

Factors informing manufacturing in KZN: Reflections from the Durban/eThekweni Medium & Large Manufacturers Survey

Analysis of 2014 firm survey data from the greater Durban area to
contribute evidence to local, provincial and national policy

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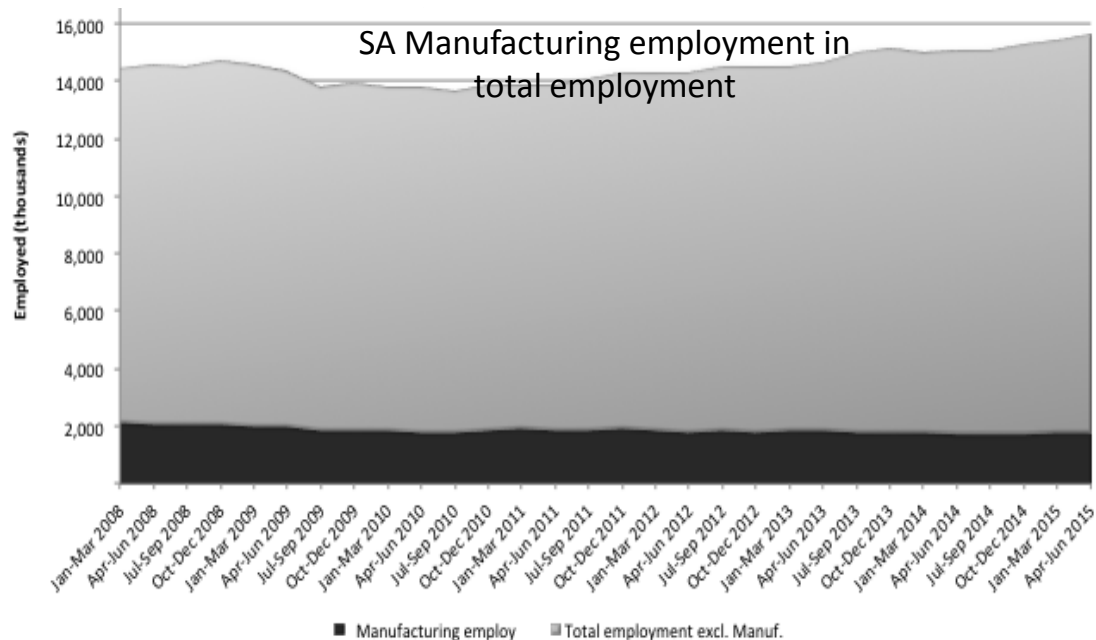
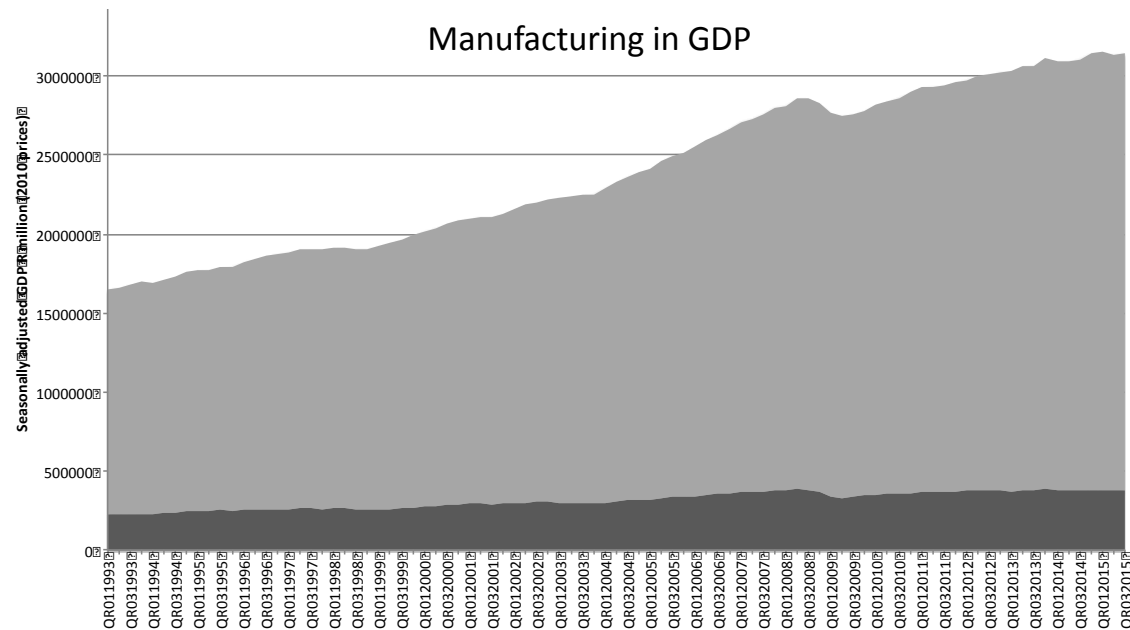
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South Africa - The Challenge

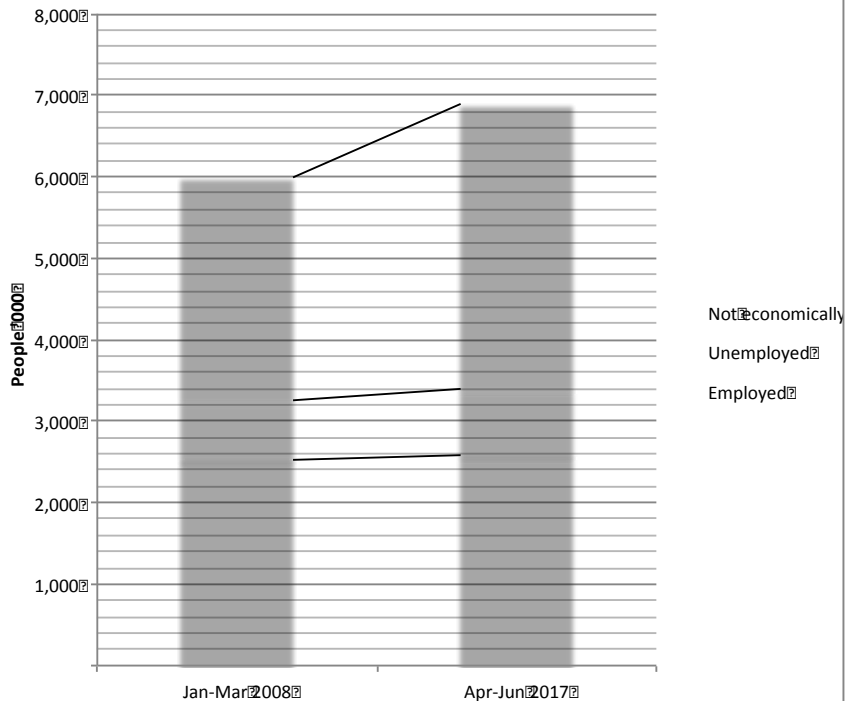


Without substantially increasing growth in manufacturing output AND manufacturing employment, South Africa's growth path will not deliver sustainable structural change.

