RESEARCH STUDY TO IDENTIFY NEEDS, OPPORTUNITIES AND CHALLENGES OF SME’S IN THE PLASTICS AND CHEMICAL SECTOR

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Research Study to Identify Needs, Opportunities and Challenges of SME’s in the Chemicals and Plastics and Sector

Prepared for

Small Enterprises Development Agency (Seda)

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List of Acronyms and Abbreviations

AMFISA Association for Pro-poor Micro Finance Institutions for South Africa
APS Adult Population Survey
BBBEE Broad Based Black Economic Empowerment
BDS Business Development Services
BSM Business Sophistication Measure (FinScope)
CBOs Community Based Organisations
CDE Centre for Development of Enterprise
CIE Centre for Innovation and Entrepreneurship
CIPC Companies and Intellectual Property Commission
CIPRO Companies and Intellectual Property Registration Office
CPPP Community Public Private Partnership
DED Department of Economic Development
DGRV German Co-operative and Raiffeisen Confederation
DST Department of Science and Technology
FNB First National Bank
FSCs Financial Services Cooperatives
GDP Gross Domestic Product
GEM Global Entrepreneurship Monitor
HDIs Historically disadvantaged individuals
IDC Industrial Development Corporation
IFC International Finance Corporation
Khula Khula Enterprise Development Fund
LBSC Local business service centres (Ntsika’s)
LDCs Less developed countries
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<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>LFS</td>
<td>Labour Force Survey (Statistics SA)</td>
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<td>MACs</td>
<td>Manufacturing Advisory Centres (MACs)</td>
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<td>MCP</td>
<td>Microcredit Program</td>
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<td>MFIs</td>
<td>Microfinance institutions</td>
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<td>Namac</td>
<td>National Manufacturing Advisory Centre</td>
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<td>NCA</td>
<td>National Credit Act</td>
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<td>NCR</td>
<td>National Credit Regulator</td>
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<td>NGOs</td>
<td>Non Governmental Organisations</td>
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<td>NSB Act</td>
<td>National Small Business Act of 1996 as amended by the National Small Business Amendment Act of 2003 and 2004</td>
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<td>NSBAC</td>
<td>National Small Business Advisory Council</td>
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<td>NYDA</td>
<td>National Youth Development Agency</td>
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<td>OCIPE</td>
<td>Office of Companies and Intellectual Property Enforcement</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PFMA</td>
<td>Public Finance Management Act</td>
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<td>SA</td>
<td>South Africa</td>
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<td>Samaf</td>
<td>South African Micro Apex Fund</td>
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<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
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<td>SEF</td>
<td>Small Enterprise Foundation</td>
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<td>SESE</td>
<td>Survey of Employers and the Self-Employed (Stats SA)</td>
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<td>SETAs</td>
<td>Sector Education and Training Authorities</td>
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<td>SMBs</td>
<td>Small and Medium Businesses</td>
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<td>SMMEs</td>
<td>Small, Medium and Micro-Enterprises</td>
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<td>TCP</td>
<td>Tshomisano Credit Programme</td>
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<td>the dti/DTI</td>
<td>Department of Trade and Industry</td>
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<td>UCT</td>
<td>University of Cape Town</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
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<td>WB</td>
<td>World Bank</td>
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EXECUTIVE SUMMARY

1. Introduction

It is estimated that small businesses (SMEs) employ 22% of the adult population in developing countries\(^1\). United Nations Industrial Development Organisation (UNIDO) estimates that SMEs represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999). A recent study conducted by Abor and Quartey (2010) estimates that 91% of formal business entities in South Africa are SMEs, and that these SMEs contribute between 52 to 57% to GDP and provide about 61% to employment.

The democratically elected Government of South Africa (SA) realised, as early as 1995, the importance of SMEs to the economy. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995)\(^2\) highlighted the fact that “Small, medium and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country”. And over the years, development of SMEs has been at the centre of successive political administrations, with mixed results.

**Underhill Corporate Solutions (UCS)**\(^3\) has been commissioned by the Small Enterprise Development Agency (Seda) to conduct a study aimed at identifying the needs, opportunities and challenges of small and medium enterprises (SMEs) in the chemicals and plastics sectors. The study is intended to assist Seda to better support business in this industry sector.

2. Background

The government, through the Department of Trade and Industry (DTI), identified plastics and chemical sector as a sector with growth potential and opportunities for development particularly for SMMEs. IPAP2 identified the chemicals and plastics sectors as one of the sectors with high employment multipliers and strong backward linkages. The government has therefore highlighted

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\(^1\)According to Daniels, 1994; Daniels &Ngwira, 1992; Daniels &Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson.


