



destea

department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

RESEARCH PLATFORM: PROVINCIAL RESEARCH ADVISORY COMMITTEE (PRAC) MEETING

QUARTER 1: 2021/2022 REPORT

**ANALYSING THE IMPACT OF COVID-19 ON FREE STATE
MANUFACTURING**

INTEGRATED ECONOMIC DEVELOPMENT CHIEF DIRECTORATE

ECONOMIC RESEARCH DIRECTORATE

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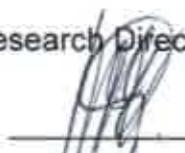
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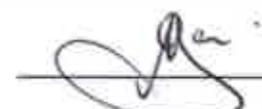
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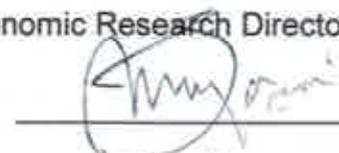

2021/06/30

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1. Introduction

The Economic Research Directorate convened the virtual Provincial Research Advisory Committee (PRAC) Roundtable Meeting on 04 June 2021. This PRAC meeting for Quarter 1 2021/2022 focused on analysing the impact of the Covid-19 pandemic on the provincial manufacturing sector. The meeting's purpose was to ascertain the sector's role in moving the province towards economic recovery.

Speakers with expertise in issues pertaining to the economy were invited to make presentations. These speakers included representatives from both the private and public sectors.¹ Presentations were made on the overall effect of the pandemic on the Clothing, Textile, Footwear and Leather (CTFL) Sub-sector, the impact on skills development in manufacturing, and on value chains towards economic transformation, as well as the role of industrialization towards economic growth.

Destea's Director for Economic Research gave welcoming remarks to the audience. In his welcoming input the Director extended a special welcome to the four presenters and indicated the importance of research for evidence-based decision making.

2. Presentations² and Discussions

Mr. M. Lawrence from The National Clothing Retail Federation of South Africa gave a presentation titled *The Impact of Covid-19 on Manufacturing; with emphasis on the Clothing, Textile, Footwear and Leather (CTFL) Sub-sector*. The presentation offered a brief overview of the activities of the National Clothing Retail Federation of South Africa (NCRF). Lawrence indicated that they observed a significance decline in consumer demand since the start of Covid-19 towards the end of 2019 and the beginning of 2020. Factories closed down during hard lockdown as they were not regarded as essential services like the pharmaceuticals. The industry managed to protect a lot of jobs in retail and manufacturing by producing personal protective equipment (PPE), clothing and textile and to some degree footwear. The IDC had been proactive in assisting in saving jobs.

¹ The complete attendance register is appended hereto as "Annexure A"

² The presentations are accessible on the Destea website by following the link: http://www.destea.gov.za/?page_id=1920

A Masterplan reflecting the whole value-chain was developed towards the end of 2017 and the beginning of 2018 by NCRF in partnership with *the dtic* and other key role-players in the clothing and retail sector. Organised Labour, stakeholders in the whole value-chain, as well as textile manufacturers, except role-players in cotton industry were consulted. The aim of the masterplan, amongst others, was to change local content sourcing from 30% – 60% and to create 120 000 additional jobs by 2030, of which 70 000 should be in the manufacturing sector.

NCRF together with national structures such as Proudly South African is continuously engaging to identify obstacles and to reduce blockages in order to reduce manufacturer inputs costs. The aim is to develop businesses which have strong demand side opportunities and production which is economically viable.

Mr. G. Slabbert from merSETA gave a presentation on *Skills Development in Manufacturing*. Slabbert referred to a global study conducted by the University of Texas in Dallas during September 2020 which found that manufacturing sector response to Covid-19 had been largely reactive and uncoordinated, and many firms' crisis communication plans did not include managing an infectious-disease outbreak.

He further mentioned that according to the International Labour Organization, approximately 47 million employers, representing some 54% of all employers worldwide, operate businesses in the sectors hardest hit by Covid-19: manufacturing, accommodation and food services, wholesale and retail trade, and real estate, business and administrative activities. Manufacturing was expected to be one of the most severely affected sectors in terms of the negative economic impact, according to Dr. David Widdifield, Director of the Master of Science in Supply Chain Management program.