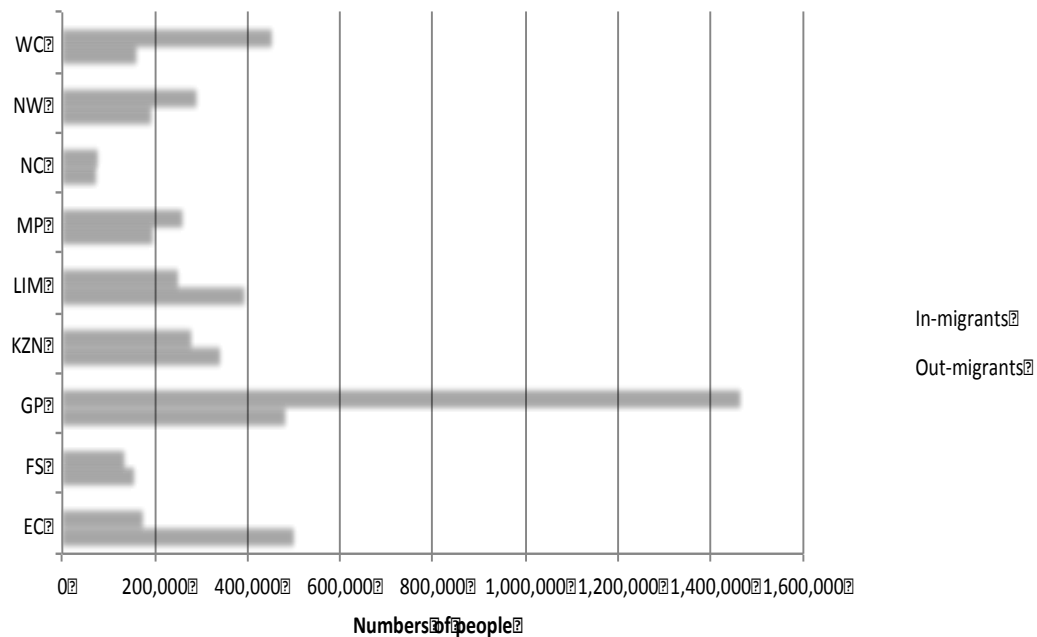
KwaZulu-Natal (i)

- KwaZulu-Natal has, despite some growth in total employment in recent years, witnessed an unprecedented growth in working-age people who are not participating in the labour force.
- Growing numbers of young people, especially skilled young people, are leaving KZN in search of economic activity elsewhere.

KZN Working age population Selected Quarters (2008, 2017)
Source: Stats SA QLF5



South Africa provinces Estimated provincial migration streams
2011-2016 (Stats SA Data, Chart by G. Robbins)



KwaZulu-Natal (ii)

- Total employment in KZN has declined since the highs of the mid 2000s.
- A substantial growth in public sector employment has, to some degree, compensated for considerable losses in Trade/retail and Manufacturing.
- KZN's low per capita income means sustainable employment growth must ALSO come from productive sectors.
- Even doubling agricultural employment will be insufficient to support structural changes in employment and economic growth in the economy.



Learning from the eThekwini Survey

- ***“The Province must continue to focus on the creation of employment through the realisation of agricultural potential, enhancing industrial development through investment into the key productive sectors of manufacturing, tourism, transport and logistics, the maritime sector, the green economy and services sectors. This is to be assisted through a Provincial Business Retention and Expansion (BR&E) programme, as well as a full range of industrial policy support programmes and measures.” (Draft 2017/18 KZN PGDP, 2017: 27)***
- Close to 2/3 of KZN manufacturing output and employment is located in eThekwini
- KZN’s manufacturing prospects are intimately linked with the prospects of eThekwini:
 - As a market for output from the rest of KZN (primary and secondary);
 - As a source of intermediate inputs;
 - As a source of specialist inputs;
 - As a source of important agglomeration and clustering economies;
 - As a place of connection to global value chains and global logistics
- Hence we ask: what can we learn from the eThekwini Medium and Large Manufacturing Employer’s survey to inform local, provincial and national policy and action?
 - About constraints to growth?
 - About empowerment?
 - About focus areas for policy?

Our Research: Overview

- Significance of study: generated data on *medium & large* manuf firms noting growing importance of cities to the national economy. Inform policy interventions for sustainable growth through retention/expansion of manuf base; evidence-based approach & importance thereof.
- Research objectives: To provide a base of evidence for public & private collaboration around an action plan for enhancing the greater Durban manufacturing sector's contribution to inclusive economic growth in the eThekwin Municipality, KwaZulu-Natal Province & South Africa as a whole.
- Research Question: What key elements drive the performance of medium & large manufacturing firms in the Greater Durban area (eThekwin MM)

4 Themes under scrutiny in our PSPPD project research as seen as significant for inclusive growth

Constraint to Growth → What influences the expansion of firms?; **Employment** → what are the determinants of emp growth?; **BBBEE/PDI – economic empowerment** → How does it interact with other (general performance) elements?; **Skills** → what is the situation with regards to skills & implications thereof?



SELECTED HIGHLIGHTS OF THE DURBAN FIRM SURVEY

General

- Diverse production base – size & sector - but old firm base
- Sign of key changes over time
 1. Generally in economic activities & in performance of manuf sub-sectors in the study area

