



# EDGE

Economic Development  
& Growth in EThekweni

Issue 7 2013



## Focus on Manufacturing in eThekweni

**PLUS** ● Quarterly Data  
● Investment Promotion  
● Industry Highlights



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***Designed and edited by the Communication Factory***



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## Welcome to The EDGE

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# Welcome

to the seventh edition of The EDGE, a quarterly economic bulletin that looks at the eThekweni economy, with a brief overview of the global and national context.

Published by the eThekweni Economic Development and Investment Promotion Unit, The EDGE aims to inform stakeholders of the latest developments and trends in eThekweni.

The theme of this edition centres around manufacturing in eThekweni. We explore the various factors involved in establishing and maintaining a manufacturing facility in a number of different stories. We also look at business support and investment promotion in Durban, as well as providing our regular snapshot of the local economy.

We trust that you will enjoy this edition of *The EDGE* and that it will provide plenty of food for thought for those interested in the wealth of opportunities involved in the economic growth of eThekweni and the surrounding areas.



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## Foreword

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by Her Worship the Deputy Mayor, eThekweni Municipality, Councillor Shabalala

Welcome to our seventh EDGE publication. It seems that only yesterday we were welcoming in the New Year 2013, and now the year is drawing to a close. The year was marked by slow economic growth and a slow rate of job creation. In 2013 the Council considered many crucial issues and took decisions aimed at steering the City towards a sustainable growth path. Most notably, the Council adopted the Economic Development and Job Creation Strategy 2013 – 2018. This strategy was critical in identifying key areas of concern that the City needs to address. Importantly, this strategy seeks to place the City on a new growth path which is driven by strong and well informed economic leadership.

A key feature of this strategy is a strong focus on improving the productive sectors of the local economy. In keeping with this theme, this issue of EDGE has a special focus on the manufacturing sector. Manufacturing is a very significant sector of the eThekweni economy and employs over 170,000 people, contributing about 21% of our total formal employment in 2012. In terms of GDP output our manufacturing region is second to Johannesburg – last year our manufacturing GDP was approximately R52 billion, compared with Johannesburg’s R66 billion.

EThekweni is home to the country’s most strategic port and logistics infrastructure and as such is the most strategic location for export orientated manufacturing activity. In addition, the manufacturing sector is able to absorb semi-skilled labour into the formal sector and provide employment for thousands of unemployed people. However, over the recent past the sector has underperformed and declined in terms of its significance in the local economy. The sector is strongly linked to the global economy and was impacted negatively by the global economic crisis, and particularly by the financial crisis experienced by its major trading partners in Europe.

National programmes such as the Industrial Policy Action Plan (IPAP), as well as the proposed designation of Special Economic Zones, aim to enhance the competitiveness of the manufacturing sector. A scarcity of industrial land and a lack

of infrastructure are some of the local constraints to growing manufacturing. The Economic Development and Job Creation Strategy has proposed the development of an industrial land strategy aimed at unlocking well located industrial land as well as putting in place infrastructure in key areas where demand for manufacturing activity exists. The industrial land strategy is currently being undertaken and significant work has been done in understanding the industrial land market in eThekweni.

The City has also taken a number of decisions to align its many sector plans into a single plan that is driven by an economic imperative. The City has never before undertaken such a co-ordinated process, nor has it placed economic development at the centre of the planning process. I have never seen such a determination on the part of the Municipality to achieve strong economic growth and address the challenge of unemployment, as I have seen in my last year of office. The current leadership of the City has taken a strong view that in order to meet the triple challenge of poverty, unemployment and inequality, it is important that we prioritise the creation of formal employment in key areas of the economy, such as the manufacturing sector.

As the year begins to wind down and we enter the festive season, spare a thought for the hundreds of thousands of people in our city who live in poverty and the many job seekers who will face the season of celebration without employment and an uncertain future. In whatever way you can, contribute towards the cause of uplifting the less fortunate in society. This being the last EDGE issue for 2013 I would like to take this opportunity to wish the readers and stakeholders a peaceful festive season and a prosperous 2014. Next year will mark 20 years of our democracy and the fifth democratic elections. The year will pose significant challenges and a chance for us to take stock of what has been done over the last 20 years. I would like to thank the EDGE stakeholders and readers for their support, their comments and taking part in the seminars that were held in 2013. We look forward to building an even stronger partnership in 2014 to take forward our great city.

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Global financial markets have experienced considerable volatility, owing to prospective changes in US monetary policy, a new policy in Japan and instability in China's banking system.

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## Global, National and Local Overview

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### The Global Economy

The global economy continues to grow at a modest pace while Europe remains in recession and the major emerging markets face slower growth. Global financial markets have experienced considerable volatility, owing to prospective changes in US monetary policy, a new policy in Japan and instability in China's banking system.

**China:** At a time when the global economy is modestly accelerating, China appears to be faltering. It seems likely that economic growth will decelerate, credit growth will slow down, and the country's new leadership will try to address fundamental issues in the economy instead of resorting to stimulus.

**Japan:** Improving economic performance may be considered temporary as it is driven by movements in asset prices and a boost to business and consumer confidence. Longer-term improvements in economic performance will require real economic reforms—something that remains somewhat uncertain given the country's current political landscape.

**United States:** The United States will likely experience slow-to-moderate economic growth for the rest of the year.

**Eurozone:** European financial markets are showing signs of improvement, but the economy is still affected by the recession. Europe's economy, which is deeply dependent on exports, especially to emerging markets, will need to find other sources of demand in order to generate sustainable growth.

**United Kingdom:** The United Kingdom is likely to show modest growth for the rest of 2013. Its economy is showing signs of a gradual pick-up in activity in 2014, but the country will probably not return to above-trend rates until 2015.

**India:** India's economic growth is slowing down more than expected, but there is not much room for manoeuvring fiscal and monetary policies given the country's current economic challenges.

## The National Economy

The Medium-Term Budget Policy Statement (MTBPS) by the Finance Minister is traditionally a time when announcements are made that are of particular interest to the financial markets. These include revisions to government projections of its borrowing requirements and fiscal deficit, as well as inflation and GDP forecasts and the loosening of exchange controls. Outside of maintaining strong fiscal policy, the affectionately termed ‘mini budget’ in October of this year saw some strong moves from government to cut down on wasteful expenditure, encourage investment, support South Africa’s cities, and implement the National Development Plan (NDP). In this last MTBPS before the 2014 elections, the Minister dedicated a significant portion to “cut waste and extravagance in government”. “Although most government spending is effectively managed, there are many opportunities to cut or minimize costs and stop abuse,” he said, in light of several government ministers having come under fire for extravagant spending at the public’s expense in recent years. From the last MTBPS, a number of significant points are worth noting:

- The obvious challenge for the Minister was to curb spending, while simultaneously stimulate growth in the economy. The result was that no major changes in spending were announced, undertakings were made to drive costs down, and commitments to the National Development Plan (NDP) were reinforced.
- There was also an acknowledgement that the economic and fiscal outlook had “weakened in recent months”. Growth has been too slow with high unemployment and many households are over-indebted. The level of savings is also too low to finance the much needed investment, and as a result the country is importing considerably more than what’s being exported.
- The policy statement also outlined some of the current South African economic challenges - economic growth forecast estimates were revised down from 3.5% in 2012 to 2.1% in 2013; commodity export prices (which supported high revenue growth over the past decade) have decreased over the first nine months of 2013.
- The recent credit rating downgrade to BBB by Standard & Poor’s and Fitch was cognisant of the country’s increased susceptibilities.
- The numbers in the medium-term budget reiterated concern around slowed economic growth and a widening budget

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deficit. The budget deficit, excluding extraordinary transactions, was R143.9 billion in 2012/13; representing 4.5% of the gross domestic product (GDP). This is projected to increase to R155.8 billion in 2013/14.

- The revised government borrowing budget was moderated from R178 million to R168.5 million for 2013/14.
- The government projects that it may have to borrow R183.9 billion in 2014/15, bringing the total net loan debt up to R1 573 billion. This is projected to decline to R164.9 billion in 2016/17, with a total net loan debt of R1 994 billion. It is anticipated to reach 39.3% as a total of GDP in 2013/14 and climb to 43.9% in 2016/17.
- Despite the growth of national debt, the budget showed a commitment to the NDP. The policy seeks to transform the quality of public expenditure by shifting resources to implement National Development Plan priorities, improving infrastructure allocations, and stepping up efforts to combat waste, inefficiency and corruption. “Government is preparing cost-containment instructions to limit wasteful expenditure,” said the minister. In line with NDP priorities, health and education continues to receive the largest allocations, while budgets related to infrastructure, jobs, local government and community development “grow strongly”.
- According to the policy framework, R2.5 billion has been reprioritised through the fiscus to support infrastructure modernisation projects. The baseline of the transport, energy and communications function is projected to grow by an average annual rate of 7.9% to R105.8 billion in 2016/17.

The MTBPS has also prioritised the following:

- R1 billion allocated to cover the costs of inflation-related and other salary adjustments.
- R374 million earmarked to provide broadband connectivity to public schools.
- R170 million to cover the effect of rand depreciation on expenditure in foreign currencies in 2013.
- R150 million allocated to deploy troops in the Democratic Republic of the Congo.
- R57 million for contractual penalties incurred by Denel Aerostructures related to the A400M aircraft contract.
- R20 million allocated for substance-abuse prevention.
- R18 million set aside to repair infrastructure damaged by floods.
- R508 million refunded to departments for expenditure financed by departmental revenue paid into the National Revenue Fund.