A picture of extreme economic hardship nationally has emerged and all the six subsectors had been negatively affected by the Covid-19 pandemic, such as retrenchments, disruptions in the manufacturing value chains/ supply chains, decrease in consumer confidence and reduced consumption, inability to meet production targets and reduced productivity, as well as disruption in Work Base Learning (WBL). According to Slabbert, emerging trends in the South African

manufacturing sector, according to Slabbert as a result of Covid-19 on the positive side includes manufacturing repurposing – mainly in new technology related to health and safety, unprecedented growth in alternative manufacturing, i.e. Robotics, Artificial Intelligence and Algorithm Technology, Additive Manufacturing and on the negative side job losses, closing of companies, loss of revenue/taxes and increase in Emotional Health.

Training in most sectors had been suspended during hard lockdown. MerSETA and structures such as the National Artisan Moderating Body (NAMB) and the Quality Council for Trades and Occupations (QCTO) had suspended their operations during hard lockdown and as a result trade testing and certification for many learners were delayed. It resulted in a loss of income to MerSETA. Support and assistance are provided by MerSETA to access the Youth Relief Fund, Covid-19 TERS fund (Temporary Employer/Employee Relieve Fund), Retrenchment Assistance Plan (RAP) and the Training Layoff Scheme (TLS).

The Rebel Group Advisory Southern Africa (Pty) Ltd. representatives, Mr. R. Kukubo and Mr. K. Lockwood made a presentation on *Value Chains Approach towards Economic Transformation: Overview of FS Sectoral Masterplans (related to manufacturing)*. Kukubo gave introductory remarks on the company's appointment to develop a Sector Development Master Plan for the Steel and Metals Fabrication Sector, which is a sub-sector of the manufacturing sector. The view is to raise a long-term growth trajectory of the provincial economy and aid in the post-Covid19 recovery.

Lockwood provided a resilience analysis and application on the Steel and Metals Fabrication Sector, as well as a detailed overview of the metals and steel economic value chain. It was highlighted that Free State is losing market share to other provinces and South Africa as a whole over the last nineteen years. This analysis covers over 50 sectors and sub-sectors in the Free State. On the issue that the Free State is centrally situated which is regarded as a competitive advantaged based on the interviews conducted Lockwood commented that it is a good place to service the labour market. But, whether that by itself is enough to offset other disadvantages, it's not a given. The overall attractiveness of the province is also to be taken into account.

No significant investment in the metals and steel sector could be seen over the last 5 to 10 years.

It is also mentioned that the metals and steel sector is regarded as a capital intensive sector. Furthermore the levels of investment in South Africa is much lower than the targets set in the National Development Plan (NDP) which has been falling significantly during the Covid-19 pandemic.

Challenges in the provincial economy are regarded as multi-dimensional. Some of the reasons, amongst others, are that the population in Free State is shrinking in terms of the national share and the concomitancy of declining incomes, as well as the ability to attract and retain skills in the Free State. The central location is an advantage in terms of warehouses and logistics, but more investment is needed.

The meeting's final presentation was delivered by Mr. M. Ahmed from the Industrial Development Corporation (IDC). The presentation focused on the *Role of Industrialization towards Economic Growth with emphasis on the Industrialization Support Incentive*. Industrial development is the key drive of the IDC, hence the focus on the development of industrial sectors. In light of this mandate the IDC is geared to promote value chain development in the steel and metals sector (which includes mining); chemicals, medical & industrial minerals sector; clothing and textiles; agro-processing (especially high value crops and processing); industrial infrastructure (which is linked to industries); energy (including renewable energy); as well as in the services sector such as tourism, information technology (IT) and media & motion pictures.

Support to SMEs is high on the agenda of the IDC. It is however limited to industrial development. Areas of focus in this regard are on the youth, women, black industrialists, job creation, and localisation. Products of the IDC include debt financing, equity, guarantees, trade finance, bridging finance, venture capital, short, medium and long-term loans, grace periods, business support programs. Two streams of funding guide support to SMEs: business plan assessments and due diligence on the one hand and project development on the other.

Funding interventions from the IDC to minimise the impact of Covid-19 include, Covid-19 Small Industrial Finance Distressed Fund (R 250m for SME support), Covid-19 Essential Supplies Fund and Covid-19 Distressed Fund. Special schemes to assist businesses are GRO-E Youth Scheme, Manufacturing Competitiveness Enhancement Program (MCEP), UIF II Fund, SANREF (for renewable energy and energy projects), Downstream Steel Industry Competitiveness Fund (DSCIF), Agro Processing Competitiveness Fund (APCF), European Fund (to encourage SME development), Pro-orchard Scheme.