2. Firm changes (panel), e.g.:

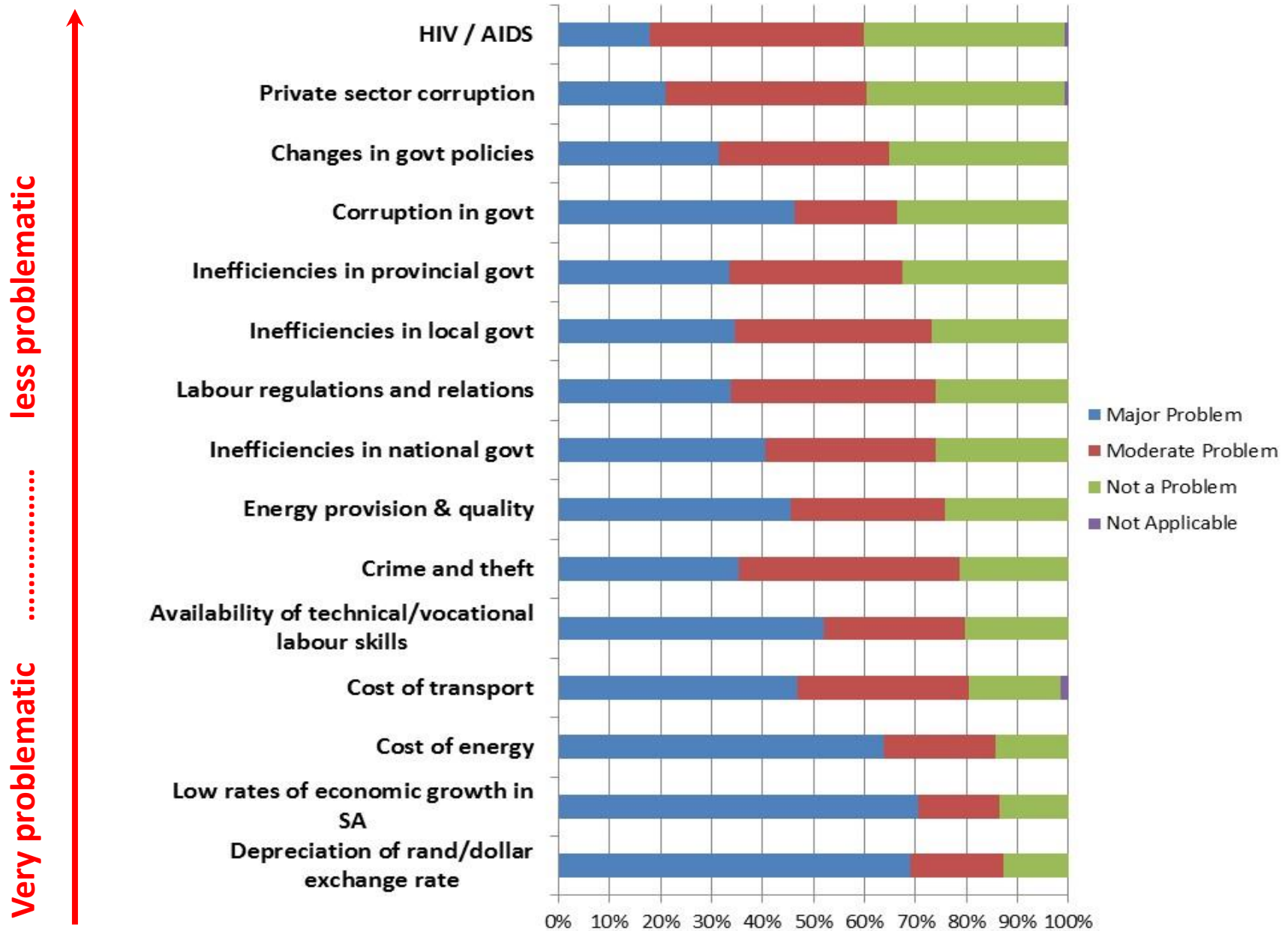
- Trade status of firms

study area		2013/2014				Note: Sample n=68	
		Export & import	Export or import	Neither export nor import	Total		
2. Firm changes (panel), e.g.:							
- Trade status of firms							
2003	Export & import						
	Export or import						
	Neither export nor import						
	Total						

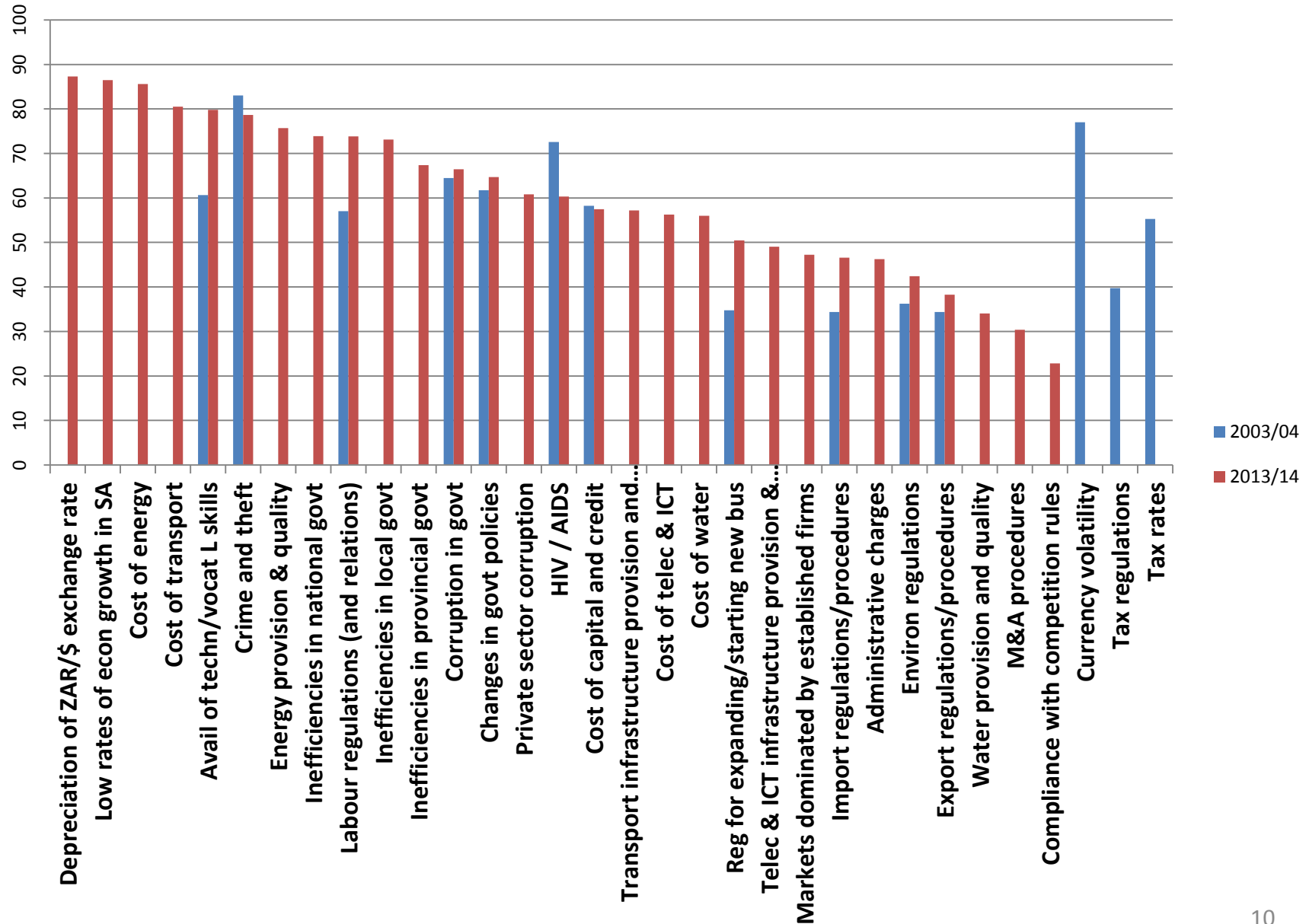
- Employment in size-class terms (FTEs)

		2013/2014				Total
		50-99 Emp	100-199 Emp	200+ emp	Less than 50 emp	
2003	50-99 emp	46.1%	20.2%	2%	31.7%	100%
	100-199 emp	26.7%	22.7%	36.2%	14.5%	100%
	200+ emp	2.9%	24.1%	72.9%	0%	100%

Key research findings – Constraints (1)