## SA economy in brief

- South Africa's economy continues to grow, but at a slower rate than previously expected. GDP growth is projected at 2.7% in 2013, 3.5% in 2014 and 3.8% in 2015.
- Faster economic growth will require greater private investment and improved trade performance. As the policy environment becomes more stable, the global economy recovers and confidence returns, South Africa's opportunities for growth will expand.
- Strong public-sector capital investment, additional electricity-generating capacity, relatively stable inflation, low interest rates and robust economic activity in southern Africa will contribute to a supportive environment for improved growth over the medium term.
- Moderate employment growth is expected over the next three years. Job creation prospects depend largely on private-sector hiring as fiscal pressures constrain public-sector employment growth.
- According to the latest Quarterly Labour Force Survey, unemployment decreased marginally from the 2nd to the 3rd quarter in 2013, from 25.6% to 24.7%. Using the expanded definition of unemployment to include discouraged work seekers, yields an unemployment rate of 35.6% - substantially higher!
- The current account deficit is forecast to average 6.2% over the medium term. Consumer inflation is projected to remain within the 3-6% target band over the next three years
- Implementing the National Development Plan (NDP) will strengthen growth and accelerate job creation, while broadening social development and economic participation.

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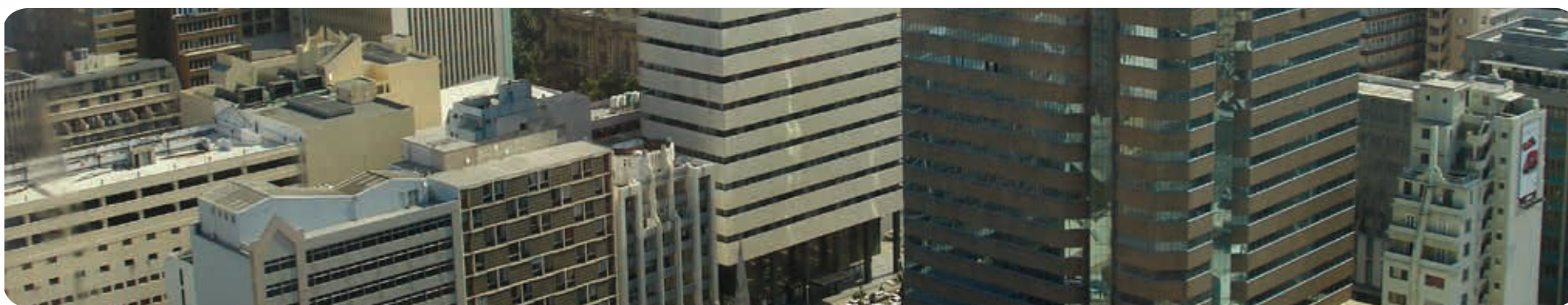


## The Local Economy

**The growth opportunities over the next 20 years will focus on capitalizing on the role of the port, international airport and modern rail, road, infrastructure and information and communication technologies.**

The eThekweni's Economic Development and Job-Creation Strategy 2013-2018 was formally adopted by Council during October 2013. The Strategy maps out a growth trajectory over the next 20 years, with an overall framework for the first five years. The purpose is to put in place a suite of fundamentals to drive the growth in the future phases. The growth opportunities over the next 20 years will focus on capitalising on the role of the port, international airport and modern rail, road, infrastructure and information and communication technologies. It also includes promoting the City as a center for production and trade between Africa and the world. From a tourism perspective it will entail marketing the City as an events and tourism destination and promoting the City as the best location for manufacturing activities.

The City also unveiled its R22 billion transport strategy during November 2013. This will offer Durban commuters a system that would use taxis, buses and trains at a cheaper rate than existing modes of transportation. The Municipality will cover R20 billion of the cost and the balance to be covered by the Passenger Rail Agency of SA.. The City is the first in the country to roll out a plan that incorporates all modes of transport into a unified network. Phase one is expected to be completed by 2016.



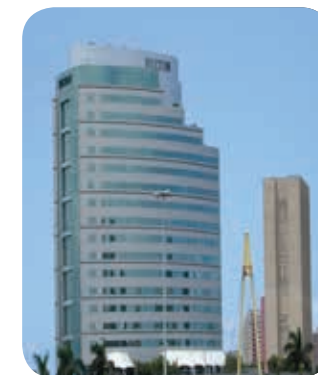
**Key Indicators: Building Plans**

Metropolitan Municipality	Value of Building Plans Passed R million	% contribution to total value of building plans passed for 2012
City of Cape Town	11 993,9	16,5
Nelson Mandela Bay Municipality	2 012,7	2,8
EThekweni Municipality	6 796,4	9,3
City of Johannesburg	7 716,6	10,6
City of Tshwane	11 781,6	16,2
Ekurhuleni Metropolitan Municipality	7 839,8	10,8
Total metropolitan municipalities	48 141,0	66,1

Source: Statistics South Africa

The total value of building plans passed among all Metro’s was the highest in the City of Cape Town (16.5%) followed closely by the City of Tshwane (16.2%). EThekweni Municipality only ranks fifth out of the six Metro’s. These figures show the accelerated pace of development in the cities of Cape Town and Tshwane compared to eThekweni. This reinforces the approach of the Economic Development and Job Creation Strategy to create a more conducive environment for investment within the city. Building activity in the city of Cape Town has been driven largely by tourism and related industries.

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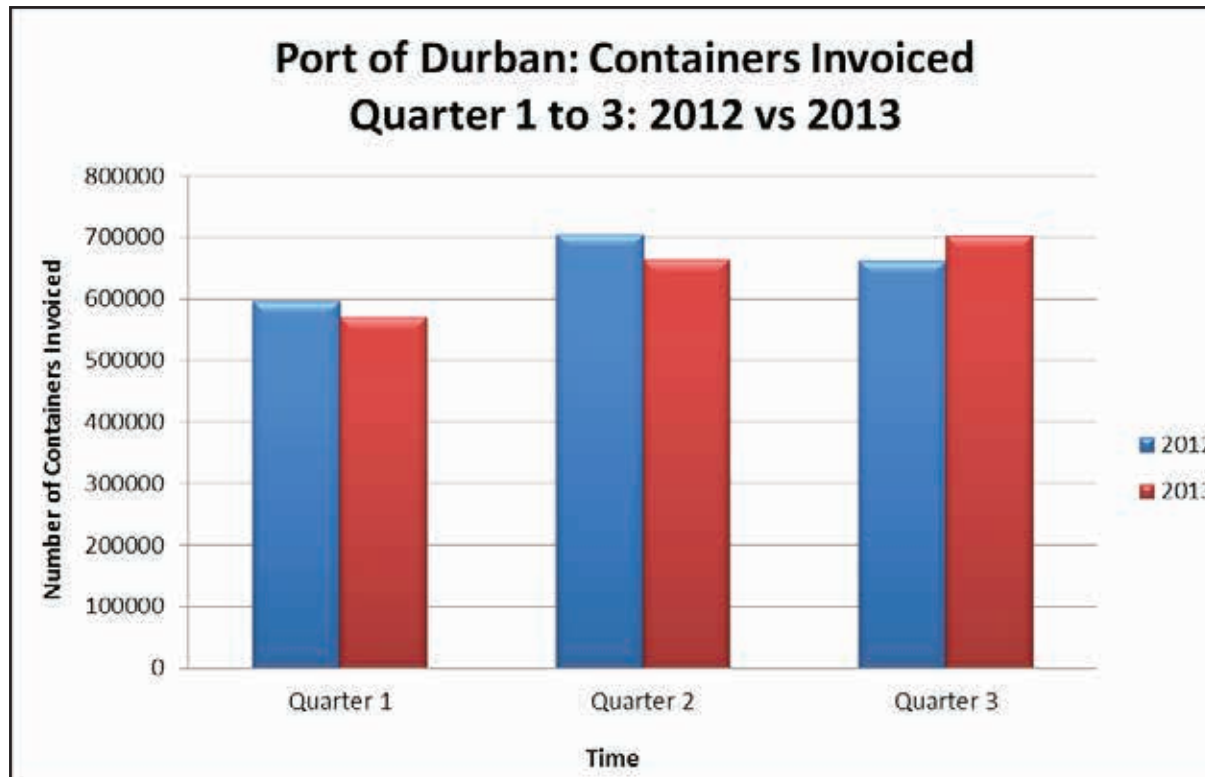
## Key Indicators: Electricity Consumption

Sector of Use	Units	2009/10	2010/11	2011/12	2012/13	% Change 2011/12 - 2012/13
Business & General	kWh	2,662,458,083	2,921,756,030	2,723,355,860	2,367,758,535	-13.5
Private Residences	kWh	2,826,464,091	2,500,569,276	2,495,936,487	2,680,118,904	7.3
Other	kWh	39,678,620	41,785,554	86,221,641	95,297,605	10.5
Bulk	kWh	4,621,341,025	4,582,863,945	4,666,663,006	4,781,979,791	2.5
Prepayment	kWh	774,714,890	789,573,652	826,397,419	819,810,059	-0.8
Total	kWh	10,924,656,709	10,836,548,456	10,798,574,412	10,744,964,894	-0.5

Source: EThekwini Electricity

The table above contains figures based on the eThekwini Municipality's financial year which commences on the 1st July and ends on the 30th June in any given year. Keeping this in mind, it is interesting to note that overall electricity consumption has declined by a small margin from the 2011/12 to the 2012/13 financial year, which has recently ended on the 30th June 2013. The sector utilising the largest amount of electricity is the bulk sector, followed by private residences and then 'business and general'. Importantly, the electricity usage in the business and general sector has shown the biggest decrease at 13.5% since the 2011/12 period. This may have resulted from businesses becoming more energy efficient and possibly exploring alternate energy uses as a result of the continuous increase in electricity tariffs, but may also be the result of low levels of economic growth by business.

With regards to private residences, on the other hand, electricity usage has increased. This may be due to the fact that the number of private residences is growing, hence increasing electricity usage at an overall level.



