhat agreed. In total of the above three percentages, one can clearly see that more than half of the respondents have responded in the negative. This implies that respondents feel Seda is not currently playing an active role in the SMME manufacturing sector. Whilst only 20.4% of respondents agreed that Seda is active amongst SMMEs in the sector and only 13% of profiled respondents fully agreed. Seda needs to create a more active approach toward helping SMMEs in the manufacturing sector by approaching SMMEs directly instead of only through the media. Seda could create an annual publication that could be distributed throughout the SMME manufacturers in order to make them more aware of Seda involvement with SMMEs in the manufacturing sector. Participants have also mentioned that once Seda has introduced to them their services clients are interested and request more information from them. Seda does follow up on these requests.

Seda has products and services which adds value to the small businesses in this sector

22.2% of respondents answered that they did not know of the products and service that Seda offered indicating that there is a gap and that more marketing of Seda, its services and products should be considered. 11.1% of respondents answered that they did not agree at all and feel that Seda’s offerings do not add value this is reinforced with a further 20.4% of respondents not really agreeing to the statement. 11.1% of respondents were unsure and indicated that they somewhat agree to the statement.

29.6% and 5.6% of respondents were confident that Seda’s services and products added value to their business.

Respondents felt that Seda is not providing quality service. There is a gap between offering the service and a service of good quality. To increase the quality in services Seda needs to consider the following: Small businesses need help but are unable to reach Seda office. Therefore this could be one reason that the respondents are not seeing Seda services as valuable. Respondents have also mentioned that when it comes to compiling a Business Plan Seda is not prepared to assist clients in developing a Business Plan in order to attain further help from Seda.

Seda's products and services are in line with the National governments drive to develop this sector

A disappointing 9.3% of respondents firmly agreed that Seda’s products are geared towards developing and growing SMMEs and this is in line with governments drive to promote growth and development to ensure job creation. A further 18.5% of respondents agreed to this statement while 14.8% only somewhat agreed and were not entirely sure. A combined 31.5% (*Don’t really agree 24.1% & Don’t Agree at all 11.1%*) do not agree that Seda’s services and products supports governments drive to create employment, while 22.2% of respondents are unsure and do know. The reason that respondents are disagreeing more than agreeing with this statement could be due to the fact that respondents see Seda as helping them on a small scale instead of helping them to attain larger government contracts or providing them with information to apply for government contracts.

Seda provides development support in this sector

22.2% of respondents do not know if Seda provides development support to SMME businesses in this sector, while 13% of respondents do not agree at all and 24.1% do not really agree with this statement. 13% of respondents were unsure and only somewhat agreed with the statement with 22.2% of respondents firmly agree with the statement and a further 5.6% of respondents fully agreeing with the statement. This indicates that of the businesses profiled 27.9% fully agree that Seda does provide development support for SMME businesses in the sector. The large percentage of respondents not really agreeing with this statement outweighs those respondents that do agree with this statement. Seda needs to manage expectations of SMMES in the manufacturing sector. Seda could look at areas that SMMEs in the manufacturing sector really need support in. Seda might be under the impression that they’re providing development support in one area where as other areas/ new areas in the sector need greater development support from Seda, therefore respondents feel that they are not really receiving support. Seda needs to improve on the strategies behind providing development support.

Seda provides guidance on financial support for small businesses in this sector

This statement is an indicator if Seda provides assistance or direction to SMME businesses to solicit funding or financial assistance. 9.3% of respondents fully agreed to this statement while a further 22.2% agreed to it. 7.4% of respondents were unsure answering somewhat agree, however almost 30% of respondents did not agree and 14.8% of respondents did not agree at all with this statement. This is an indication that SMME businesses are not fully aware of Seda’s services and Seda should aggressively market itself in this sector and clearly inform SMMEs businesses of their products and services. 22.2% of respondents answered that they do not know. The reason behind the fact that 40 % of participants are not agreeing with the fact that Seda is providing guidance on financial support is that respondents do not really understand the services that Seda is offering. Seda needs to manage expectations of clients that think that Seda will provide the funds for their businesses instead of expecting to receiving guidance and information on ways that could help small businesses acquire funding for their businesses.

Seda facilitates networking and mentorship opportunities for small businesses in this sector

Almost 30% of respondents indicated that they have not experienced a networking session or mentorship programme facilitated by Seda. This highlights a gap or need for this kind of service especially amongst young SMME businesses in this sector. This statement is further supported by the 22.2% of respondents that indicated that they did not know or were unaware of these events. Just over 38% of respondents indicated that they agree with the statement and have experienced networking sessions facilitated by Seda, indicating that more awareness needs to be brought of these events in this sector.

Seda facilitates procurement guidance and opportunities for small businesses in this sector

Only 18.6% or respondents agreed to this statement with a further 22.2% agreeing to a lesser degree and 37% of respondents stating that they do not agree with this statement indicating that they have not experienced or received any guidance to procurement procedures or opportunities in the manufacturing sector. 22 .2 % of respondents were unaware or did not know of this service meaning that there is a gap and a need exists for Seda to market themselves aggressively within this sector. Seda also needs to look at new strategies to facilitate procurement guidance and opportunities or make clients aware of the opportunities that are available to them.

Seda facilitates access to local markets and local trade opportunities for small businesses in this sector

This graph indicates that almost 40% of respondents feel that Seda has not exposed them to local markets and trade opportunities that exist. 20.4% of respondents somewhat agree that Seda does expose SMME businesses to markets and trade opportunities the lack of confidence in confirming this indicates that this service needs to be reinforced and needs to be done regularly. 22.2% and 16.7% of respondents don’t really agree and do not agree at all to this statement highlighting the role of Seda as a facilitator of business ventures within this sector. Seda could join partners with other trade fairs or associations and get their clients more involved with manufacturing associations that could grant them access to local markets and trade opportunities.