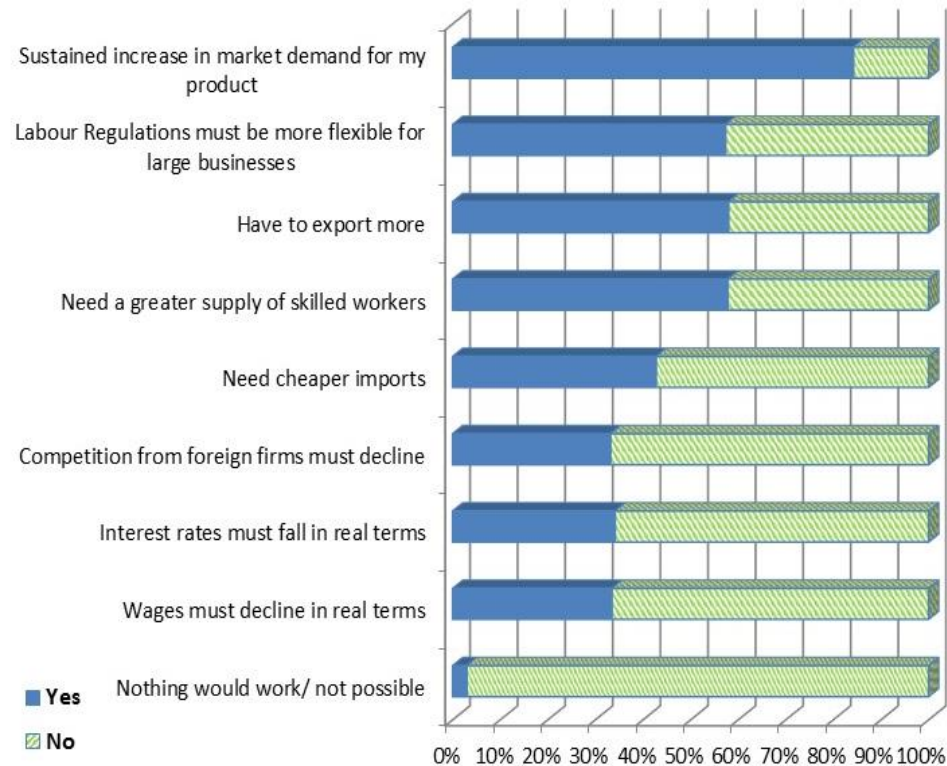


Compared to findings of 2003/04 survey

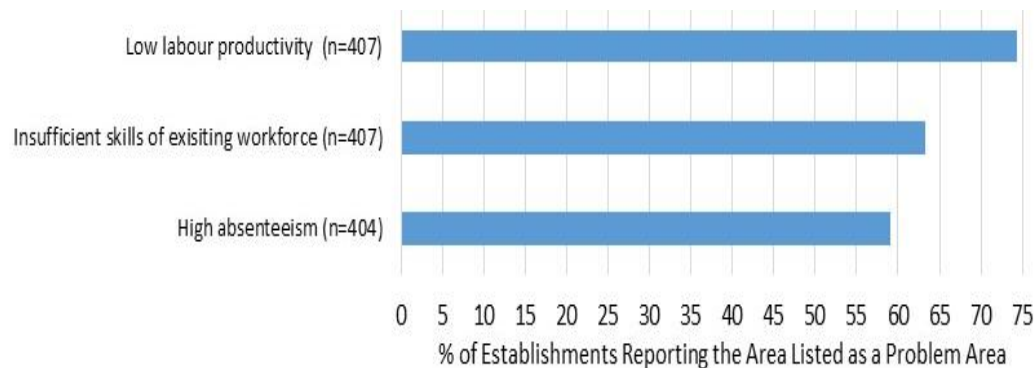
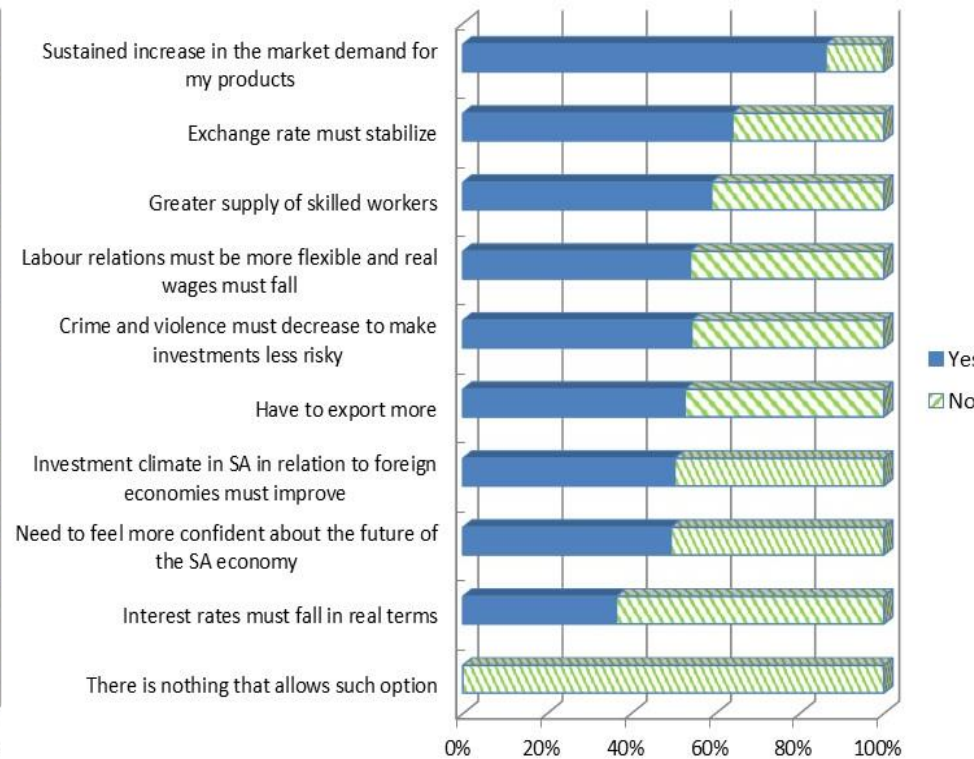


Key research findings – Constraints (2)

To ↑ workforce by a potential 10%



To ↑ K Invt by a potential 10%



Key research findings – Constraints (3)

- Context \Rightarrow What would help grow workforce / K investment?
 - Product demand NB but not a new result; Strong: expand **exports (new markets)**
 - **Exporting (proxy for productive & competitive firms + mechanism through which firms can improve competitiveness): exporting firms larger & more likely to have \uparrow employment than non-exporters.**
 - But “exporting is a necessary, but not sufficient, condition for firm growth in terms of employment”.*
 - No effect from importing
 - Particularly NB for \uparrow workforce *and* capital investment: **expanded supply of skilled workers**. This is reported as a growth factor by 58% of all establishments.
 - Low wages not widely sought & import competition is something firms live with
 - And whilst notable product upgrading & diversification activity in the firms, this does not present a clear relationship with employment maintenance or growth.