Source: Transnet National Port Authority

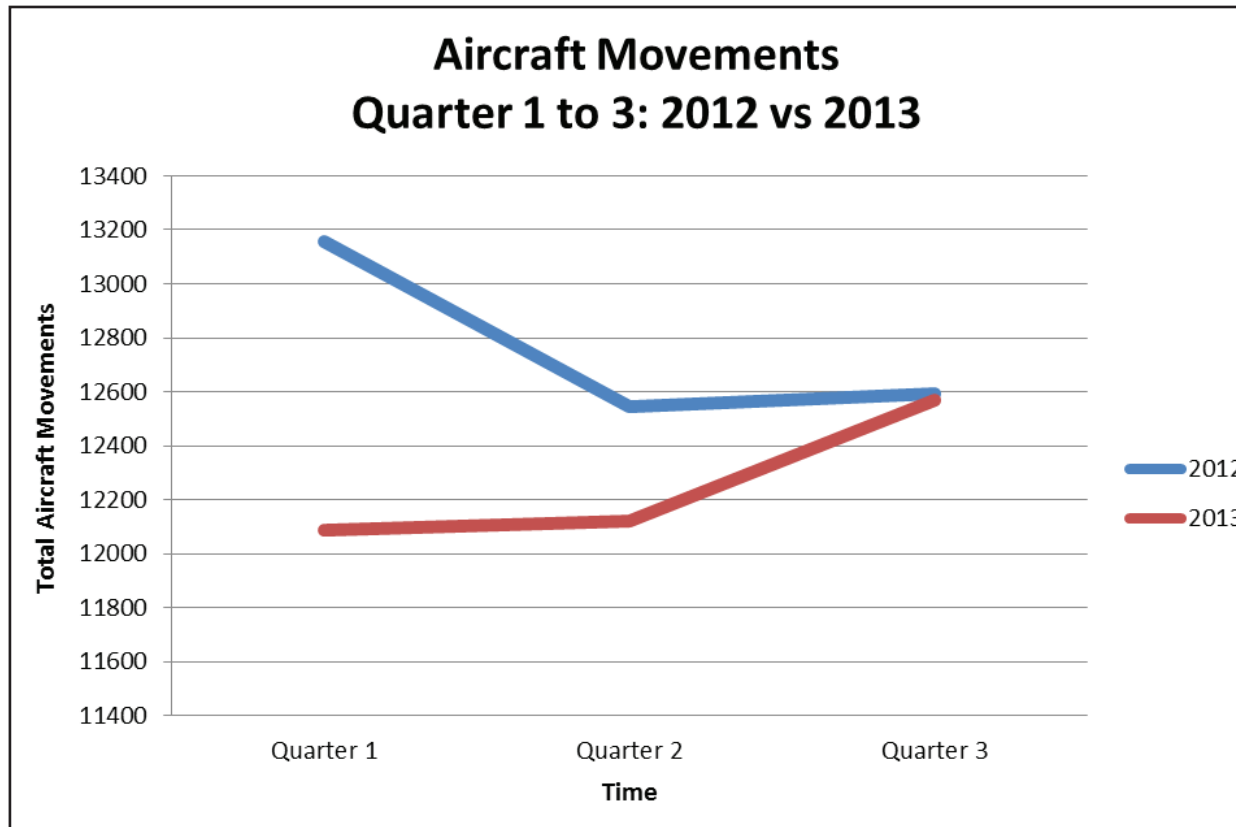
The number of containers invoiced in 2013 has grown steadily throughout the first three quarters of the year. Although lagging behind the 2012 half yearly figures, quarter three figures for 2013 have surpassed that of the same period in 2012. It is expected that quarter four figures for 2013 will be slightly lower due to the delays currently being experienced at the Port of Durban as a result of windy conditions experienced during October/November.

The number of containers invoiced in 2013 has grown steadily throughout the first three quarters of the year.



**Key Indicators: Aircraft Movements in eThekweni**

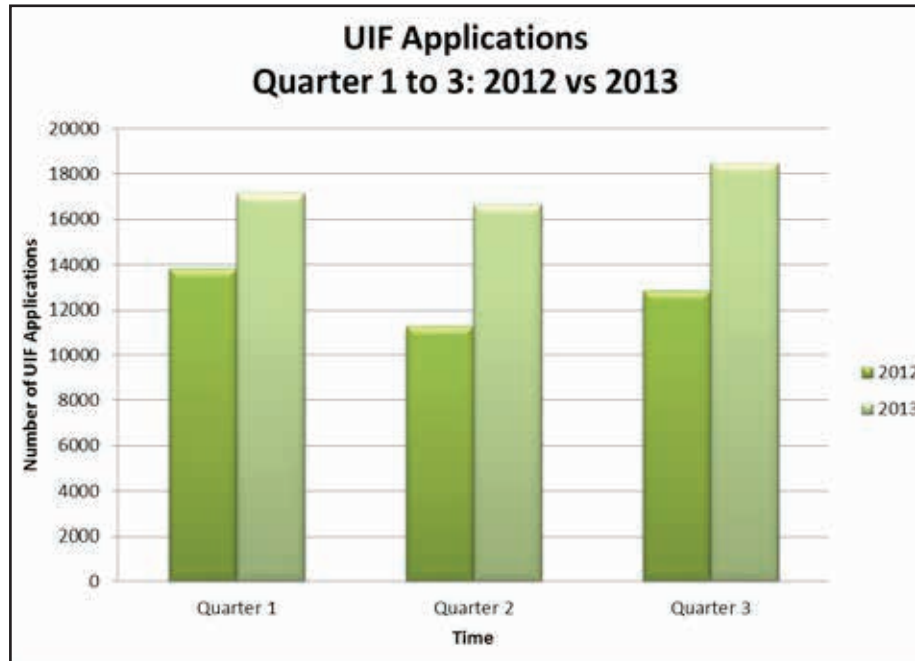
Aircraft movements have increased since the first quarter of 2013. This increase in 2013 is expected to continue through to the fourth quarter due to the festive season ahead.



Source: Airports Company South Africa

2013 kicked off with slightly lower figures than in 2012; however there is a convergence in quarter 3 for both 2012 and 2013. Aircraft movements have increased since the first quarter of 2013. Interestingly, 2012 showed the opposite trend for the first half of the year when compared to 2013. This increase in 2013 is expected to continue through to the fourth quarter due to the festive season ahead.

**Key Indicators: Unemployment Insurance Fund**

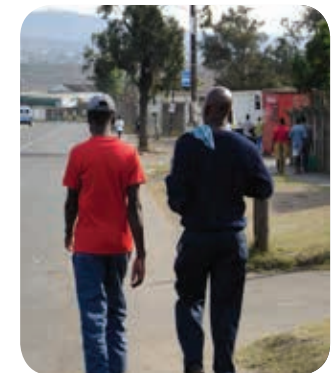


Source: Department of Labour

The number of UIF applications received in 2013 has grown quarter on quarter. This figure is far higher than the 2012 figure for the same period and corresponds to the increase in unemployment experienced between quarters one and two of 2013 as possibly many of those who lost their jobs in quarter 2 are now applying for UIF. However, there still seems to be a trend of increasing unemployment evident in eThekweni. This trend can possibly be attributed to the following phenomena:

- An increased number of women previously involved in traditional activities, entering the labour force.
- An increased rate of urbanisation. This involves the move from rural to urban areas. These people have moved into the urban areas to search for formal employment.
- A general increase in the population with more people entering the labour force.

There still seems to be a trend of increasing employment and unemployment evident in eThekweni. Possible reasons for this include an increased number of women entering the workforce and an increase in urbanisation.



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From 2005 to 2010, the merchandise imports of the European Union increased by 27%, while they increased in the US by 14%. Over the same time period, emerging economies expanded their merchandise imports much faster: Brazil, 147%; India, 129%; China, 111%; and South Africa, 51%.

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## Government News

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### Manufacturing for Growth

A key World Economic Forum report released this year entitled 'Manufacturing for Growth' was the culmination of an extensive research process which included face-to-face interviews around the world with over 70 chief executives of multinational manufacturing companies. So what does it have to say for us? Unfortunately, no African country was included in the focused analysis (the six countries chosen were Germany, Japan, the United States, Brazil, China and India). However, we can glean a wealth of information from this global initiative.

Firstly, this analysis reinforces some 'well-known truths', such as:

- Policy is critical to competitiveness;
- Partnerships are crucial for advancing the manufacturing economy;
- Understanding and leveraging global value chains is critical in today's economy; and
- The shift in end markets, for example, "From 2005 to 2010, the merchandise imports of the European Union increased by 27%, while they increased in the US by 14%. Over the same time period, emerging economies expanded their merchandise imports much faster: Brazil, 147%; India, 129%; China, 111%; and South Africa, 51%."



Secondly, it provides us with some 'inconvenient truths'; inconvenient in the sense that in South Africa, the policy recommendations provided by this enormous grouping of elite manufacturers are difficult to implement at best (See the common recommendations in Box 1.1). The inputs on education and workforce policy, for example, have always been a contentious issue in this country.

But what does this all mean for a medium sized chemicals manufacturer in Jacobs? Or a new solar PV manufacturer in New Germany? Or for the government officials and politicians wanting to create jobs through reindustrialization? Essentially, it means two things.

- 1) It is in your best interest to involve yourself in the formulation of national industrial policy,
- 2) Although at times 'uneasy allies', government and business have to enhance manufacturing in South Africa together. Partnerships are key for competitiveness.

For the Executive Summary and full report please see: [http://www.deloitte.com/view/en\\_GX/global/industries/manufacturing/67d98ce7d114e310VgnVCM3000003456f70aRCRD.htm](http://www.deloitte.com/view/en_GX/global/industries/manufacturing/67d98ce7d114e310VgnVCM3000003456f70aRCRD.htm)

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**Although at times 'uneasy allies', government and business have to enhance manufacturing in South Africa together. Partnerships are key for competitiveness. As such, it is in the best interest of business people to involve themselves in the formulation of national industrial policy,**

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### **Common Policy Recommendations from Manufacturing CEOs:**

1. Competitive tax policy applied within simplified tax systems.
2. Policy that promotes and protects free and fair trade.
3. Energy policy promoting efficiency, security, strong infrastructure and low cost.
4. Education and workforce policy that develops superior talent.
5. Science, technology and innovation policy which promotes advanced manufacturing.