Seda facilitates access to international markets and trade opportunities for small businesses in this sector

Only 14.8% of respondents firmly agree that Seda facilitates access to international markets and global trade opportunities in this sector with 18.5% of respondents somewhat agreeing to this statement. Almost 45% of respondents do not agree with this statement highlighting the need for Seda to facilitate events of trade missions to allow access for local South African Businesses to international markets. Rules and regulations, as well as high standard quality could be preventing small business to trade internationally. Therefore, by Seda providing them with the correct information these businesses become aware of what is happening in the international world and they can change their approaches and quality standards to become more internationally competitive in the manufacturing sector. Seda could also help small business to improve quality as well as helping them to comply with international rules and regulations.

Figure : Services Seda can Offer

The above graph reveals the type of support businesses would like to see Seda offer; however there are a high percentage of respondents that indicated that they do not know the Seda products or service highlighting the need for a more aggressive marketing strategy by Seda to SMME businesses in the manufacturing sector. The graph also shows the need for training and education programmes within the manufacturing sector as well as easy access to financing and funding. Mentorship programmes has also been highlighted as a need by the businesses profiled. For accreditation purposes, Seda need to provide information or access for businesses to gain accreditation for their manufacturing businesses or other skills development accreditation courses. 16.7% of respondents felt that Seda could provide other types of services. Seda could find out from SMMEs in the manufacturing sector directly what other services they could offer in order to help small businesses.

Figure : Association and Industry bodies that Businesses belong to

indicates that more than half of businesses profiled in the manufacturing sector do not belong to any industry or government association or body which in the long run does limit or increase difficulty in access or procuring vital information and strategies. A quarter of the businesses profiled are affiliated with government support agencies, while only 7.4% of respondents are affiliated to industry associations which highlights the need to form partnerships with industry association in order to provide support to SMME businesses. Seda also needs to provide information on the industry association and governing agencies that are available and also highlight the importance/advantages of belonging to an association or industry.

## 7.3: Respondent Recommendations

Figure : Recommendation

The graph above is split into three sections:

* Recommend a friend to invest in the manufacturing sector
* Recommend Seda to a friend / colleague
* Would you remain in this sector given the current economic climate?

Recommend a friend or Colleague to Invest in the Manufacturing Sector

Only 37% of respondents indicated that they would definitely recommend friends and colleagues to invest in the manufacturing sector.

27.8% said that they would probably recommend friends and colleagues to invest in the manufacturing sector

16.7% of respondents were unsure and answered maybe while 9.7% of respondents answered probably not and definitely not respectively.

This highlights that over all confidence is high that the manufacturing sector is seen as a profitable and prosperous sector however there are concerns given the global economic climate.

Recommend Seda to a friend/colleague in the Manufacturing Sector

35.2% of respondents profiled indicated that they would recommend Seda to friends and colleagues as a business support unit, while 24.1% indicated that they would probably recommend Seda to friends and colleagues.

22.2% of respondents were unsure and indicated that they would maybe recommend Seda to a friend or colleague, highlighting the point that SMME business owners are not aware of the full range of services that Seda offers.

This indicates that over 50% of respondents have shown high confidence in Seda; however Seda will have to provide clear marketing to inform businesses in the sector of its services and products.

11.1% of respondents would probably not recommend Seda to friends or colleagues while only 7.4% of respondents indicated that they would definitely not recommend Seda to friends or colleagues.

Remain in the Manufacturing Sector

When posed with this question 44.4% of respondents acknowledged that they would definitely remain in this sector and 31.5% indicated that they would probably remain in the manufacturing sector, highlighting the potential of this sector to be profitable as well as stable. 18.5% were undecided and answered maybe.

When moving towards the negative responses, respondents were very clear 5.7% of respondents indicated that they would definitely not remain in the manufacturing sector long term.

# SECTION 8: RECOMMENDATIONS AND POLICY INITIATIVES

The following section provides recommendation for Seda as well as broader policy suggestions. The first part looks at the international manufacturing environment followed by the domestic environment and lastly recommendation on Seda’s role to promote manufacturing in SA.