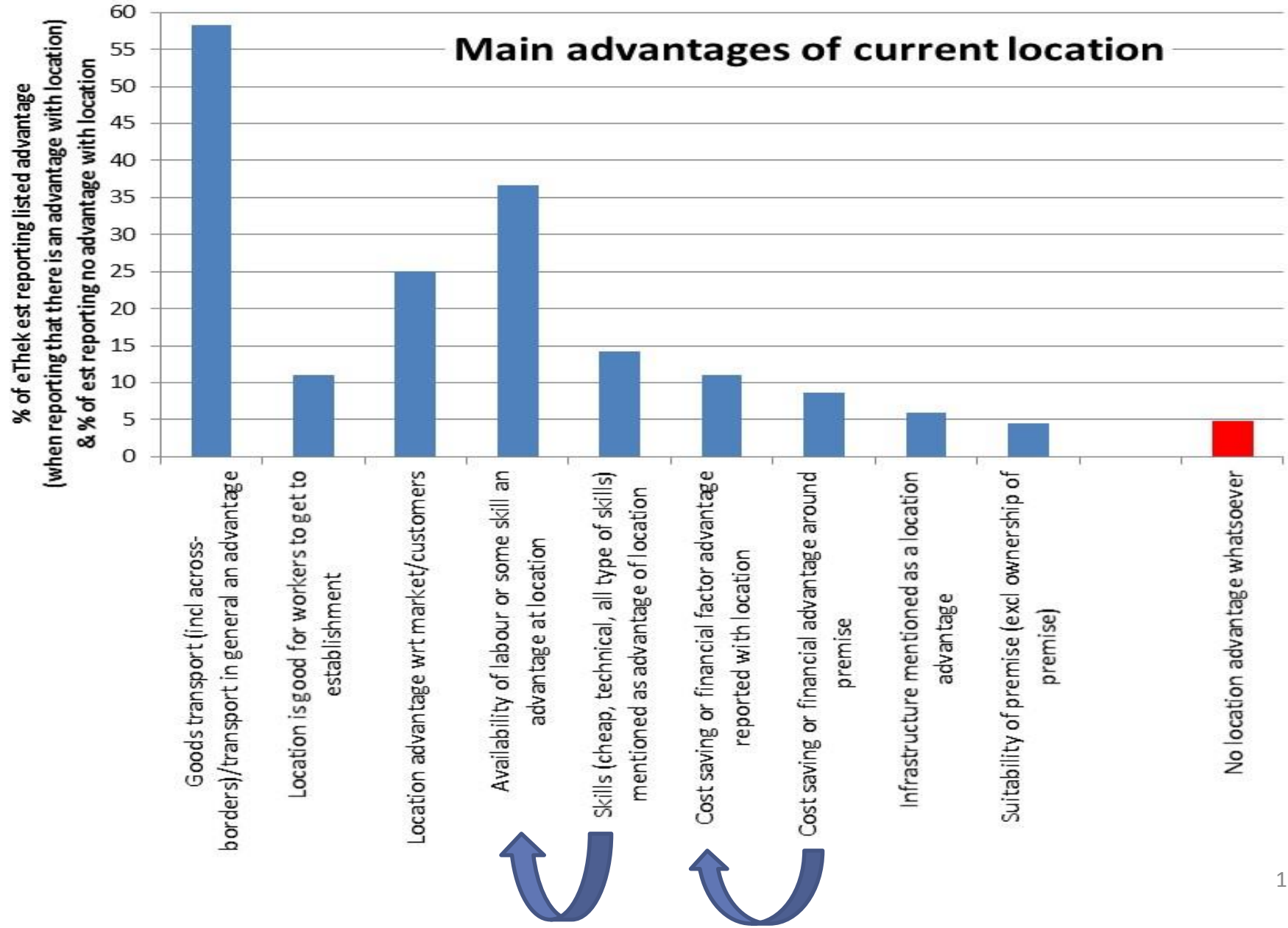
Key research findings - PDI & BBBEE

- PDI Ownership ↑ in eThekweni firms: In 2003 62% of firms surveyed indicated 0% PDI Ownership, in 2013 this % decreased to 46%.
- The percentage of firms with 95% to 100% PDI ownership remains stable at around 25%
- Firms which benefitted from BBBEE: more likely to be firms that had greater PDI ownership: **The majority (38.3%) of firms reporting they had benefitted from BBBEE were 75% to 100% PDI owned.**
(In firms reporting not having benefitted from BBBEE: the majority (67%) were firms with 0% PDI ownership)
- Examples of benefits: “Enables BBBEE companies to be more competitive”, “Has assisted in gaining credibility with customers”
- Firms reporting that BBBEE had imposed a cost were associated with low levels of PDI ownership - of the businesses reporting that BBBEE had imposed a cost upon them 62% were firms with 0% PDI ownership; **medium levels of PDI ownership (25% to 75%)** were less likely to report that BEE imposed costs upon them
- Examples of costs: “Skills development [for BBBEE] costs money”, “Audit costs associated with maintaining status and need to comply”
- There is a size (effectively an age of firm effect) at play in positions on BBEE/change of PDI ownership

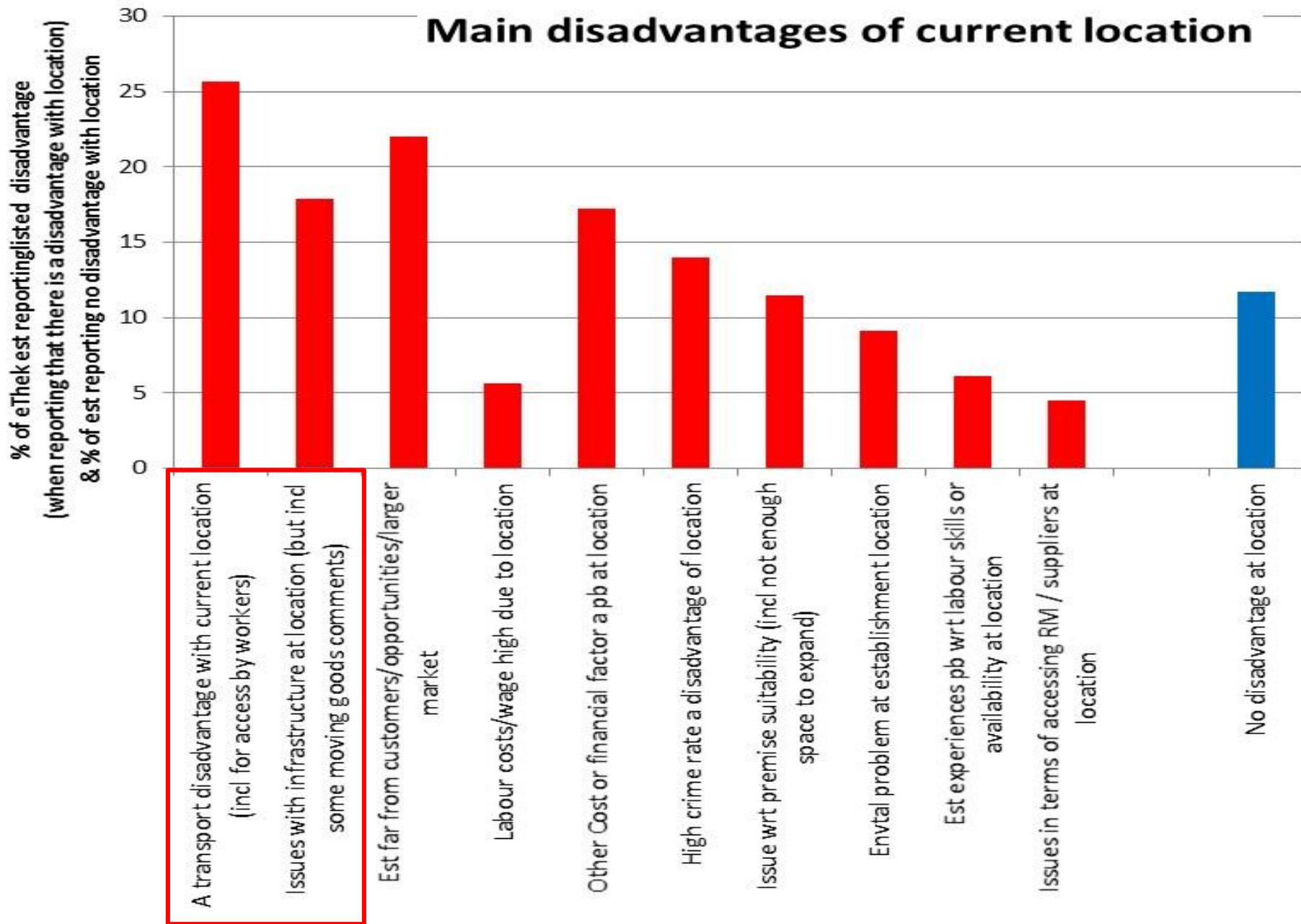


THE LOCAL (DURBAN) CONSTRAINTS – LOCATION DIMENSIONS

Some local advantages (eThekwin focus)