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**The establishment of the MCEP is one of the integrated measures deployed by government after the 2008/2009 recession, where an estimated number of a million jobs were lost, with more than 20 per cent of these job losses noted from the manufacturing sector.**

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## Manufacturing Competitiveness Enhancement Programme (MCEP)

The Department of Trade and Industry released the Industrial Policy Action Plan (IPAP) 2012/13-2014/15 in April last year. The policy included the Manufacturing Competitiveness Enhancement Programme (MCEP) for which an estimated R5,8 billion has been accounted towards the programme. The MCEP offers an incentives scheme to existing manufacturers, with the purpose of promoting enterprise competitiveness, ensuring job retention in the sector and supporting sustainable economic growth.

The programme was launched in May 2012, and consists of industrial financing loan facilities managed by the Industrial Development Corporation (IDC), and production incentive grants administered by the Department of Trade and Industry. Production incentives are available to registered South African companies that specialise in manufacturing activities or manufacturing support services. They include grants for capital investment; feasibility studies; cluster improvement; green-technology and resource efficiency improvement; and enterprise competitiveness improvement. Qualifying manufacturers can also apply for the working capital facility of R50 million, over a 4-year term at 4 per cent interest. This working capital has certain conditions attached to it and comprises of pre-dispatch finance, post-dispatch finance and an industrial policy niche projects fund.



The establishment of the MCEP is one of the integrated measures deployed by government after the 2008/2009 recession, where an estimated number of a million jobs were lost, with more than 20 per cent of these job losses noted from the manufacturing sector. The sector's contribution towards national GDP has also seen a declining trend since the 1980's and government thereby attempts to explore lessons from models used in emerging Asian economies who have succeeded in raising the level of manufacturing competitiveness. In 2010 and 2012, the sector contributed 17 per cent and 22 per cent respectively, towards national GDP, and experienced negative employment growth between 2011-2012.

Our current manufacturing sector is faced with a number of challenges, most of which include escalating electricity prices which impact negatively on domestic input costs, an increasing number of cheap imports and illegal goods, existing poor rail and harbour capacity, the shortage of skilled labour and rising employment costs, labour market inefficiencies caused by constrained labour laws and policies, limited financial and water resources, and the absence of an 'innovative thinking' approach behind product creation and manufacturing processes.

Such factors threaten the growth and development of the manufacturing sector, resulting in lower national productivity levels. Initiatives such as the MCEP, the New Growth Path (NGP) and IPAP therefore aim to prioritise this sector as a key driver of job creation. Minister Rob Davies recently announced that the MCEP approved 436 entities with the investment value of R13, 1 billion and helped to sustain 116 497 jobs throughout South Africa since its inception in May last year.

**For more information on the MCEP Guidelines or the MCEP Application Process, kindly visit: <http://www.idc.co.za/images/funding/MCEP-Guidelines.pdf> [http://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=53&subthemeid=25](http://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=53&subthemeid=25)**

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**The MIP is a reimbursable cash grant for local and foreign-owned manufactures who wish to establish a new production facility; expand an existing production facility; or upgrade an existing facility in the clothing and textiles sector.**

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## Manufacturing Investment Programme (MIP)

The MIP is a reimbursable cash grant for local and foreign-owned manufactures who wish to establish a new production facility; expand an existing production facility; or upgrade an existing facility in the clothing and textiles sector.

The programme's objective is to support investment in new and expansion projects by Small and Medium-Sized Enterprises (SMMEs) in the manufacturing sector. Other objectives of the MIP are to:

- Stimulate investment in manufacturing;
- Increase employment opportunities; and
- Sustain enterprise growth

Benefits include the following:

- Investment grant of 30% of the investment cost of qualifying assets for new or expansion projects below R5 million.
- Investment grant of between 15% to 30% of the investment cost of qualifying assets for new or expansion projects above R5 million.
- Qualifying assets: machinery and equipment, buildings, and commercial vehicles.

Eligible Enterprises include investors in new and expansion projects in the South African manufacturing industry. The programme was introduced in 2008 and was intended to be implemented until July 2014. By the end of June 2013, about 2 000 new and expansion projects in the manufacturing sector had been approved, and over R2 billion disbursed to enterprises.

Over 200 (10%) of the approved projects were foreign direct investments (FDI) by either new or already established entities in South Africa. The expected investment by FDI enterprises supported by the programme is more than R13 billion and over 20 000 jobs are expected to be created and/or sustained by these enterprises.

Among the other highlights of the programme is that more than 1 000 (50%) of all approved projects were by small enterprises with investments of less than R5 million per project. The small enterprises supported are expected to create and or sustain more than 30 000 jobs.

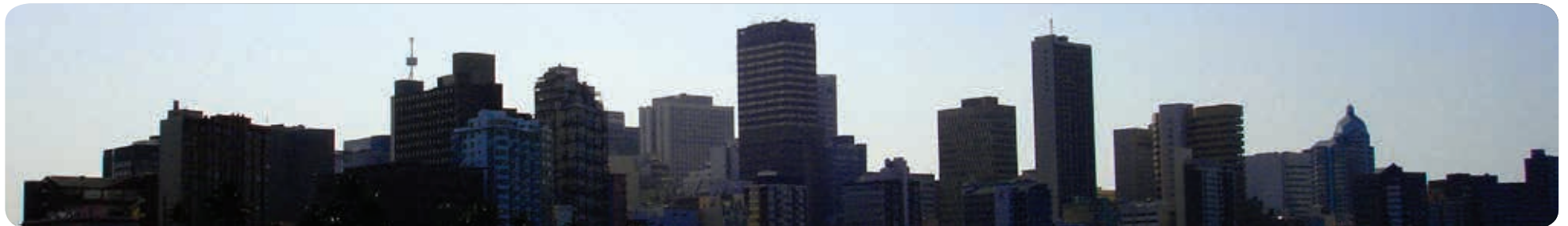
However, due to overwhelming interest from industry, new applications to the programme have since been suspended due to the six-year budget being oversubscribed. While no new applications will be considered as a result of the suspension, all applications that have been registered on the MIP online system before midday, 20 September 2013, may still be completed by the respective applicants. These applications will be evaluated and considered for support in line with the guidelines of the programme.

**For more information please see: [http://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=2&subthemeid=26](http://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=2&subthemeid=26)**

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**South Africa is the 30th driest country in the world with water losses estimated at a cost of R7.2 billion per year. According to estimates in the National Treasury's 2012**

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## “No Drop Report”

The Water and Environmental Affairs Department is planning to publish a new incentive-based No Drop Report to monitor water loss in South Africa. The aim of the report is to increase water efficiency and leakage reduction from water supply networks. It will also provide the public with information pertaining to water use, water loss and efficiency of water used within a municipality and will be implemented across all municipalities in South Africa from October 2013 to March 2014, and be carried out every two years.

The No Drop Report will publish audited values pertaining to water use and management in each local municipality, reporting such figures as part of the Blue Drop scorecard, which measures the quality of drinking water.

Research data from 132 (of 237) municipalities representing 75% of the total volume of municipal water supply, show that the current level of non-revenue water is estimated at 36.7%, of which 25.4% is considered to be losses through physical leakages.

South Africa is the 30th driest country in the world with water losses estimated at a cost of R7.2 billion per year. According to estimates in the National Treasury's 2012 Budget Review, South Africa's water demand will outstrip its supply by 2030.

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## Industry Highlights

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### Sector News

#### Automotive Industry Strike

The last quarter has been riddled with strike activity in the industry. The four week strike which included more than 30 000 employees in the automotive components industry came to an end early October when Numsa reached a deal with employers in the sector. It was agreed that workers would receive a 10% pay increase in the first year of the accord and wage hikes of 8% in the second and third years covered by the agreement.

#### Volvo trucks commits to South Africa

Volvo Trucks has reaffirmed its commitment to South Africa and has also indicated that they are happy to increase local content in their production. The Durban-based assembly plant will house the assembly of the Volvo FH Euro III units, which have taken into account the current fuel quality and standards.

#### Durban's ICC Won the World Travel Award and Durban's Cruise Port is Leading in Africa

The International Convention Centre in Durban has won the prestigious World Travel Award as Africa's leading meetings and conference centre. The ICC has received this award for the 12th time. The ICC led the pack by defeating other finalists such as the Cape Town International Convention Centre, Nairobi's Kenyatta International Convention Centre, Cairo International Convention Centre and Sandton Convention Centre. The World Travel Awards tracks the numerous votes cast each year by travel professionals from over 200 countries.

In addition to this, Durban's Cruise Port was recognised as Africa's leading port in the cruise category.

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**The National Energy Regulator of South Africa (Nersa) has approved the registration of six biogas production operations at Izimpongo Village, Melmoth and Mgwabi Village at Eshowe in rural KwaZulu-Natal.**

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### **Nersa Registers Six KZN Biogas Production Operations**

The National Energy Regulator of South Africa (Nersa) has approved the registration of six biogas production operations at Izimpongo Village, Melmoth and Mgwabi Village at Eshowe in rural KwaZulu-Natal.

In terms of the Gas Act, owners of operations involved in the production, importation and transmission of gas for their own exclusive use, as well as small biogas projects not connected to the national gas pipeline grid, did not have to be licensed but had to be registered with Nersa.

The recently registered operations produced biogas from cow dung, pig manure, kitchen waste and agricultural residues through anaerobic digestion. These projects enjoy wide support from communities, as waste material is readily available to many in rural and urban areas. The biogas technology also played a vital role with regard to environmental protection and the promotion of a cleaner environment.