#### Info and facts: Market Penetrations options and strategies

### International Markets

* In an effort to open new markets, the dti’s Medium-Term Strategic Framework 2009-2012 clearly stipulates raising the level of exports through equitable global trade as one of its strategic objectives, which will also present export markets for small businesses.
* The dti will also continue contributing to Africa’s development and the southern regional economic integration within the New Partnership for African Development (NEPAD). Due to closer government intervention and closer international relations, NEPAD presents a realistic opportunity for manufacturing small business as a new virtually untapped market.
* Further opportunities need to be explored within the BRICS countries where South Africa is also a member (Brazil, Russia, India, China and South Africa). This must include opportunities for technology sharing, exports of value added products from SA, and not only raw products and commodities.
* South Africa, as is the case in the rest of the southern region, faces serious infrastructure and power supply challenges to support the manufacturing sector and distribution arrangements and channels. An ailing secondary road and rail network is essential for local and regional economic development and activity.
* Competition, from especially Chinese manufacturing, as is shown in figure 2 is increasingly dominating the world manufacturing environment with mass production of cheap and efficiently manufactured consumer goods. This pose challenges to South African businesses, and opportunities need to be explored in niche areas, innovation, and areas of specialisation where SA has a competitive edge. A new attitude of organised labour and a rethink of the utilisation of technology are required. Seda can influence both via government and it Technology Programme.
* Emerging economies such as South Africa are highly volatile due to frequent changes in Government support institutions, industry structure and the macro-economy. The volatility can provide a competitive advantage to firms with strategic flexibility to react to changing circumstances and to grab new business opportunities. SMMEs are potentially better equipped to adjust given less corporate structures, faster decision making abilities and relatively less capital invested in a specific operation (in comparison to larger corporations).
* The institutional frameworks set out in new legislation and National Treasury requirements, may require different ways of interacting with business partners and authorities. ‘Institutional voids’ often inhibit the efficiency of markets and increase business risks. Consequently, firms may internalise markets for intermediate goods and services, such as capital and human capital, and they may rely to a larger extent on personal relationships to interact with others.
* Many of the capabilities needed to compete in emerging economies are context specific. Local firms and individuals develop their capabilities to suit the specific context, which may create major barriers to entry for new local or foreign investors.
* Many industries are highly fragmented, as many small firms compete for a share of the market. With the entry of foreign investors, the market structure may rapidly change, adding to the uncertainty of the market place.

### Local Markets

* Due to saturated and over-serviced markets for manufactured products, as well as established supply chains and complicated supplier personal relationships, small manufacturing business face serious challenges in breaking into local markets.
* The South African economy, including the manufacturing sector is also dominated by monopolies who do not always embrace new entrants into the market, as these businesses are used to dominating the regulatory institutions within the sub-sectors as well as high margins and returns. Coupled with a maturing organised labour sectors and transparent auditing institutions and competition tribunal, many opted for capital & technology investment and subsequent less labour oriented processing and manufacturing.
* In the drive to create employment, capital intensive businesses must not necessarily be seen as bad given that the main goal must also be to create sustainable businesses that are competitive in the long-run in the domestic and international markets. A good example can be the SA textiles industry that is very labour intensive (see table 6), but as a result of the high wages, the industry is decreasing in size and is not sustainable in the long run in its current form.
* Financing support is also very important for SMMEs, especially in recessionary periods. Larger companies have access to funds and assets to survive crisis periods, but SMMEs do not. A country like Italy, that has a much larger share of small businesses (see figure 3) is suffering much more during the crisis because (amongst other things) 80% of the economy depends on SMMEs, and if they don’t have the access to finance in order to survive, the economy will struggle.
* Lucrative Government procurement opportunities and dti strategic initiatives have forced big businesses into empowerment ownership Joint-Ventures, but failed to influence supply chain imperatives and beneficiation of the second economy and particularly black small businesses.
* Insufficient incentives to further encourage big businesses to promote supply chain opportunities and partnerships with small business.

## Recommendations: Market Penetrations, Options and Strategies

### International Markets

* Seda could influence export and tax incentives and for manufacturing small businesses coupled with export education programmes available from the dti.
* Qualifying Seda clients could be fast-tracked in the selection process for participation in international trade missions.
* Seda must align itself with the dti’s Key Action Programme and present opportunities identified to manufacturing small business especially where a demand exist in the local and international markets, within the NEPAD framework. The feasibility of already identified areas where Seda is expected to contribute must be quantified and explored.
* One of the key barriers for manufacturing small businesses is meeting industry quality standards, and this is also the case for approval of products manufactured for the export markets. Seda must incorporate practical assistance with Quality Standards and Systems to small businesses into its product portfolio, to facilitate and gauge successes of these businesses in the international markets.