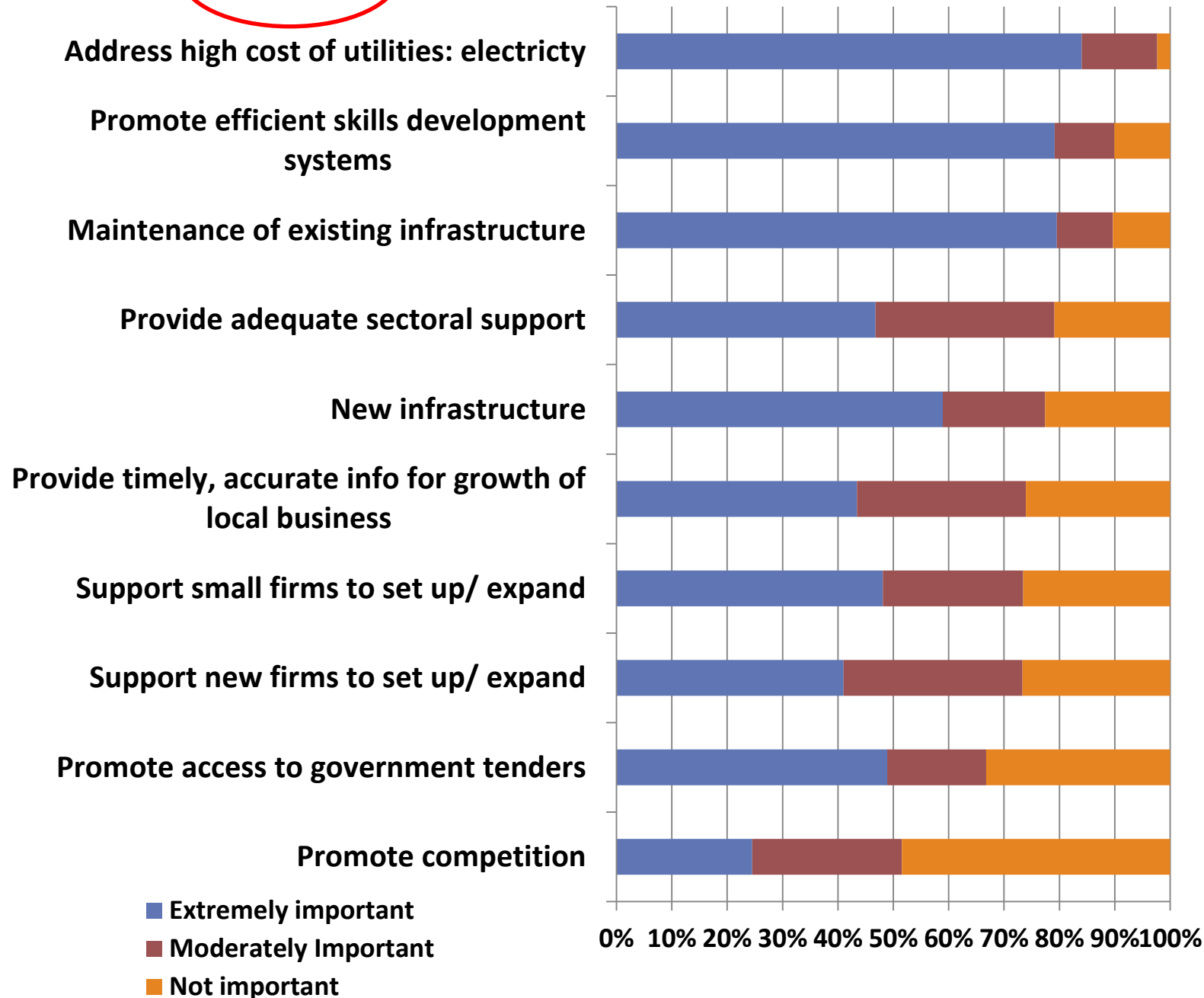
Some local disadvantages (eThekwin focus)



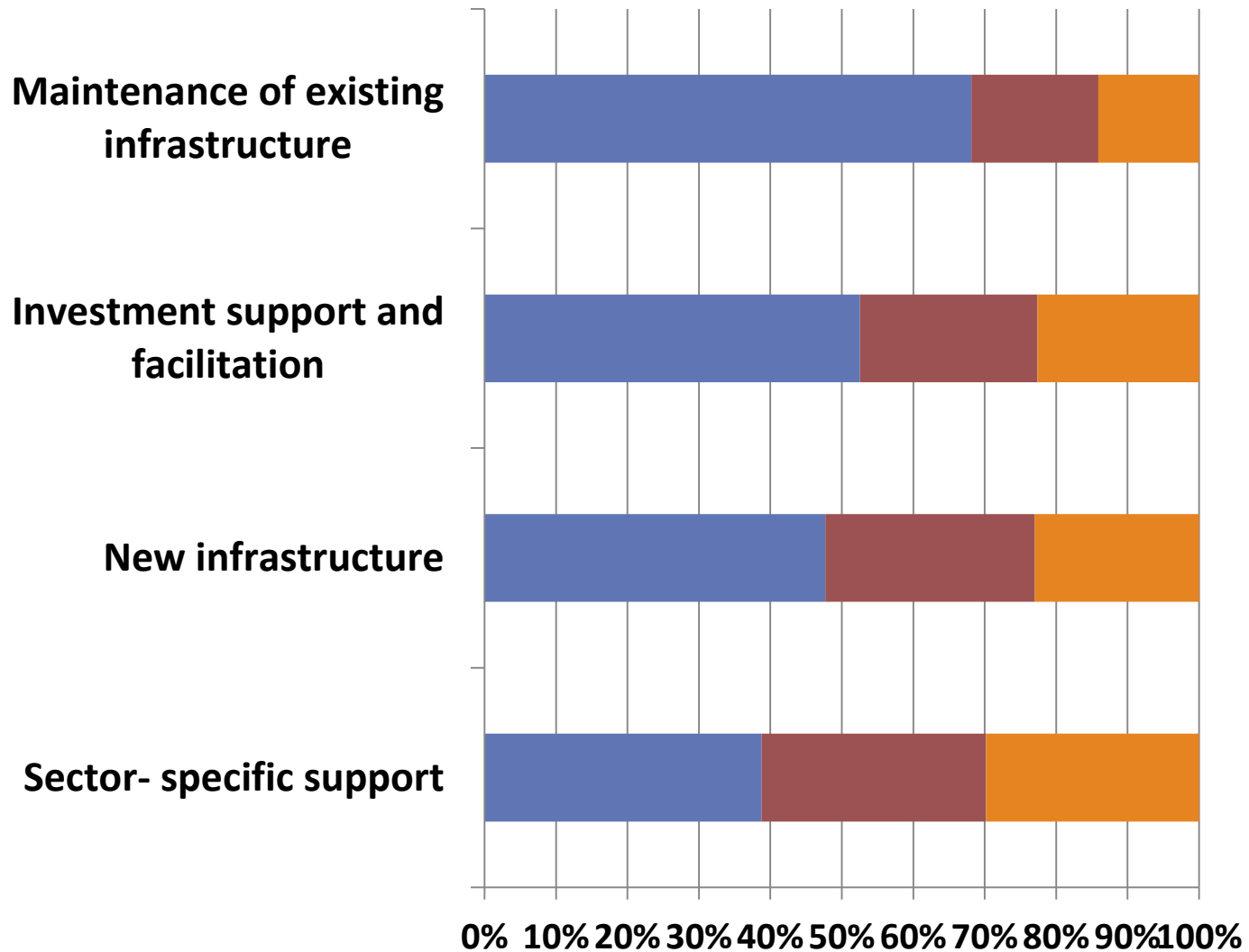


**WHAT MIGHT THIS SUGGEST IN TERMS OF
MANUFACTURING POLICY FOCUS AREAS?**

Role of national vs local gvt – areas for further progress



Role of national vs local gvt – areas for further progress



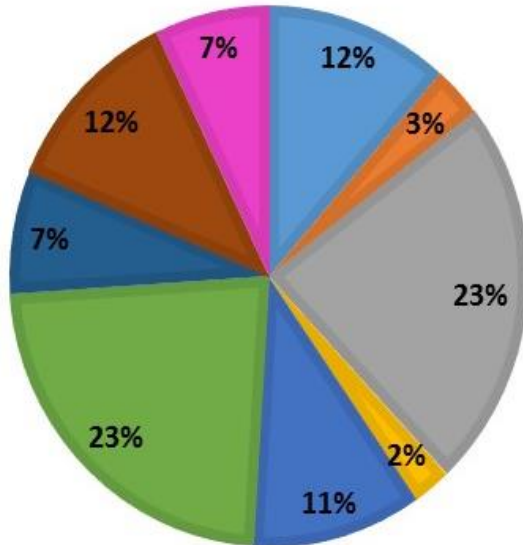
Skills as a case ...