Recently the IDC in partnership with the Department of Agriculture, Land Reforms and Rural Development (DALRRD) established the AGRI-Industrial Fund, to support a wide range of economically viable activities in agro-processing. Focus will be on high-value export-oriented crops, poultry, livestock and expansionary acquisitions. An approach called SME-Connect has also been embarked upon to revitalise declining mining towns. Harmony and SASOL in Free State has already been contacted in this regard.

3. Conclusion and Recommendations

The year 2020 saw the Free State economy hit with a major blow as annual GDP growth declined by 7.7%. This drop in growth was higher than the national average of 7.0% and represented the third consecutive year of negative growth for the province's economy. The major culprit for the economic downturn, just as in the case of South Africa, is assumed to be the Covid-19 pandemic and its subsequent negative effects. All of the province's industries recorded negative growth on an annual basis with the exception of agriculture. Industries hardest hit included construction (down 20.3%), transport (down 15.2%), mining (down 13.4%) and manufacturing (down 11.7%).³

Available data showed that the provincial manufacturing sector had already been struggling prior to Covid-19. In the three quarters preceding the national lockdown the sector's quarterly growth average at -0.17%. During this same period the sector shed approximately 5 700 jobs (down -9.67%). In the beginning of second quarter of 2020, the country was placed under alert level 5. This was the most restrictive of all the alert

³ Statistics South Africa. 2020. Gross Domestic Product Q4:2020

levels, with only essential services permitted in the sector.. During this period the Free State manufacturing sector reported a 73.9% quarter to quarter decline in GDP growth. In contrast, the provincial sector recorded a slight increase in its employment figures during this period. This is possibly because employment and unemployment are lagging indicators; employment tends to increase two or three quarters after an upturn in the general economy and vice versa.⁴

Government, as well as other private sector initiatives such as NCRFSA, merSETA, IDC and others have availed a number of assistance mechanisms to the sector, both financial and non-financial. There however seems to be challenges for stakeholders in the manufacturing sector to apply for these support measures.

In order to support the provincial manufacturing sector and develop collaborative solutions towards an increased market share and uptake of incentives, partnerships and collaborations between state institutions, the private sector, academia and municipalities are necessary. Challenges such as illegal importing, legislative compliance with the Bargaining Council (as in the case of the clothing and textile sector) can also be addressed at these platforms. Institutional frameworks can be strengthened through interaction with existing and new (where necessary) structures.

Interaction and alignment is henceforth recommended to accelerate production in manufacturing to achieve the recovery of this economic sector. The following may be considered:

- Relevant directorates in Destea to embark on collaborative initiatives to assist with the update of incentives and other support measures with the IDC,
- Institutions such as merSETA, Seda Agricultural Mining and Tooling Incubator (SAMTI) to join hands with the National Youth Development Agency (NYDA) to enhance the involvement of the youth in terms of skills development,
- Destea to strengthen working relationships with NCRFSA with regard to the tracking of the Masterplan and involvement of the clothing and textile role-players in the province,

⁴ Economic Intelligence Report, Dec.2020. Impact of the Covid-19 pandemic on manufacturing

- Destea to collaborate with academia, such as with Central University of Technology (CUT) on agro-processing initiatives,
- Strengthen working relationships with municipalities to unlock challenges and opportunities in the manufacturing sector,
- Relevant stakeholders to actively partake in the completion and implementation of Masterplan for the Steel and Metals Fabrication Sector that are being develop.

4. Annexure A

	Name	Organisation/Institution
1.	Tshepiso Leshaba	Destea
2.	Thenjiwe Mbashe-Mdhluli	Seda
3.	Beaula Kruger	Destea
4.	Johan Van Zyl	CUT
5.	J. Hattingh	CUT
6.	Jonas Mosia	Destea
7.	Mbuli Thuli (TP)	
8.	Willie van Jaarsveldt	Ten-X
9.	Silindisipho Belot	Destea
10.	Abram Jansen	Destea
11.	Gerhard Slabbert	merSETA
12.	Michael Lawrence	The National Clothing Retail Federation of South Africa
13.	Rodney Kukubo	Rebel Group Advisory Southern Africa (Pty) Ltd
14.	Keith Lockwood	Rebel Group Advisory Southern Africa (Pty) Ltd
15.	Mehmood Ahmed	Industrial Development Corporation
16.	Ramokhele Pitso	Destea
17.	Andrew Setho	SEDA
18.	Boitumelo Dithebe	NYDA
19.	Themba Guma	Statistics SA
20.	Mokhethi Matee	FDC
21.	Kagiso Jansen	Free State Manufacturing Association
22.	Larona Tsikwe	Motheo TVET College
23.	Moeketsi Sefika	Mangaung Metro