### Local Markets

* Seda must prioritise labour intensive manufacturing sub-sectors within the main economy, including the agricultural and mining value chains for high level interventions. Continue to use platforms and relationships with the COTII and the dti to identify opportunities in national or major sector projects.
* While some big companies and corporations are making serious efforts to redress imbalances of the past via CSI projects, Seda through its Provincial and Branch network must align co-operatives and community owned enterprises to such opportunities as a catalyst for job creation and social upliftment, especially in rural SA.
* In order to make small businesses more competitive, Seda must review its Technology Transfer Programme by focusing on established manufacturing and small businesses, to challenge big businesses with aggressive and foothold market entry tactics.
* Seda, through its branch network should also actively mobilise small business clients within the regions (after business profiling and segmenting clients) and with the support of political principals, influence LED IDPs to include local investments in Business Improvement Districts and ultimately support its Incubation Programme to provide the necessary physical infrastructure to stimulate small business growth and job creation.
* Seda must identify and provide support at major fairs and exhibitions at a national and provincial level where manufacturing small business can showcase their products and services as a direct marketing effort. The Seda marketing team could play a pivotal role in ensuring a competitive presence that would attract the attention of potential investors and partners.
* Seda can encourage and facilitate Joint-Ventures for manufacturing small businesses especially for projects identified with large firms. This will be strategic since many big firms view small businesses as costly with high risk profiles, and through a joint-venture the small business can build a rapport and direct relationship with the guidance and mentoring of the JV partner. This seems to be a preferred and acceptable approach, as it is more difficult to influence procurement managers who are incentivised to minimised risk and cost. Large firms seem to prefer Social (Health, Education, & Sports) CSI projects to honour BBBEEE legislation rather than Code 600, which aims to address small business development.
* A goal must be to grow the SA manufacturing share as a percentage of the international manufacturing output, as is shown in section 2 in dollar terms, seeing that the SA manufacturing output has decrease from 0.61% in 1990 to 0.5% in 2010. This will imply that the exchange rate depreciation is not the main goal, but rather a stable currency, but with increasing productivity in the manufacturing sector.
* The profitability in the manufacturing sector is falling, as expressed by the gross operating surplus. This is clearly shown in table 3 and 4 in section 3. Increases in labour cost have increased much faster than profit in the manufacturing sector. This results in labour layoffs and in less investment in the manufacturing sector. Entrepreneurs and investors will invest in industries where there is a profit potential and if the profitability is relatively lower, they will either not invest or invest in other sectors or countries. It will be important for the long-term sustainability of the sector that productivity increases and wage increases goes hand in hand.
* Table 5, section 3 shows the industries that are currently receiving big large investments. These are the motor vehicles and parts, special machinery, electrical machinery, office machinery, medical appliances, engines and turbines and general machinery. These sectors will be important as future growth sectors given the investments with potential opportunities for SMMEs.
* SMMEs can either play a role in the domestic supply chain by supporting other companies or government, or can become export orientated or can substitute imported products through local production. Table 7 (section 3) provides an overview of manufacturing exporting and importing activity. SA exported for example more fruit and nuts as part of Agro processing, but imported more meat than what is exported. This can be an opportunity to investigate what meat products are being imported, and if these imports can be replaced through domestic meat production. The table provides a number of potential areas where the domestic market can be extended. SA export also for example a lot of iron and steel product, but import for example tanks and products, bearings and gears and ships and boats that are mainly steel dominant. It is recommended that Seda have further research done using manufacturing export and import data to determine potential export or import substitution opportunities. The dti can also consider having an import and exporting strategy that can support the whole manufacturing sectors including SMMEs.
* Given the detail data shown in the appendix, and as part of the supply-use matrix, further analysis and research can also be done on identifying opportunities for SMMEs using this information.
* Data from table 10 and 11 and figure 14 and 15 shows that especially the metals, metal production, machinery and equipment and furniture, tobacco other manufacturing and recycling sectors are the sectors that involve a large number of SMMEs (looking at employment and turnover). These are sectors that can be supported by Seda where a large number of SMMEs seems to operate on a sustainable basis. The textiles, clothing, leather and footwear shows a very large employment creation possibility, but given the increasing wages this sector, in its current form will struggle to be sustainable in the long run (recent changes to government policy in the textile industry is not yet included in the data).
* Policy alignment must be in place to support initiatives and identified industries. A good example of where this has worked is the automotive supplier park in Rosslyn in Pretoria where there was policy support to export motor vehicles and the development of the value chain through various initiatives including the training and alignment of tertiary program for example of engineers to support the industry. If for example if the identified sector is ship building, engineers at the top universities need to be able to take courses in ship building engineering and be able to do on the job training in this field to support the sector. However, there must also be additional initiatives like support the SA flag on a SA ship or preferential rates for SA ships to dock in the harbours.
* SMMEs have got the potential to create more jobs relatively to larger enterprises as is shown in table 12 in section 3. This shows the importance of SMMEs in the economy to create jobs, and the need for support to SMMEs, but also hinted that SMMEs could struggle to survive if labour costs are too high, given that large share of labourers in comparison to large enterprises.

## Services and Product Market Sectors

### Information and facts: Service and Product Market Sectors

* Seda products and marketing are generally geared to stimulate entrepreneurial spirit, motivate entrepreneurs, and encouraging inspired individuals to develop and sustain small businesses.
* Products and product market sectors are generally developed at national office level and implemented at Branch / Service Area level, with some consultation at Provincial and District level. Limited consultation takes place with Local Authorities and municipalities to verify identified sectors and need for product adaptation.
* Seda have identified new focus sectors, including the:
  1. Services Sector (Consultants, ICT&E & Tourism),
  2. the Manufacturing Sector (Equipment & Tooling, Metals Fabrication,
  3. Chemicals and Detergent Packaging) and the
  4. Agricultural sector (Agro-processing).
* It is also clear that Seda’s focus is to employ the Technology Programme and the Incubation Programme to spear-head its planned transformation of manufacturing small businesses to further strengthen these businesses and fast track job creation by targeting labour absorbent sectors.

### Recommendations: Service and Product Market Sectors

* Service and Product development must be flexible and directed at local or international markets.
* Seda must include National, Provincial, District and Branch co-ordinators and teams into the final consultation process of finalising Service and Product Market Sectors, as many unique challenges could be face when implementing its new strategy especially in rural areas where dynamics that could hinder successful implementation vary widely.
* Seda should appoint industry specialists or captains with successful credibility in the various focus sub-sectors to partner and assist with implementation. This will be widely accepted, especially with already identified projects where opportunities exist for small manufacturing business in the supply value chains of various sub-sectors.
* There needs to be greater alignment and management control, supervision and accountability between the Technology and the Incubation Programmes as so much focus now lies with their successful implementation to meets Seda’s new Strategic objectives and ultimately create more jobs.