RECRUITMENT PREFERENCE FOR LARGEST CATEGORY OF PRODUCTION EMPLOYEES

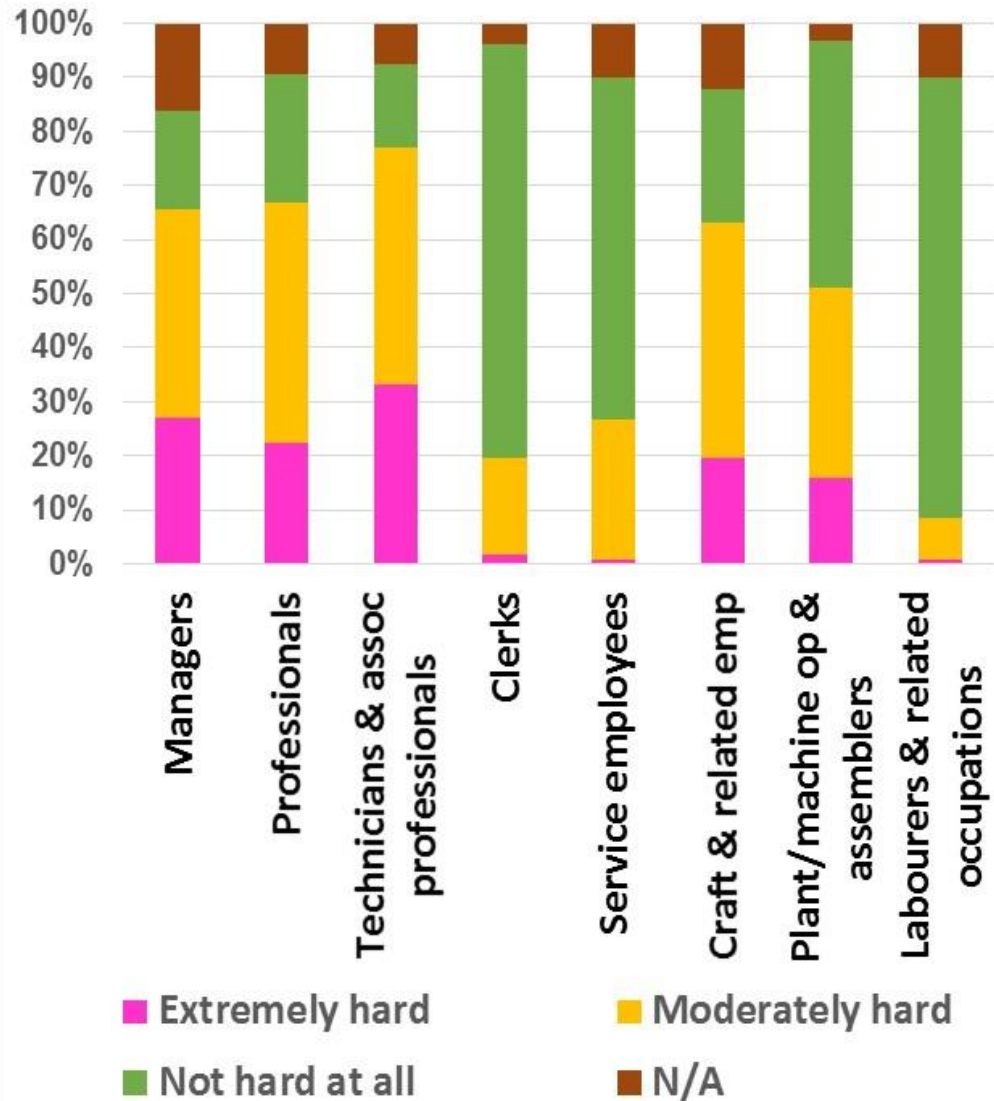
% of establishments reporting

QUALIFICATION & PREFERENCE

- Relevant work experience only
- Primary educ only
- Secondary educ only
- Tertiary educ only
- Work experience + primary educ
- Work experience + secondary educ
- Work exp + vocational education
- Work experience + tertiary educ
- Other

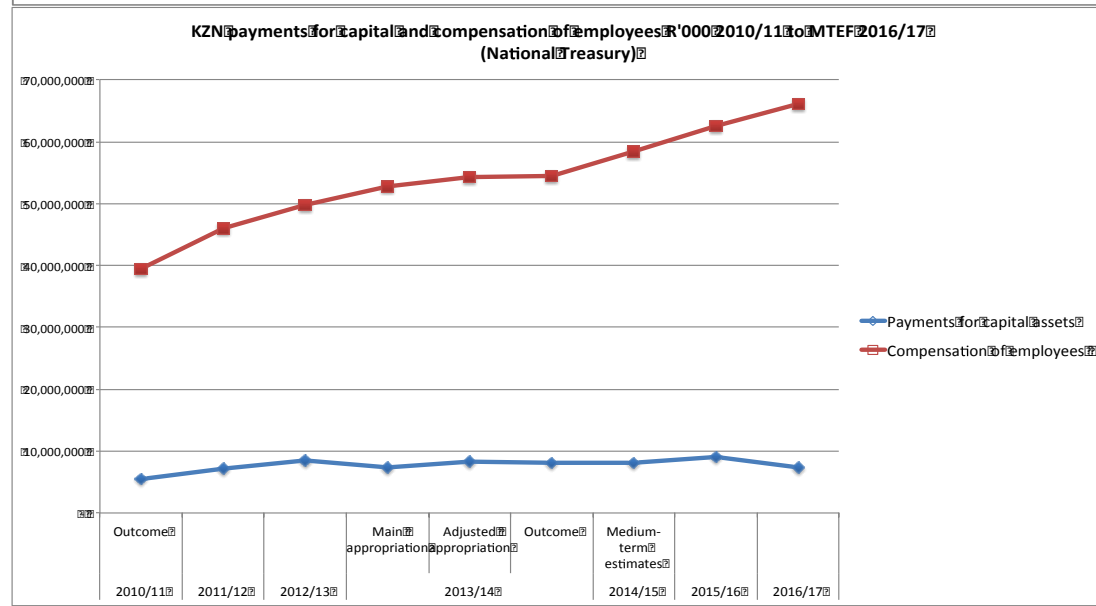
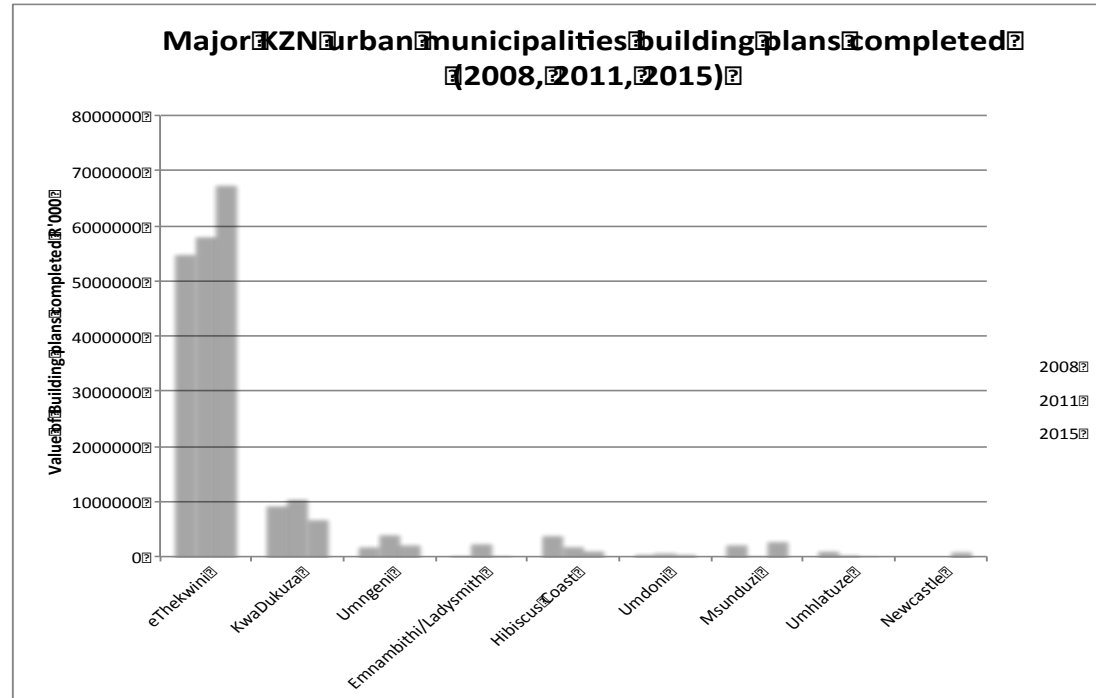