### **PMAESA Conference 2013**

The Port Management Association of Eastern and Southern Africa (PMAESA) hosted its Maritime Conference from the 4th to the 5th November 2013, together with Transnet National Port Authority. The conference coincided with PMAESA's 40th anniversary celebrations and consisted of 20 world-class speakers in the fields of economics, commerce and industry, banking, port operations, technology and innovation.

The theme of the conference was Africa's Maritime Economic Integration. The programme was designed in a way that addressed maritime-related topics affecting Africa, and in particular Sub-Saharan Africa, as a whole. An action plan to facilitate the continent's economic integration and exploit its maritime wealth in line with the African Integrated Maritime Strategy 2050 (AIMS), is a key outcome of the conference.

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## Industrial Clusters

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### eThekwini Maritime Cluster

eThekwini Maritime Cluster (EMC) used the Durban International Boat and Lifestyle Show as an opportunity to provide boat builders in the eThekwini cluster with a marketing platform, upon which they can access domestic and international markets.

The Durban and International Boating and Lifestyle Show, held at the Durban Marina between 28 and 30 June 2013, is an annual event showcasing not only the craftsmanship of boat builders in KwaZulu-Natal and the rest of the country to potential buyers, but also the outdoor lifestyle associated with boating. The boat building sector, which is labour intensive, is a strategic priority sector in terms of the National Industrial Policy Framework, the Industrial Policy Action Plan (IPAP) and locally the eThekwini Economic Development and Job Creation Strategy.

This year was the EMC's second participation at the event, since the programme was implemented in 2011. While the Durban International and Lifestyle Show will be celebrating its 10th anniversary this year, EMC commemorates its 5th year of existence since it launched in 2008.

Amongst some of the key partners that the EMC has collaborated with to make this platform available to boat builders are: Department of Economic Development and Tourism (DEDT) and eThekwini Municipality. This year's boat show saw the advent of the KZN Pavilion, to showcase KZN manufactured products. This Pavilion is hosted by the EMC, KZN Sharks Board and Trade and Investment KZN (TIKZN).

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## EThekweni Waste Materials Recovery Development Cluster – USE-IT

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The purpose of this project is to promote low technology manufacturing of building blocks from waste material and soil.

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### Compressed Earth Blocks

The purpose of this project is to promote low technology manufacturing of building blocks from waste material and soil. USE-IT has secured appropriate machinery for the block manufacture process and has built a test house made from compressed Earth Blocks at Giba Gorge on the outskirts of Durban. USE-IT compressed earth blocks have Agrément certification which is required for non-conventional building materials. The blocks are also certified by SABS and National Home Builders Registration Council.

USE-IT has recently secured R9.7 Million for the expansion and commercialization of the Compressed Earth Block project from the Jobs Fund. Using this funding USE-IT is in the process of securing additional equipment to scale up the project so blocks can be supplied in higher numbers. In the long term USE-IT hopes to facilitate the specification of Compressed Earth Blocks as preferred materials for mass housing applications because of the superiority of the product.



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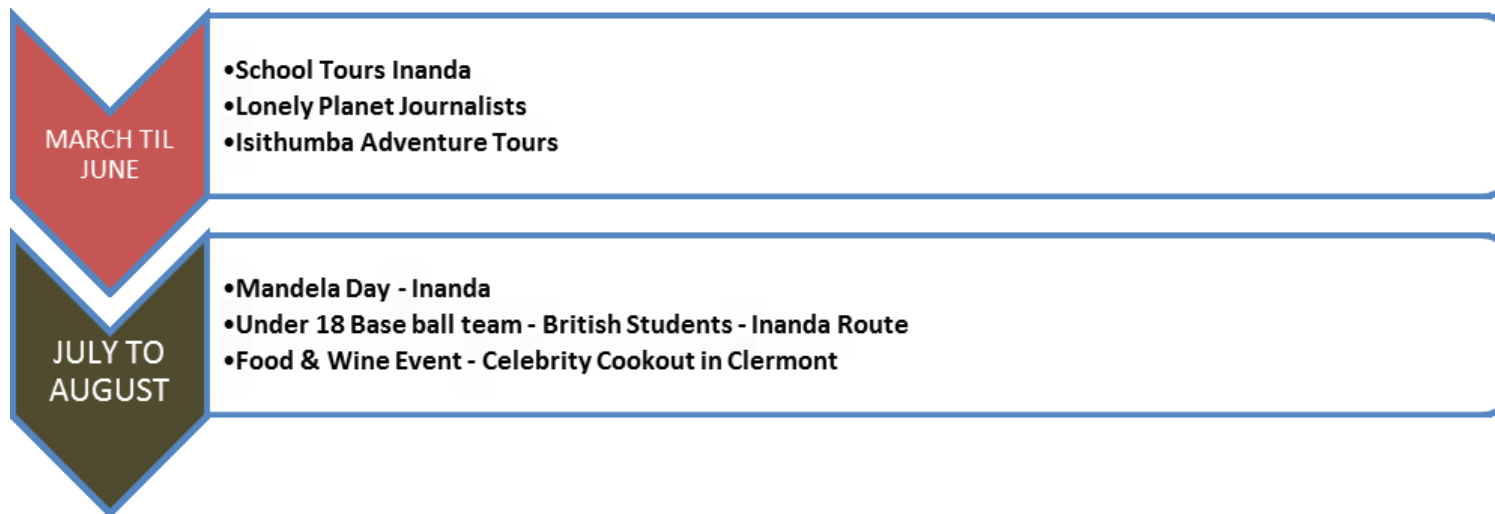
## Durban Tourism

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### Taking Tourism to Townships

In keeping with the theme for 2012/13 on bringing ‘Tourism to the Townships’, Durban Tourism has embarked on a series of tourism activities in townships. A strategic management team has been formed to analyse each township, identifying its gems and areas in dire need of development.

These are a few tours that were conducted between March and September 2013.



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The Mandela Day Celebrations were held on the 17th July 2013 at the Ohlange School. Prior to the event, invited guests were treated to an Inanda Heritage Route Tour.

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The following is a brief synopsis of the events and quotes from people that went on the township tours:

**School Tour to Inanda Heritage Route:** Over 80% of the Grade 10 kids that attended this tour stated that the tour was an exciting and wonderful experience. “It was nice to see the Gandhi settlement and to see the place where Nelson Mandela cast his first vote because we just learnt about Mahatma Gandhi and Nelson Mandela in History.”

**Lonely Planet Journalists from India:** “Umlazi is Durban’s version of a great big outdoor frat party on a Friday night with its Shisa Nyama food and music of foot-tapping and bouncy African beats. It feels strangely safe and everyone is friendly, smiling and welcoming.”

**Isithumba Adventure Tours:** Corporates and Individuals attended the Isithumba Adventures Tours (Valley of a Thousand Hills) – 88% rated this tour 9/10. Most people stated “Wonderful, breath-taking scenery and warm hospitality of people”.

**Mandela Day Celebrations:** The Mandela Day Celebrations were held on the 17th July 2013 at the Ohlange School. Prior to the event, invited guests were treated to an Inanda Heritage Route Tour. The overall feeling on this day was that of nostalgia as the doves were released and City dignitaries, the tourist trade and local communities joined in a celebration of democracy and freedom.

**Under 18 British Baseball Team (Visit to Inanda Heritage Route) :** “Amazed to know and to see the place where Nelson Mandela cast his first vote.” “Honored to see the grave of the first ANC president.” “The history was very powerful and moving.”

**Food and Wine Event – Celebrity Cookout in Clermont:** Celebrity Chef, Benny Masekwameng, Executive Chef at Tsogo Sun stated that he is a home-grown boy; hence Clermont is very close to his heart. Vivek Singh (author and owner of the renowned Cinnamon Kitchen in London) has stated that his experience in Clermont was wonderful and unforgettable. He found the community of Clermont warm and the concept of Shisa Nyama interesting.

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## Research Feature Manufacturing in eThekweni

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Manufacturing is fourth largest sector in terms of GDP contribution and the 3rd largest employer in the city. It is expected to benefit from a quickening in global growth in the second half of 2013, coupled with a weaker rand. However, the euro zone is still in recession and that could act as a dampener to the sector's growth. Further industrial action in the mining sector would affect manufacturing output as manufacturers supply goods to the mines.

The Southern African Institute of Steel Construction has reported that 2012 was not a good one for the industry. A record 1 million tons of steel were imported at prices not cheaper than the local product. Production of steel was erratic and far below its optimal level due to technical problems experienced at the mills. Mining and transport strikes had a negative effect. Both the lack of state spending on capital projects and the reluctance by private companies to invest in new infrastructure has created a dearth of new mining and other industrial projects.

In Deloitte's 2013 Global Manufacturing Competitiveness Survey, South Africa's ranking dropped to 24th place from 22nd in 2010. Its ranking is expected to slip further to 25th place within the next five years. Major problems are the scarcity of skilled labour and rising employment costs not accompanied by an improvement in productivity.

### Profile of the automotive sector

#### Global performance and emerging trends

The Global Automotive Industry's performance in recent years indicates that the sector is recovering well from the downturn in the global economy. This improved industry health is evident in respect of an increase in annual production volumes for 2010 and 2011. In addition, the profitability of OEM and Tier 1 automotive component manufacturers has improved. Despite these improved indicators, the global economy still faces considerable uncertainty. Going forward

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emerging economies will continue to drive global automotive industry growth. Asia will likely be the dominant force in the short to medium term. The Original Equipment Manufacturers (OEMs) are increasingly consolidating vehicle platforms in order to secure scale economies. As a result they are likely to favour large Tier 1 companies that operate at a global level. The supply chain problems which were experienced in 2011 have also resulted in OEMs favouring multiple production sites for critical components. The global trend towards “Green” will continue to affect the automotive sector with important production, technological and strategic implications for the sector.