## Recommendations: Possible Working Relationships/Partnerships

### Seda’s Role

* To clean its database and clearly segment its client base to identify active small businesses in the manufacturing sector.
* Profile ALL Seda clients in the manufacturing sector and sub-sectors to identify business who qualify as Established SMMEs, thus filtering out Survivalist SMMEs and stop diluting its efforts and energy.
* To approach identified Industry Associations and Regulatory Institutions with a view to understanding their commitment to the local economy and Government’s drive for all Industries to create jobs.
* Set up, host, and facilitate sub-sector co-ordinating and networking forums within its regional structures to bring the business in the first and second economy closer. This is the only credible way to actively bring about Joint-Ventures and mentoring opportunities for small businesses.
* Quantify and report outcomes and successes of these forums at the dti and Council of Trade and Industry Institutions (COTII), and therefore place the development of small business high on the agenda at this level with key industry stakeholders.
* Set-up a steering committee chaired by the PAD to confirm the identified value chains with the various relevant sub-sector key role players to jointly identify potential gaps. This would have been viewed as a proactive and consultative approach that will have the buy-in and support from all parties.
* This steering committee would also align Seda’s current product offering with the potential opportunities identified in the abovementioned gaps, and therefore directly impact on Seda’s support to small businesses with relevant and outcomes-based products.
* Seda can market this approach to the first economy industries as a value-add service by eliminating and significantly reducing time and procurement qualification of potential suppliers, to strengthen their Enterprise Development contribution on their BEE scorecard, thus getting them closer to the dti’s sector charter targets.
* Seda should implement a self-monitoring toolkit which must be completed by all established opportunity-driven business in the sector, to audit development, growth and the impact of Seda’s interventions on new jobs created within these businesses annually.
* Seda must further strengthen and build capacity within its District offices and Surrounding Service Areas where Seda’s actual service delivery to small business are implemented, as this is where their capacity and readiness to seize opportunities will be questioned and tested by first economy businesses.
* Seda’s District offices must be exposed to and understand the various medium to long term Local Government projects identified within their LED IDP’s within the various local municipalities in order to realize development and procurement opportunities for small business and create jobs especially in the outlying and rural areas.
* Due to the impact of the recent global recession on some of the manufacturing sub-sectors and the operational nature of manufacturing businesses in general, coupled with high logistics and transportation costs, Seda could also, during the network forums, establish which big businesses have spare factory space that could be leased to small business Joint-Venture partners.

# SECTION 9: CONCLUSION

This study shows the performance of the manufacturing sector in South Africa and its impact and importance for SMMEs, especially for job creation. Section 2 provides a background to the international manufacturing environment and shows the dominant position of the US, China, and to a lesser extent Japan, as the manufacturers of the World. It also shows how China increased their manufacturing output from a mere 3% in 1990 to 18.9% in 2010. Although there are practises of labour mistreatment and exploitation, lessons can be learned from this.

Section 3 discusses detailed manufacturing data for South Africa. This includes the manufacturing sector relative to other sectors, showing that the SA manufacturing sector is growing slower in comparison to other sectors and has shrunk from 19% of GDP in 1993 to 17% of GDP in 2010. Petroleum products, chemicals, rubber and plastic as well as metals, metal products, machinery and equipment and food, beverages and tobacco are the largest sectors in the economy. Other non-metal mineral products showed the slowest growth over the period 1993 to 2010 and petroleum products, chemicals, rubber and plastic the highest growth. The data in section 3 also shows investment trends, with motor vehicles and parts receiving the largest portion followed by special machinery. It further highlights sectors with high employment potential and imports and exports per sector.

Section 4 provides a review of recent government’s macroeconomic and development policies on a national, provincial and local level. The goal is this section is to identify mentioned manufacturing sectors and initiatives. This includes the NGP, IPAP2, PGDS. Key sectors identified in IPAP2 include metal fabrication, capital and transport equipment, oil and gas, ‘green’ and energy-saving industries, agro-processing (linked to food security and food pricing imperatives), boatbuilding, automotive (products and components, and medium and heavy commercial vehicles), plastics, pharmaceuticals and chemicals, clothing, textiles, footwear and leather, bio fuels, forestry, paper, pulp and furniture, cultural industries and tourism, business process servicing, nuclear, advanced materials and aerospace.

Recommendations and policy initiatives are discussed in section 8. This provides an overview of the international environment, local environment and role and initiatives for SEDA. Important aspects from this section include the increase of international competitiveness from especially China, and the need for SA to improve its productivity. This will also include finding niche markets of specialisation, as well as areas where SA has a competitive advantage. This can either be in the form of new product innovation, import substitution or supporting sectors that already show strong export capability. There is also a need of financial support for SMMEs, especially in economic recessions (where potential bankruptcy is not as a result of bad management), as well as a need to increase the profitability of the manufacturing sector to attract new investment and new talent and innovation to the sector.

There is a greater need for policy alignment, not only for industrial policy, but also, for example, targeted education for key sectors. Transport strategies and employment regulations must also be aligned to create employment and to grow the manufacturing sector.

SMMEs have the potential to create more employment opportunities, in comparison to large companies, and must be supported to create sustainable employment in SA.

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Table : Input-output table for SA for 2010 with reduced primary and tertiary sectors

