

# SA's manufacturing sector and the golden opportunities for SMEs

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South Africa's manufacturing sector is one of several areas of interest, identified in the National Development Plan (NDP) as an industry poised for job creation and GDP growth. Despite several hurdles having thwarted the industry's progress over the past few years, efforts by the public and private sectors to revitalise and expand South Africa's manufacturing capabilities, present an encouraging prospect for small- and medium-sized (SMEs).



Last year saw South Africa's manufacturing sector being put through its paces, with the industry's gross value showing a decline of 1.3 percentage points during the first six months of the year when compared to the same period in 2022. Persistent load shedding, input cost pressures and the Durban floods during April this year dealt deafening blows to the sector's progress in several key performance areas.

The industry did, however, show signs of recovery during the latter part of 2022, with an almost 3 percentage point year-on-year increase in September. Despite predictions by analysts that factory output would remain subdued, factory production rose by just under 5% month-on-month over the same time period. Recently, the Absa Purchasing Managers Index rose to 49.8 index points in April 2023 from 48.1 in March showing some signs of recovery.

SMEs as vital cogs within the sector's growth engine

For Jeremy Lang, chief investment officer at Business Partners Limited, as sectors such as manufacturing seek to follow the country's renewed impetus towards economic recovery, a vital component of the solution lies with small businesses.

As he asserts: "Going forward, the strategic positioning of small businesses along the industry's supply and value chains will serve to unlock the sector's potential as a bolstered contributor to our country's GDP, socioeconomic development and the broadening of the fiscal base."

Recent data presented by Stats SA saw South Africa's manufacturing sector taking its place as the second highest contributor to total turnover (25%), after trade.

"Now is the ideal opportunity for local entrepreneurs to seek out and harness the opportunities that exist within the manufacturing space," says Lang, who encourages SME owners to look into sub-sectors such as agriculture, pharmaceuticals, renewable energy, and steel.

## Opportunities within sub-sectors

A key example can be seen in the findings of a report by the Pan-African Investment and Research Services (PAIRS), which foregrounded the agro-processing sub-sector as one of the most crucial drivers of the manufacturing sector. Opportunities for SMEs in this arena sit within areas such as processing, logistics, training and skills development, quality assurance, and machinery.

As Lang explains, for SMEs who wish to take advantage of 'emerging trends' within these kinds of value chains, skills such as innovation, negotiation and collaboration will be significant determinants of enduring success.

It is also the ideal time to 'pool our resources' and 'optimise our existing strengths' as a country, as Lang advises, making reference to the fact that South Africa boasts some of the world's largest automotive production plants.

Given that the automotive industry is undergoing an unprecedented period of transformation, driven by the global call for sustainability, SMEs now have the opportunity to position themselves into this pivotal change process in areas such as the production of parts for electric vehicles and cleaner energy innovations.

## Intercontinental prospects for local SMEs

Contributing to the Pan-African outlook on manufacturing and what it means for South African SMEs, Lang encourages entrepreneurs to set their sights both on local prospects and those which lie within the African continent as a whole.

An important factor in the growth of the country's intercontinental manufacturing capabilities is the African Continental Free Trade Area (AfCFTA). As Lang argues, the AfCFTA can provide local manufacturers with the exact momentum they need to expand into other African territories.

The greatest challenge for SMEs looking to take advantage of more harmonious intra-Africa trade lies within skills and the realm of transport and the ailing state of South African infrastructure. In light of the skills challenge, Lang encourages SMEs to seek support from the Business Partners Ltd technical assistance and mentorship programme sponsored by the Swiss State Secretariat for Economic Affairs (SECO). "Through our technical assistance programme, we contract expert consultants to assist business owners in navigating the challenges they face in their business journey and close the skills gap that may exist within a business."

Lang is also in full support of the recent launch of the NEF-Transnet SMME Fund, purposed towards boosting localisation and South Africa's manufacturing capabilities. The five-year partnership between Transnet, the National Empowerment Fund, the National Association of Automotive Component and Allied Manufacturers (Naacam), plans to integrate SMEs into its related value chains and is expected to invest around R220m into the resurgence of the local manufacturing sector.

As Lang concludes: "South African SMEs need to tap into developments on the local front, where government has committed to promoting localisation and industrial diversification as part of its NDP targets. As the future of the sector, driven by policy reform, begins to take shape, entrepreneurs should pay close attention to industry developments and consider that manufacturing may hold the key to long-term success."

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