### **Vehicle production in South Africa**

The automotive and automotive components industry is the single biggest constituent of South Africa's manufacturing sector, comprising 6.1% of GDP. The South African automotive industry comprises seven major vehicle assemblers, a few medium and heavy commercial vehicle assemblers, and approximately 360 component manufacturers. The industry's regional concentration is informed by the location of vehicle assemblers, with most component firms located in close proximity to BMW, Nissan and Ford (Tshwane), Volkswagen and General Motors (Nelson Mandela Bay), Mercedes-Benz (Buffalo) and Toyota (eThekweni).

The introduction of the National Credit Act and interest rate increase, as well as global economic recession resulted in a downturn in SA vehicle production and this bottomed out at 350 000 units in 2009. Since then the industry has recovered year on year and in 2012 it was at 505 000 units with significant growth projected in 2013, reaching a total of 620 000 units. The South African automotive industry's vehicle production for domestic market versus exports has also shifted dramatically in recent years. In 2006 only 30% of production was for exports, and 70% for domestic use, whereas in 2012, approximately 55% of SA vehicle production was for domestic consumption and 45% for exports. South Africa exports vehicles to 148 countries. The domestic market for vehicle sales has seen significant recovery since the economic recession in 2009 from a demand of just under 400 000 units in 2009 to over 600 000 units in 2012. The domestic sales are dominated by passenger vehicles sales (Source: NAAMSA).

## Automotive production in KwaZulu-Natal

The automotive manufacturing industry in KwaZulu-Natal is largely concentrated within the eThekweni Municipality, but includes firms in Pietermaritzburg, Stanger, Ladysmith and Richards Bay. The industry employs approximately 20,000 people and contributes substantially to the local economy.

The KwaZulu-Natal automotive industry is dominated by Toyota South Africa Motors which operates in the South Durban Basin of the eThekweni Municipality. The plant has an installed capacity of 220 000 vehicles. It produced 156 000 vehicles in 2011 and was projected to produce 170 000 vehicles in 2012 but fell short of this and produced a total of 150 015 vehicles. Toyota maintained its lead in 2012 as the number one exporting OEM with over 25% of all vehicles in SA . Volvo and MAN Truck and Bus (SA) have heavy vehicle assembly plants in the eThekweni Municipal Area. Bell Equipment, the capital equipment manufacturer in Richards Bay, is a major purchaser of certain types of auto components, and undertakes a higher level of manufacturing activities. There are approximately 80 automotive component manufacturers in KZN. These firms are largely concentrated in the eThekweni area, with some activity in the Pietermaritzburg and Richards Bay areas as well.

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## Profile of the chemicals sector

### South African chemicals industry

The South African chemicals industry has achieved rapid sales growth in recent years, with a compound annual growth rate (CAGR) of 8.2% between 2006 to 2010, and this is projected to rise to 9.4% over the 2010 to 2015 period (Datamonitor, 2011). Despite this, the chemicals manufacturing value added has been sluggish over this period. Exports have been consistently declining relative to output since the turn of the millennium, potentially indicating that domestic manufacturers are either increasing their focus on capturing domestic market share or are alternatively finding it increasingly difficult to compete successfully in export markets.

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Recent South African industrial policy has been increasingly aligned with harnessing state procurement and incentivising capital investment and competitiveness upgrading.

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The South African chemicals industry employs approximately 166 000 people. Employment output has also remained consistent in the face of a dramatic increase in salaries and wages. This suggests that a trade-off has been made, with employment growth being sacrificed in order to accommodate higher salaries and wages in an environment where there is limited growth in production output. The employment profile of the industry is increasingly orientated towards skilled and highly skilled employment. Recent South African industrial policy has been increasingly aligned with harnessing state procurement and incentivising capital investment and competitiveness upgrading. This presents potential growth and competitiveness upgrading opportunities for existing enterprises as well as opportunities for attracting green field investment. In particular, the IPAP2 and IPAP3 KPAs present additional growth, investment and innovation related opportunities.

### **KwaZulu-Natal chemicals industry**

Between 2000 and 2010, KwaZulu-Natal's output increased by 39.4%, from R 42.0 billion to R 58.5 billion representing a CAGR of 3.4%. While by far the majority of output from KwaZulu-Natal was produced within the eThekweni Municipality, output from the eThekweni Municipality grew by 26.4% to R 37.0 billion over the corresponding period, representing a CAGR of just 2.4%. The eThekweni chemicals manufacturing sector has been experiencing slower growth than that of the sector at a provincial and national level. EThekweni therefore seems particularly weakly positioned in relation to harnessing the opportunities associated with growth in domestic sales. This should be raised as a concern given its ability to undermine employment creation prospects in an increasingly globalised and competitive operating environment.

The eThekweni sector employed approximately 23 000 people in 2012, with a strong orientation towards skilled and highly skilled employment. Pre-2009 employment levels have been comparatively consistent, although there is a long term trend characterised by stable levels of skills and highly skilled employment and reducing levels of semi-skilled and unskilled employment. Critically, then, it is evident that the absence of output growth has reduced scope for employment growth and in response to competitiveness pressures the sector seems to have reduced lower skilled employment and increased its reliance on more skilled employment.

## Profile of prominent value chains in eThekweni

The chemical sector largely comprises producer-driven value chains, based on high levels of industrial capital investment. Firms that compete in producer driven chains develop core competencies that lie in research and development as well as production capabilities. There are five major value chains in eThekweni:

- Coatings, inks, adhesives and dyes;
- Resins and polymers;
- Pulp and paper;
- Water treatment; and
- Petroleum and gas

## Profile of the clothing and textile sector

The recent turbulence in global markets has left the South African Clothing and Textiles industry particularly vulnerable. A substantial textiles and wearing apparel import basket, coupled with a weakened Rand, have put strain on the industries' trade balance, causing employment levels to suffer correspondingly. Given the sector's intensive employment of low-skilled labour as a factor of production and thus its importance to the South African economy, the present crisis is all the more pressing.

Since 2005, the domestic market has experienced substantial growth, creating an opportunity for domestic producers who nonetheless failed to capitalise on the substantial increase in domestic consumption of apparel and textile products. Instead, a steady flow of imports have served to displace local production, resulting in a continued course of deterioration for the industry. The imposition of quotas over the period 2007 to 2008 proved largely ineffective against the surge of low-cost substitutes. The present clothing manufacturing business model does not therefore match the capabilities required by Fast Fashion retailers, and as such South African

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manufacturers have not been able to compete for domestic market share, despite the long lead times on products coming out of the East.

Despite its present battered state, the potential socio-economic benefits associated with the sector are substantial. In 1999, seasonally adjusted real values of combined sales of textiles, knitted or crocheted products and wearing apparel amounted to R 41.7 billion. Ten years later, this figure had decreased to less than R 34 billion in real terms (Statistics South Africa). Likewise, indexed production in volume has declined. South African producers' inability to capture the domestic market represents a huge opportunity lost in the face of the catastrophic increase in imported apparel goods from China and other low-cost producers. The industry is facing a crisis point, one which requires the resolving of the fracture point that exists between domestic retailers and producers, as well as the substantial upgrading of both textiles and clothing capabilities with government support.

The domestic industry is concentrated primarily in the Western Cape and KwaZulu-Natal regions, although some outlying activity also takes place in the Gauteng area. The domestic textile industry is characterised by plants of varying technical ability. Major product gaps in terms of local textile production exist, forcing local garment assemblers to rely on imports to a growing extent. The apparel industry, on the other hand, has significant regional differences; The Cape Metropolitan Area is renowned for the high fashion orientation of its industry, and as such has a concentration of higher value added manufacturing activities, predominantly by medium to large sized firms. A number of small, flexible CMTs are outsourced by the more formal operations as a support to production, and hence make a substantial contribution to overall output (Barnes et al, 2007: 14).

The KwaZulu-Natal profile of firms is concentrated on mass market production of garment basics, relative to a Western Cape focus on larger operations servicing a more design-intensive and niche market focus. These are broad generalisations, however, as firms of various sizes exist in both production hubs, and their joint response to increased competitive pressures has similarly been to move away from formal factory models of production towards sub-contracting models, and informalisation. It is estimated that 60 - 80 000 jobs are located within the CTFL industries (down from 120 000 in recent

years, with GGP contribution at 8%). The social effect of employment and employment losses are hard to calculate but it has been estimated that the dependency ratio of those employed is 1:5. The profile of employees is predominantly Black and Coloured women and thus it is of critical importance to the social and economic emancipation of that portion of the population most affected by poverty and unemployment, and its associated social ills.

In order to survive, the industry has squeezed its factors of production more effectively over time rather than upgrading processes and machinery, resulting in thinned competencies. As part of this process, numerous firms have adopted a CMT mode of production, which is less capital intensive due to lower overhead cost structures. Coupled with numerous factory closures and the subsequent proliferation of micro-enterprises, home-industries and unregistered firms, the resultant development has been lowered capabilities and declining capacity to compete on a global level. The clothing and textiles value chain in South Africa has substantially downgraded its operational capabilities.

## Key issues

The manufacturing industry contributes 16.6% to eThekweni's GDP. Spatially the manufacturing sector is still focussed in the South Durban Basin and industrial estates developed over the past two decades to the south (e.g. Southgate), north (e.g. Riverhorse Valley) and west (e.g. Mahogany Ridge) of eThekweni. Although all newer generation estates cater for large scale manufacturing, they currently accommodate a strong warehousing and logistics platform, as well as a services sector, component. Historically the port, the airport and the location of major industries were the most significant spatial drivers of economic development. It is suggested that the South Durban Basin developed into an industrial node of national significance as a result of its location relative to the port. New Germany and Pinetown also developed strong industrial sectors.

It is noted that pre-1994 and even through the 1990s eThekweni was viewed as an industrial economy with key industries established in the South Durban Basin. In 2012 the tertiary sector represented 75% of the gross value added to the economy, confirming the dominance of this sector.