| **Use of products** | Agriculture | Mining | Food | Beverages and tobacco | Spinning, weaving and finishing of textiles | Knitted, crouched fabrics, wearing apparel, fur articles | Tanning and dressing of leather | Footwear | Sawmilling, planning of wood, cork, straw | Paper | Publishing, printing, recorded media | Coke oven, petroleum refineries | Nuclear fuel, basic chemicals | Other chemical products, man-made fibres | Rubber | Plastic | Glass | Non-metallic minerals | Basic iron and steel, casting of metals | Basic precious and non-ferrous metals | Fabricated metal products | Machinery and equipment | Electrical machinery and apparatus | Radio, television, communication equipment and apparatus | Medical, precision, optical instruments, watches and clocks | Motor vehicles, trailers, parts | Other transport equipment | Furniture | Manufacturing n.e.c, recycling | Electricity, gas, steam and hot water supply | Construction | Tertiary |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Agriculture | 2 711 | 22 | 51 792 | 6 579 | 3 331 | 29 | 3 006 | 413 | 4 834 | 6 939 | 97 | 66 | 99 | 418 | 823 | 10 | 13 | 55 | 10 | 41 | 38 | 97 | 70 | - | 14 | 93 | 93 | 384 | 1 218 | 9 | 4 | 4 227 |
| Mining | 1 044 | 4 496 | 1 111 | 122 | 348 | 82 | 8 | 1 | 468 | 3 283 | 167 | 68 887 | 4 823 | 2 009 | 86 | 363 | 964 | 9 290 | 41 845 | 11 985 | 3 684 | 3 100 | 3 984 | 879 | 0 | 6 433 | 696 | 38 | 5 580 | 17 550 | 5 219 | 6 607 |
| Meat | - | - | 3 585 | 0 | - | - | - | - | - | 27 | - | - | - | 3 | - | - | - | - | - | - | - | 14 | - | - | - | - | - | - | 121 | 31 | - | 4 389 |
| Fish | - | - | 245 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3 | - | - | 8 |
| Vegetables | - | - | 291 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8 | 2 | - | 159 |
| Fruit and nuts | - | - | 2 727 | 832 | - | - | 0 | - | - | - | - | - | - | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 76 | 1 | - | 290 |
| Oils and fats | - | - | 4 483 | - | 16 | - | - | - | - | - | - | - | 417 | 1 565 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 44 | - | - | 481 |
| Dairy products | - | - | 9 239 | 27 | - | - | - | - | - | - | - | - | - | 263 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8 | 6 | - | 1 936 |
| Grain mill products | - | - | 10 807 | 23 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 273 | 2 | - | 993 |
| Starches products | - | - | 263 | 54 | 13 | - | - | - | 2 | 266 | - | - | 26 | 268 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5 | - | - | 12 |
| Animal feeding | 14 349 | 12 | 715 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | 4 | - | 5 |
| Bakery products | - | - | 197 | 0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5 | 4 | - | 663 |
| Sugar | - | - | 1 752 | 906 | - | - | 1 | - | - | - | - | - | 254 | 340 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27 | 7 | - | 625 |
| Confectionary products | - | - | 264 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2 | - | - | 56 |
| Pasta products | - | - | 41 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | - | - | 2 |
| Food n.e.c. | - | - | 3 376 | 235 | - | - | 0 | - | - | - | - | - | 16 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 58 | 2 | - | 1 336 |
| Alcohol, beverages | - | 17 | 244 | 13 200 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | - | - | 1 410 |
| Soft drinks | - | 278 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8 872 |
| Tobacco products | - | 150 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2 909 |
| Textile fabrics | - | - | - | 218 | 5 367 | 5 554 | 19 | 216 | 51 | 24 | 326 | 18 | - | 44 | 778 | 3 | - | 1 | - | - | 13 | 36 | 7 | - | - | 860 | 12 | 465 | 290 | - | - | 834 |
| Made-up textile, articles | 1 986 | 449 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | - | 49 | - | - | - | - | - | - | 2 720 |
| Carpets | - | 316 | - | - | 182 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 350 | 4 | - | 11 | - | 115 | 131 |
| Textile n.e.c. | 7 | 21 | - | - | 216 | 970 | 7 | 91 | - | 609 | - | - | - | 636 | - | - | - | - | - | - | 0 | 93 | 31 | 43 | - | 328 | 32 | 48 | 102 | - | 1 800 | 1 154 |
| Knitting fabrics | - | - | - | - | 51 | 1 571 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 92 | - | - | 952 |
| Wearing apparel | - | 324 | - | - | - | 2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | 11 | - | 1 246 |
| Leather products | - | 166 | - | - | 38 | - | 388 | 1 540 | - | 43 | 2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 4 394 | - | 486 | 28 | - | - | 330 |