% of firms reporting



Matching public & private investment

- KZN public sector capital investment is in real decline and has been for some years.
- KZN municipalities are not doing the job in terms of infrastructure maintenance.
- In many cases business costs are high & services relatively inadequate.
- Manufacturing businesses require consistent, competitive, high value services (not just business services).



Conclusions & Policy implications

- National
 - Most firms are knowledgeable about industry programmes but only a fraction still access them.
 - Sectoral focus welcomed by those benefitting but leaves out the bulk of firms.
 - Infrastructure and services confer insufficient advantages to most firms (SEZs, Port charges, skills)
 - Need to attend to international benchmarks.
- Provincial
 - Firms are pretty confused about the specific role of the Province
 - But, firms are largely unaware of programmes to support industry originating from the Province.
 - Is this because of KZN focus outside metro or a matter of poor communication?
 - KZN has particular challenges with regard to skills & labour market exposure for working age people (population structure and low per capita income). These need particular attention.
 - Opportunity for better IGR and industry partnerships?
- Local government
 - Maintenance of business operating environment is key – engagement!
 - Avoid pricing manufacturing out of the city (and country): directly and indirectly
 - Pay attention to national arrangements (e.g. skills) in terms of local impacts
- All
 - Costly and unreliable services
 - Inefficient and unresponsive systems
 - Poorly maintained and governed infrastructure
 - Industry support programmes need to reach smaller and medium firms
 - Cost of finance also comparatively high for smaller firms
 - Local procurement supporting local producers is largely absent
 - Whilst supporting demand & upgrading remains NB.
 - Firms reality: a tough environment across sectors and catching up with international technology

THANK YOU



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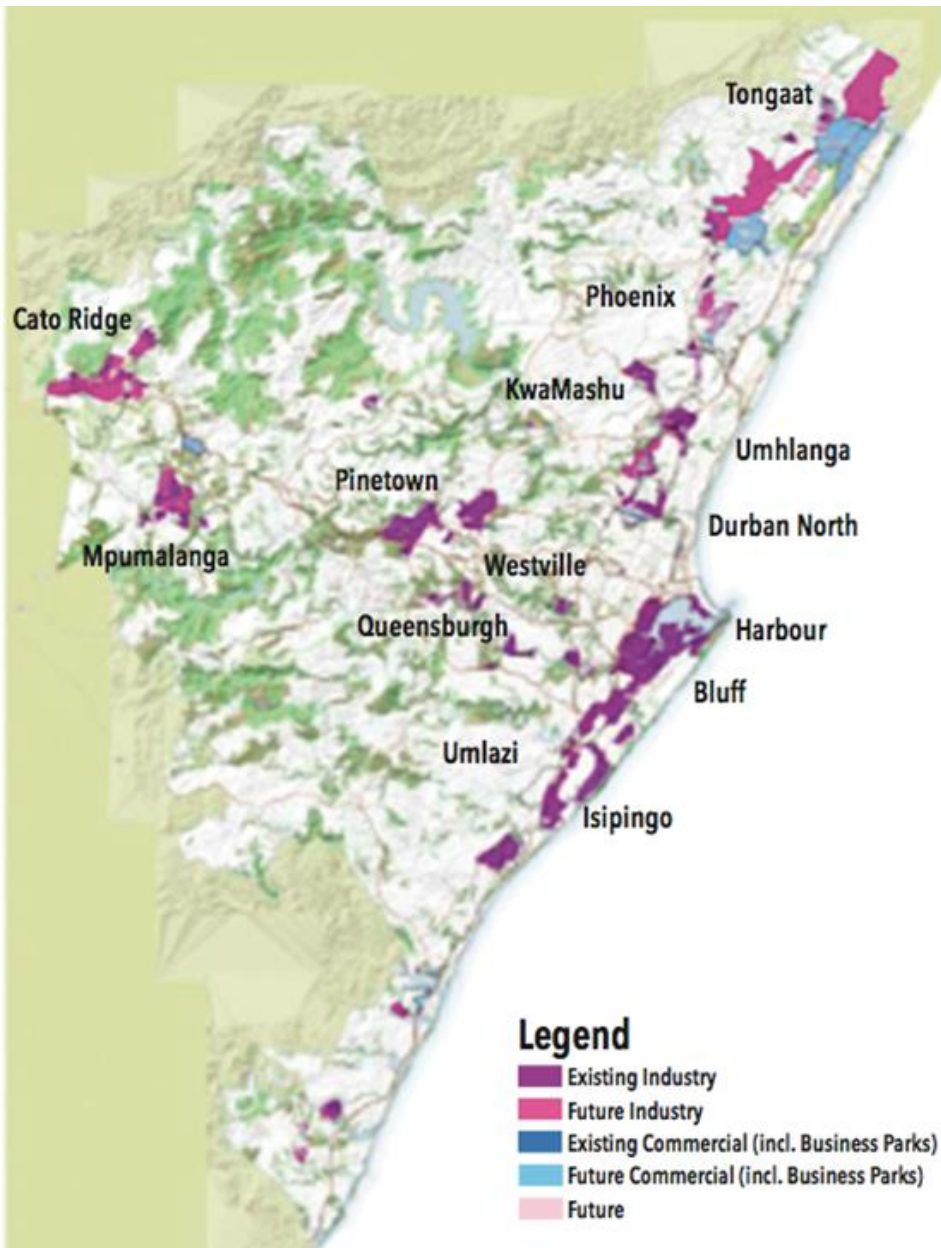
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Durban Manufacturing Firm survey details



- 2013/14 own survey of a sample of manufacturing establishments ≥ 45 FTEs in Greater Durban area under the ambit of eThekweni Municipality
- Broad sectoral focus in terms of which firms to approach
- Approach:
 - Quantitative with qualitative blocks
 - 3 parts questionnaires & focus on constraints: face-to-face with experts; 360° approach so lots of data sought;
- Issues:
 - Issues of participation in some sectors & of uptake by largest firms
⇒ issues of representativity (?) impact on statistical validity ...
.... but have some data for around 1 in 4 establishments – 132 firms but 109 valid firms from a population of 436 firms; 70 panel firms