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**The economic landscape of eThekweni, from both a sectoral and spatial perspective, has over the past two decades undergone significant changes. These changes have to a large extent been brought about by strategic public and private sector investments in the City.**

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**The establishment of the Dig-Out Port has the potential to transform the South Durban Basin into a 21st Century industrial area and will establish opportunities in the automotive sectors, the chemical products sectors and others.**

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Although the eThekweni region has seen the strengthening of the tertiary sector, including transport and logistics, the manufacturing sector has not experienced similar expansion. This was partly the result of economic conditions, but from the assessments it is also evident that comparatively limited effort has been made over the past 20 years to pro-actively grow the industrial economy of the region.

Over the past two decades the spatial focus of development has shifted from the central and western areas to the northern areas of eThekweni. To date this shift has not involved large scale manufacturing, but specifically residential and commercial development. With the establishment of the DubeTradeport the transport and logistics sector to the north of eThekweni has also been strengthened.

The establishment of the Dig-Out Port has the potential to transform the South Durban Basin into a 21st Century industrial area and will establish opportunities in the automotive sectors, the chemical products sectors and others. This will potentially provide the impetus for the redevelopment of the various industrial estates in the area. The planning undertaken for the Back-of-Port precinct will further support this.

### Industry Clusters in eThekweni

EThekweni Municipality has seen the need to grow the local industry in order for manufacturing to remain globally competitive despite challenging conditions. The City currently supports nine industry clusters. These clusters are the Durban Automotive Cluster, Durban Chemicals Cluster, KwaZulu-Natal Clothing and Textiles Cluster, EThekweni Maritime Cluster, Use-IT, Furniture Cluster, Fashion Council, Metals and Tooling Cluster and the Arts and Crafts Cluster. These clusters are public-private partnerships and are predominantly run by industry with programmes designed to enhance the competitiveness profile of all firms.

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## Engaging with Medium and Large Manufacturing Firms in eThekweni: Making Industrial Policy Relevant at the Local Level

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An Opinion Piece by Dr Myriam Velia, Researcher at the University of KwaZulu-Natal

South Africa's Industrial Policy is comprehensive and well defined. It is also articulated around time bound elements to ensure both action and progress on action. More specifically, a range of sectoral industrial support instruments are also in place with relevance to a number of business and employment clusters in the latest Industrial Policy Action Plan (IPAP 2013/14 to 2015/16) from the Department of Trade and Industry. This policy also seeks, as is appropriate in an industrial policy framework, to suggest more general or 'transversal' programmes to address industry wide matters such as transportation costs or human resources.

Some of the cross-cutting elements are now widely taken up by the manufacturing firms and are yielding the right results. For instance, industrial finance available from the Industrial Development Corporation (IDC) at advantageous terms for particular investments and projects has been accessed by a notable number of firms and speedily released. In other transversal areas, such as tackling problems pertaining to customs fraud, capacity to deal with the current problems is being ramped up. However, progress is still required in the area of firms' uptake of the opportunities associated with particular cross-cutting interventions, such as public procurement. With regards to the latter, the Preferential Procurement Policy Framework Act (PPPFA) which designates sectors and products for local procurement has seen limited impact. Implicit in the observation that a relatively small number of domestic firms have engaged with procurement orders is the fact that there might be important bottlenecks either in the sharing of information on available procurement opportunities or in the ability of firms to capture the benefits of these, including engaging and developing partnerships for new orders.

When opportunities are not taken up, questions can generally be raised as to whether the information provided on these opportunities is effective and sufficient. However, there might also be firm-level dynamics that still impede firms in providing goods (and services) to parastatal entities and to government agencies. Alternatively, it could also be that particular elements of policies cannot be practically and cost-effectively met in such circumstances.

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A lack of data on the factors driving manufacturing production would typically prevent an evaluation of why some opportunities are being missed. Nevertheless, comparatively few firms in eThekweni appear to have a voice in industrial policy making processes, although yet again it is not clear why such voice is lacking.

Information issues have been and are still being tackled at the national level. These are also being addressed at the local level together with a greater engagement between manufacturers and policy-makers. The Municipality recognises that partnerships involving firms are important and has been working closely with the Durban Chamber of Commerce and Industry (DCCI) to better align demand that would emanate from current and forthcoming public projects and investments with supply from private local economic actors.

The nature and related success of the partnerships envisaged would be important as new opportunities are set to emerge around city and port developments and through the setting up of a logistics hub in eThekweni. Public investments not only offer new sales prospects to local producers, they could also help to enhance value addition and beneficiation. An expansion of the manufacturing base could also occur through the development and growth of smaller firms through incubation (via a planned new incubation centre). But, whether actual enterprise development will occur as a result of the interventions and whether enterprise development can be tied with positive value chain changes at the local, provincial and national levels as a result of some of the aforementioned strategies still remains to be seen.

There are signs that medium and large firms confront barriers that prevent them from tapping into new opportunities of the type foreseen by government. Furthermore, linkages between domestic producers might not be as developed as is perceived by policy-makers. Information is required in this regard, in order to establish what is currently working as well as what is still needed. Engagement with the larger manufacturing firms in eThekweni is critical to adequately establish this.

In parallel, while a growing manufacturing base in eThekweni and in KZN would generally be helped by greenfield as well as by brownfield investment opportunities in the Municipality and in the Province, firms can only place themselves around



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**Another issue is that particular industrial policy debates might have obscured other opportunities that are less talked about (e.g. around localisation). Opportunities around these particular aspects of policy might not have been well internalised yet by producers.**

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these if (i) information is shared in a timely and adequate manner and (ii) capabilities are in place. There might be an expanded role for local policy-makers with regard to the latter dimension; for instance in ensuring that skills are available locally. Detailed information on the government support instrument is critical when there is a wide range of support measures available to manufacturing firms that require particular forms of support.

The DCCI has started to play a key role in providing guidance on how to make the city investor- friendly. However, a business advisory council that is being proposed by the Municipality would go a long way to help deal with some of the issues mentioned above, as well as to ensure that firms in eThekweni have a collective voice and are offered a platform to interact with a range of local decision-makers. This voice is important to help identify which aspects of policy need to be facilitated or supported. Yet, firm specificities remain and firms require internal capacity to engage with policy- and other decision-makers. It also remains that support measures cannot work when they are overshadowed by a range of other problems confronting businesses. However, another issue is that particular industrial policy debates might have obscured other opportunities that are less talked about (e.g. around localisation). Opportunities around these particular aspects of policy might not have been well internalised yet by producers. This is as expected in a busy and highly diverse business environment. However, it might also be the case that tensions between different aspects of specific industrial policy elements have been missed out by the policy-makers themselves.

Information is required on what is going on in firms on the ground and a process of information gathering from medium and large manufacturing firms by the University of KwaZulu-Natal is currently underway for this purpose. The project, which involves collaboration between eThekweni Municipality, the KwaZulu-Natal Department of Economic Development and Tourism, the National Economic Development Department and the University of KwaZulu-Natal, will help unpack some of the above questions and help to explain why some manufacturing firms are doing better than others in terms of their uptake and transformation through the use of government support instruments. It does not substitute for engagement however, which needs to be driven from both the top and the bottom.

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## Collaborative Research Study of Manufacturing Sector Firms in Durban

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### Survival of Firms over a 10 Year Period

The pilot phase of the Collaborative Research Study of Manufacturing Sector Firms in Durban has recently ended with 25 medium and large firms being interviewed with the eThekweni region. The firms interviewed ranged from clothing and textile firms to chemicals, automotive, furniture and firms in other sectors.

The survey, which was first conducted in 2002/2003, included, as one of its objectives, the assessment of the survival of firms in the manufacturing sector over a ten year period. The 2002/2003 survey consisted of data from 225 firms. A team of researchers, working in partnership with the eThekweni Municipality, KwaZulu-Natal Department of Economic Development and Tourism, National Economic Development Department, and other partners, attempted to approach the 225 firms that were part of the initial survey. The search for these firms ranged from easy to extremely difficult with researchers using a number of ways to assess the existence of firms.

The results revealed the following:

- Of the 225 firms initially surveyed, approximately 24% had either closed, possible closed, moved away from manufacturing or possible moved away from manufacturing.
- Most of the firm closures were in the textiles sector, followed by paper and furniture
- The least proportion of closures were experienced in the chemicals sector

The reasons for these firm closures have not yet been established, however, one can definitely say that the recession had a big impact on many of these firms. Other such reasons could be technological advancement and innovation, where firms could have been displaced due to other firms bringing in new technology. This exit of firms from the industry has had a huge effect on jobs. Over the last ten years, a significant number of jobs have been lost with Global Insight reporting this as 5,804 jobs lost from 2002 to 2012.

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**It is interesting to note that a relatively small portion of firms (approximately 6%) have moved away from manufacturing.**

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It is interesting to note that a relatively small portion of firms (approximately 6%) have moved away from manufacturing. These firms are either importing or have converted their firms to an assembly shop. This could be due to a number of reasons, making importing an attractive option in the midst of increasing domestic labour and input costs as well as currency fluctuations favouring importing as opposed to exporting.

Although there are no conclusive answers that have come out of this exercise, this will be examined by researchers in the near future. Thus far, the information gathered has revealed some interesting results. EDGE will keep stakeholders informed of this research project in the new year



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## Investment Promotion

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### Inyaninga Industrial Estate

Inyaninga, located in the north of Durban, will play an important role as a Metropolitan industrial expansion zone and as the location of a Special District in support of the King Shaka International Airport and Dube TradePort. It will offer a range of industrial, business, logistics and warehousing opportunities together with infrastructure and facilities that maximise accessibility and connectivity and support efficient multi-modal integration in the movement and production of goods. The bulk land uses will be supported by transit orientated growth centred around a small 'new town' mixed use urban core established on a highly accessible multi-modal public transport hub.