| Footwear | - | 530 | - | - | - | 2 | 4 | 643 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | - | 372 | 874 |
| Wood products | 485 | 3 118 | 2 772 | 1 692 | 145 | 52 | 7 | 40 | 6 685 | 960 | 58 | 1 074 | 383 | 1 642 | 13 | 79 | 62 | 400 | 245 | 27 | 368 | 154 | 56 | 75 | 7 | 915 | 168 | 3 744 | 160 | 109 | 2 977 | 6 684 |
| Paper products | 53 | 230 | 3 251 | 1 846 | 229 | 110 | 19 | 85 | 291 | 17 332 | 6 787 | 220 | 297 | 2 779 | 18 | 288 | 43 | 367 | 75 | 23 | 100 | 205 | 117 | 36 | 34 | 926 | 6 | 151 | 498 | 44 | 440 | 27 283 |
| Printing | 10 | 28 | 69 | 5 | 22 | 6 | 1 | 4 | 8 | 138 | 1 539 | 13 | 11 | 94 | 5 | 32 | 2 | 7 | 7 | 3 | 16 | 26 | 12 | 3 | 4 | 33 | 3 | 6 | 5 | 30 | 76 | 27 372 |
| Petroleum products | 6 987 | 5 438 | 24 | - | - | - | - | - | 15 | 252 | 34 | 690 | 5 175 | 1 190 | 242 | 59 | - | 41 | 5 930 | 433 | 3 | 26 | 910 | - | - | 23 | - | - | 45 | 1 207 | 8 406 | 72 834 |
| Basic chemicals | - | 1 228 | 1 200 | 893 | 1 207 | 199 | 193 | 301 | 153 | 1 958 | 99 | 1 206 | 30 409 | 10 800 | 2 884 | 7 432 | 59 | 197 | 543 | 2 407 | 126 | 509 | 582 | 69 | 88 | 893 | 20 | 344 | 506 | 35 | - | 1 413 |
| Fertilizers, pesticides | 15 795 | 1 513 | 0 | - | - | - | - | - | - | - | - | - | 2 700 | 3 588 | - | - | - | - | - | - | - | 1 | - | - | - | - | - | - | - | 31 | - | 2 112 |
| Paint, related products | 283 | 990 | 0 | - | 204 | 37 | 1 | 2 | 281 | 1 500 | 1 867 | 1 | 22 | 823 | 445 | 349 | 8 | 460 | 482 | 10 | 739 | 179 | 80 | 2 | - | 2 053 | 10 | 220 | 35 | 187 | 4 828 | 13 975 |
| Pharmaceutical products | 2 391 | 198 | 39 | 52 | - | 30 | - | - | - | - | - | - | 85 | 6 924 | - | - | - | - | - | - | - | - | - | - | 0 | - | - | - | 2 | 11 | - | 10 366 |
| Soap, cleaning, perfume | 11 | 268 | - | 1 | 3 | 79 | 58 | 4 | 54 | 246 | 96 | - | 1 | 1 125 | 0 | 40 | - | - | 19 | - | 120 | 15 | 16 | 1 | - | 188 | 2 | 25 | 9 | - | - | 2 699 |
| Chemical products, n.e.c. | 48 | 13 193 | 874 | 282 | 554 | 156 | 11 | 49 | 407 | 902 | 101 | 108 | 870 | 3 725 | 1 102 | 756 | 45 | 470 | 435 | 58 | 170 | 164 | 338 | 3 | 24 | 226 | 72 | 217 | 98 | 14 | 55 | 5 255 |
| Rubber tyres | 67 | 1 177 | - | - | - | - | - | - | - | - | - | - | - | - | 382 | - | - | - | - | - | - | 3 | - | - | - | 10 | - | - | - | - | - | 5 399 |
| Other rubber products | 223 | 1 599 | - | - | 16 | 41 | 1 | 391 | 116 | 1 | 31 | - | 57 | - | 242 | 177 | - | 1 | - | - | 25 | 386 | 6 | 48 | 9 | 2 845 | 92 | 73 | 674 | 5 | - | 1 338 |
| Plastic products | 287 | 1 044 | 6 703 | 2 629 | 445 | 255 | 47 | 78 | 490 | 232 | 290 | 344 | 590 | 4 331 | 245 | 2 076 | 119 | 220 | 130 | 32 | 121 | 518 | 1 307 | 115 | 250 | 3 797 | 6 | 531 | 699 | 5 | 8 334 | 13 031 |
| Glass products | 18 | 98 | 250 | 1 971 | 1 | - | 0 | - | 96 | - | 16 | 5 | 8 | 858 | - | 5 | 2 130 | 21 | 1 | 0 | 1 | 92 | 54 | 1 | 191 | 788 | 119 | 159 | 11 | 48 | 941 | 1 096 |
| Non-structural ceramic | 79 | 349 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 061 | 1 890 |
| Structure non-refractory clay | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 664 | - | 9 | - | - | 3 | - | - | 0 | - | - | - | - | 11 918 | 6 |
| Plaster, cement | 217 | 781 | - | - | 0 | - | - | - | 43 | - | - | - | - | 58 | - | - | - | 4 378 | 62 | - | 12 | 38 | - | - | - | - | - | - | 1 | 72 | 4 635 | 3 582 |
| Articles of concrete | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 11 728 | 1 633 |
| Non-metallic products n.e.c. | 95 | 252 | - | - | - | - | - | - | 13 | 39 | 1 | 93 | - | 112 | - | 28 | - | 139 | 88 | 1 | 91 | 34 | 47 | - | - | 1 752 | 2 | 34 | 306 | - | 7 418 | 2 599 |
| Furniture | - | 23 | - | - | - | - | - | - | - | 1 | - | - | - | - | - | - | - | - | 5 | - | - | - | - | - | - | - | - | 176 | 0 | - | 159 | 2 429 |
| Jewellery | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 219 | - | - | 228 |
| Manufactured products n.e.c. | - | 28 | 7 | 1 | 1 | 2 | 0 | 0 | 1 | 7 | 83 | 0 | 4 | 8 | 0 | 2 | 0 | 1 | 1 | 0 | 2 | 2 | 1 | 0 | 1 | 3 | 1 | 1 | 1 | 4 | 10 | 3 552 |
| Wastes, scraps | - | - | - | - | - | - | - | - | 73 | - | - | - | 48 | - | - | - | - | 11 | 5 164 | 557 | 1 128 | 249 | 95 | - | - | 3 | 56 | 26 | 6 552 | - | - | 26 |
| Iron, steel products | 98 | 1 304 | - | - | 107 | 2 | 3 | 21 | 345 | - | 2 | 84 | 189 | 171 | 394 | 134 | - | 113 | 10 298 | 999 | 21 811 | 12 909 | 3 870 | 207 | 99 | 16 888 | 1 847 | 488 | 163 | 399 | 12 862 | 3 132 |
| Non-ferrous metals | 19 | 369 | 2 | - | 43 | - | - | - | 86 | 59 | 73 | 263 | 14 | 123 | - | 28 | 0 | 61 | 8 722 | 3 475 | 6 334 | 848 | 4 762 | 26 | 83 | 9 017 | 12 | 236 | 543 | - | - | 210 |