Around this, and extending toward a clearly defined urban development line, Inyaninga will offer a range of housing opportunities in mixed density and mixed income environments in support of an economically active and mobile population. Distinctive and structured neighbourhood precincts will be supported by local mixed use areas combined with accessible social and community services and schools. A compact urban form will respond to the topography with an integrated open space system offering a contiguous network of environmental assets combined in one system to function at the sub-metropolitan level in ensuring catchment health, while offering local recreational and amenity value.

The duration of the project is between 5 to 7 years and will be on site from 2015. The project is being undertaken by Tongaat Hulett Development and currently in the Environmental Impact Assessment Phase. The estimated cost of the project is R36 billion and the project is expected to result in the creation of over 400 000 construction jobs over the life span of the project and over 38 000 permanent jobs, however, this includes direct, indirect and induced jobs.

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**A compact urban form will respond to the topography with an integrated open space system offering a contiguous network of environmental assets combined in one system to function at the sub-metropolitan level in ensuring catchment health, while offering local recreational and amenity value.**

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**The company is investing US\$65 million in the 26,000 ton-per-year plant. Set up commences in 2013 and is anticipated to be completed by no later than 2019.**

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## SRF Plastics to Set Up Packaging Film Plant in Durban

India's SRF Ltd. is setting up its second overseas packaging film plant, in Cato Ridge, west of Durban, with construction already underway. The Indian-based company currently has manufacturing operations in four countries, namely India, United Arab Emirates, Thailand and South Africa. It plans to make biaxially oriented polypropylene (BOPP) film at a 20-acre site in Durban. The company is investing US\$65 million in the 26,000 ton-per-year plant. Set up commences in 2013 and is anticipated to be completed by no later than 2019.

SRF believes the South African market offers opportunities for growth, in part because local customers currently depend on imported film. The new unit will mark SRF's maiden entry into BOPP film. The project is estimated to cost approximately R1 billion and will result in the creation of over 400 construction jobs over the life span of the project, 140 permanent direct jobs and approximately 200 indirect jobs.

Other economic benefits to the South African economy include savings from import substitution, potential foreign exchange generation, and skills development through robust training programmes, local procurement opportunities, revenue generation for the South African government and Corporate Social Responsibility initiatives.

## Investec – Corobrik Development

The Investec-Corobrik project is proposed as a logistics and business park including light industry, general business, warehousing and an integrated rapid public transport network (IRPTN) depot, with an option to include a housing component.

The development will be led by Investec Property Limited in the north of Durban at Avoca. It is estimated to cost approximately R7 billion and will span 20 years which includes the completion of the development at Rinaldo East, Avoca North (residential and industrial) and Corobrik South Precinct. The scale of the project is approximately 1 000 000 square meters. The employment opportunities associated to this development include almost 23 000 jobs to be created during the construction phase and over 38 000 permanent jobs to be created thereafter.

## 44 Investment Promotion

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## Profile on Economic Projects

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### Furniture Incubator in PINK

The Sector Programmes and Local Economic Development Projects departments of the Economic Development and Investment Promotion Unit have finalised the approval of a project for the construction and development of a Furniture Incubator in the PINK (Phoenix, Inanda, Ntuzuma and KwaMashu) area.

The project is the first of its kind for the eThekweni Municipality in that a partnership agreement has been entered into with the leading Furniture Incubator in South Africa, the Furniture Technology Centre Trust (Furntech). Furntech provides business technology incubation facilities and vocational skills training to the furniture and wood products sector and are accredited by the Fibre Processing and Manufacturing Seta (FP&M Seta) and funded by the SEDA Technology Programme (STP). Furntech has 7 other Incubation Centres across South Africa.

The agreement is mutually beneficial in that the eThekweni Municipality provides the facility for the incubation for 20 Small, Medium and Micro Enterprises and Furntech will undertake the management and training of the firms at no additional cost to the Council. The Council is therefore able to secure the on-going support and development for the furniture industry within the PINK area and uplift and provide much needed manufacturing skills and business development through a world class centre utilising leading global manufacturing techniques and technology.

The building will be owned by the eThekweni Municipality and leased at a nominal cost to Furntech in exchange for the delivery of management and operational services to the facility and the firms. This project fulfils key deliverables of industrial sector development in a prioritised industry through infrastructure for long term economic development.

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**Furntech provides business technology incubation facilities and vocational skills training to the furniture and wood products sector and are accredited by the Fibre Processing and Manufacturing Seta (FP&M Seta) and funded by the SEDA Technology Programme.**

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**The project is currently in phase two with the Inception Report, and Policy and Institutional Review having already been completed. The supply and demand side assessments are nearing completion, and the strategy development will begin in earnest in the new year. The project is due to finish in April 2014.**

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## Industrial Land Study and Strategy Development

Land pricing and availability is a critical element to the expansion, retention and growth of manufacturing firms. In the eThekweni area there is a shortage of industrial land, which is manifest in comparatively high land prices, and very long search times for larger development sites. In response to this, the eThekweni Municipality is undertaking an industrial land study and strategy with The Planning Initiative (TPI) and partners. A shared vision around the management of industrial land is certainly required to support the growth trajectory of the City, as well as general economic development and job creation.

This project is building on previous research and strategy, but will also go beyond existing strategy by developing a strategic and holistic approach to industrial land which is both:

- complex and diverse in terms of its sub-components, and thus flexible in terms of reactions to demand-side needs (for example, the needs of airfreight oriented logistical firms are different to those of secondary manufacturers, portside operators and heavy goods oriented firms); and
- pro-active and not necessarily constrained by existing notions of land supply, currently designated industrial areas and currently accepted planning and regulatory frameworks.

The project is currently in phase two with the Inception Report, and Policy and Institutional Review having already been completed. The supply and demand side assessments are nearing completion, and the strategy development will begin in earnest in the new year. The project is due to finish in April 2014.

**For those interested in this project please contact Caili Forrest on [Caili.Forrest@durban.gov.za](mailto:Caili.Forrest@durban.gov.za) or Cathy Ferguson (TPI) on [tpi-dck@mweb.co.za](mailto:tpi-dck@mweb.co.za) .**



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**Rigorous recruitment process is applied for this programme which includes the signing of a three year lease agreement for the premises at UESC.**

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## **Business Support in Durban**

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### **Umkhumbane Entrepreneurial Support Centre**

Established in 2002, the Umkhumbane Entrepreneurial Support Centre (UESC) exists mainly to contribute to the broader development of manufacturing businesses in the eThekweni Municipal Area. The incubation programme provides assistance to businesses operating in glass and aluminium, upholstery, footwear, sheet metal, furniture, food and beverage, engineering, glue, hot and cold insulation, as well as hygiene and sanitary products. A rigorous recruitment process is applied for this programme which includes the signing of a three year lease agreement for the premises at UESC. Special care has been taken in creating a developmental component to the programme through the services of training consultants.

The Business Development Programme imparts valuable skills such as marketing, operations, human resources and finance management skills to business on the programme to ensure their sustainability post the programme.

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## Feedback from Recent Events

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### EDGE Breakfast Seminar: Making Industrial Policy Relevant at a Local Level

The 3rd EDGE Seminar was held on the 10th October 2013 in partnership with the University of KwaZulu-Natal. The seminar focussed on “Making Industrial Policy Relevant at a Local Level” and involved medium and large manufacturing firms in the eThekweni region. The objective of the session was to gain an understanding of some of the key policy challenges faced by firms and how they can use current industrial policy and guide or inform future revisions to industrial policy in South Africa going forward.

Mr Garth Strachan, Acting Deputy Director of Industrial Development Policy Development at the Department of Trade and Industry was the guest speaker. It was shown that South Africa is on a consumption driven growth path. In order for local manufacturers to improve their competitiveness, they need to enhance their export capabilities and increase exports. Mr Strachan strongly suggested that manufacturing sector industrialists need to get into the public space and be loud and clear about the centrality of the sector. With regards to Research and Development, there is currently an insufficient amount being spent on this and there is also inadequate support for companies conducting R&D.

One of the key points that came out of the seminar was the importance of localisation, both in industry and in government. Local procurement should not be seen as an impediment to foreign direct investment. It was noted that government needs to ensure that local procurement is a priority and this needs to be communicated across all forms of tenders. Another key point regarding localisation was that beneficiation, although the process is lengthy, can be the source of our localisation in South Africa.

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Some of the other key challenges that manufacturing firms are facing are the rising utility costs and the stability thereof, the unintended disincentives offered by government as well as the rules and regulations that the sector has to comply with, some of which are complex and strangle the industry as opposed to supporting growth.

The concluding remarks at the seminar were summarised in the following points:

- Incentives and initiatives need to be de-codified
- An analysis of the performance of KZN firms in accessing DTI incentives needs to be carried out
- How can DTI incentives be broadened and deepened?
- There needs to be sufficient infrastructure support
- There is a need for a “Golden Thread” – engagement between all spheres of government

### **Upcoming Event**

The launch of the Economic Development and Job creation Strategy will take place on the 27th November 2013. This event will launch the Economic Development and Job Creation Strategy as well as the City’s Visitor Strategy that was recently adopted by Council.

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## Looking Ahead to the Next Edition

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The EDGE looks at topical and current issues that affect decision-makers in eThekweni. The theme of our next edition is centred on the Tourism in eThekweni. The latest available data on key economic indicators will also be provided.

The EDGE is produced by the eThekweni Economic Development and Investment Promotion Unit's Policy, Strategy, Information and Research (PSIR) Department. For feedback or queries, email Aurelia Albert on [Aurelia.Albert@durban.gov.za](mailto:Aurelia.Albert@durban.gov.za) or phone 031 311 4015.





# EDGE

The EDGE is produced by the eThekweni Economic Development and Investment Promotion Unit's Policy, Strategy, Information and Research (PSIR) Department. For feedback or queries, email Aurelia Albert on [Aurelia.Albert@durban.gov.za](mailto:Aurelia.Albert@durban.gov.za) or phone 031 311 4015.