| Structural metal products | 167 | 299 | - | - | - | - | - | - | - | - | - | - | - | - | 21 | - | - | 6 | 1 | - | 64 | 185 | - | - | - | 223 | - | 38 | - | 37 | 15 795 | 3 673 |
| Tanks, reservoirs | 597 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 299 | 986 | 2 662 |
| Other fabricated metal | 2 279 | 10 012 | - | 31 | 36 | 48 | 135 | 93 | 492 | 79 | 306 | - | 1 092 | 48 | 162 | 794 | - | 132 | 94 | 0 | 4 058 | 2 615 | 1 749 | 80 | 131 | 5 225 | 87 | 1 761 | 52 | 129 | 6 559 | 10 500 |
| Engines, turbines | - | 153 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 133 | 527 | 47 | - | - | 312 | 143 | - | 3 | 172 | - | 72 |
| Pumps, compressors | - | 4 888 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2 | 657 | - | - | - | - | - | - | - | - | 272 | 1 906 |
| Bearings, gears | - | 765 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 63 | 1 025 | 96 | - | - | 2 097 | 24 | 0 | - | - | 85 | 2 096 |
| Lifting equipment | 568 | 537 | - | - | 0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27 | 856 | - | - | - | 5 | - | - | - | - | - | 5 086 |
| General machinery | 55 | 85 | - | - | - | - | - | - | - | - | - | - | - | - | - | 2 | - | - | 70 | - | 107 | 445 | 156 | 0 | - | 80 | 10 | 0 | 0 | 57 | 19 | 507 |
| Special machinery | 661 | 3 343 | - | - | - | - | - | - | 11 | - | 0 | - | 1 | - | - | - | - | - | - | - | 104 | 659 | 56 | 0 | 25 | 268 | 18 | 1 | - | 43 | 606 | 1 404 |
| Domestic appliances | - | 22 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 17 | 453 | - | - | - | 0 | - | - | - | 5 | 9 | 236 |
| Office machinery | - | 5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 278 | 1 | - | - | 0 | - | - | - | 1 | - | 1 339 |
| Electrical machinery | 173 | 2 754 | - | - | 6 | - | - | - | - | - | 0 | - | 3 | - | - | - | - | - | 18 | - | 301 | 1 394 | 2 294 | 894 | 157 | 1 594 | 779 | 3 | 48 | 2 969 | 11 806 | 10 498 |
| Radio, television | - | 421 | - | - | - | - | - | - | - | - | 268 | - | 22 | - | - | - | - | - | 16 | - | 72 | 5 416 | 3 963 | 3 176 | 1 345 | 6 025 | 209 | - | 24 | - | - | 17 354 |
| Medical appliances | - | 61 | - | - | - | - | - | - | - | - | - | - | - | 2 | - | - | - | - | - | - | - | - | - | - | 132 | - | - | - | 2 | 3 | - | 2 452 |
| Motor vehicles, parts | 1 221 | 3 044 | 335 | 78 | 22 | 21 | 4 | 7 | 83 | 50 | 52 | 60 | 61 | 140 | 14 | 49 | 28 | 66 | 51 | 11 | 160 | 224 | 207 | 5 | 16 | 38 480 | 1 713 | 26 | 47 | 95 | - | 36 658 |
| Ships and boats | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | - | - |
| Railway and trams | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 92 | 10 | - | - | - | - | 108 | - | - | - | - | - |
| Aircrafts | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | - | - |
| Other transport equipment | 82 | 428 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3 575 |
| Construction | 267 | 3 160 | 791 | 349 | 33 | 154 | 9 | 105 | 249 | 65 | 1 507 | 6 222 | 724 | 140 | 12 | 150 | 11 | 58 | 576 | 210 | 471 | 273 | 90 | 98 | 29 | 404 | 189 | 17 | 70 | 28 | 16 303 | 29 868 |
| Electricity and water | 1 791 | 10 121 | 3 243 | 1 142 | 605 | 227 | 47 | 58 | 416 | 1 110 | 204 | 754 | 7 707 | 2 452 | 294 | 489 | 482 | 771 | 4 458 | 2 045 | 802 | 486 | 347 | 41 | 72 | 1 177 | 196 | 186 | 299 | 69 | 655 | 24 802 |
| Tertiary activities | 25 534 | 59 572 | 38 775 | 11 149 | 4 532 | 3 473 | 882 | 1 270 | 5 560 | 11 179 | 8 430 | 5 221 | 13 854 | 26 895 | 2 633 | 5 719 | 1 372 | 6 168 | 12 741 | 2 239 | 9 074 | 9 804 | 6 099 | 1 214 | 2 043 | 22 179 | 3 235 | 4 393 | 3 166 | 1 746 | 51 958 | 903 844 |

1. The EU define a micro enterprise as a company with less than 10 people, and a turnover of less than €2 million, a small enterprise has between 10 and 49 people with a turnover of between €10 million and €49 million and a medium enterprise has between 50 and 250 people and a turnover of more than €50 million. [↑](#footnote-ref-2)
2. The ‘cut-off points’ for the various size groups in the Manufacturing industries according to the Annual Financial Statistics is: Large, Turnover > R76.5m, medium, turnover ≤ R76.5m and > R19.5m. and small turnover ≤ R19.5m. These ‘cut-off pints’ differs between sectors. [↑](#footnote-ref-3)
3. The enterprise size is according to turnover. Large: Turnover ≥ R51 000 000; Medium R13 000 000 ≤ Turnover < R51 000 000; Small R5 000 000 ≤ Turnover < R13 000 000 and Micro Turnover < R5 000 000. [↑](#footnote-ref-4)
4. The average is calculated as a ‘simple’ average and not a weighted average. [↑](#footnote-ref-5)