\(^3\)[http://www.underhillsolutions.co.za/](http://www.underhillsolutions.co.za/)
and singled out these sectors for focused where interventions will be broadened and up-scaled. Seda, an implementing agency of the DTI, which is mandated to support SMEs, commissioned this study.

3. **Study Objectives**

The main objectives of the study are to identify opportunities and services of Seda in the SMEs within the plastics and chemical sector, and to develop a strategy to seize such opportunities in order to create new and support existing enterprises with potential to create jobs.

The following are the specific objectives of the study:

i. Identify areas of specific demand or opportunity for provision of products and services by local SMEs in the chemicals and plastics sector,

ii. Identify challenges or barriers faced by SMEs and critical factors to operate successfully in the chemicals and plastics sector,

iii. Identify key sector segments and value chains and analyse key developments in such segments, and

iv. Identify products and services that Seda could provide to SMEs to enable growth in the chemicals and plastics sector.

4. **Study Methodology**

The study methodologies employed in this study include both secondary and primary research, which also uses quantitative and qualitative research methods. The first phase of the study was the literature and documentary review. The document and literature review is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by researchers, scholars and practitioners. The major sources of desktop information was DTI, Seda, Statistics South Africa (Stats SA), National Credit Regulator (NCR), South African Reserve Bank (SARB), Chemical Industries Education and Training Authority (CHIETA), Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA), Quantec, Global Insight, development finance institutions (DFIs), microfinance institutions (MFIs), banks and other financial institutions, and chemicals and plastics industry associations.

The second phase of the study was primary research. In-depth face-to-face and telephonic interviews were conducted with key informants, relevant stakeholders, buyers of chemicals and plastics products and SMEs in the sectors.
A total of 130 SMMEs across all provinces of SA successfully completed the survey questionnaire. 53.5% of these SMMEs were from Gauteng and 14% apiece were from Western Cape and KZN. Around 1% of the respondent SMMEs indicated that they were from Northern Cape. 98% of the respondent SMMEs were non-Seda clients.

Ninety seven percent of the sampled SMMEs had registered businesses. Which means 3% we operating informally. Of the registered businesses, 55% were closed corporations (CCs), 42% private companies (PTYs), 3% sole proprietors and 1% co-operatives.

In terms of sectoral classification; 53% were operating in the chemicals sector, 46% in plastics and 2% in both. The SMME types of business activities were varied; 22% of the respondents indicated that they were involved in chemicals formulation, 22% in plastics conversion, 27% in manufacturing of chemicals and plastics, 36% in marketing and distribution, while 7% were in other related businesses.

5. Study Findings

The main study findings are summarised as follows:

i. South Africa’s chemical sector is the largest in Africa, contributing about 5% of GDP and employing approximately 150,000 people.

ii. SA plastics manufacturing contributed approximately 0.5% to South Africa’s GDP and approximately 3.2% to the manufacturing sector in 2011.

iii. South Africa is mainly self-sufficient with regards to the chemicals and plastic products required in the economy, but there has been a surge in imports, particularly from China.

iv. The chemicals and plastics sector value chain is divided into two, the upstream and the downstream. The structure of the upstream sector generally does not cater for operation of SMMEs as it is highly capital intensive, except in the case of products associated with the subsectors. The majority of the SMMEs are found in the downstream sector.

v. The SMMEs were asked to rank their single biggest obstacle to business growth.
   a) The majority of SMMEs (33%) complained of electricity and water. The highlighted that electricity was too expensive and sometimes erratic due to load shedding.
   b) The second ranked single biggest obstacle was marketing and sales.
   c) The third ranked single biggest obstacle was access to finance.

vi. From the Buyers perspective on of the major procurement challenges they face when they deal with SMEs include: stock availability (as they need to buy in bulk), quality of products and pricing. The buyers also cited the following advantages to dealing with large companies as opposed to SMEs:
   a) Prices are more competitive
b) Favourable payment methods e.g. 30 day payment period  
c) Stock availability. Larger companies are perceived as more reliable  
d) Better service delivered / Better administration  

vii. In-depth interviews with SMMEs, buyers, and key informants it highlighted that though it is difficult for SMMEs to get credit or to buy raw materials on credit, industry practise was that they would sell their products on credit. It was indicated that some big buyers, especially large retail shops has a 90 day payment option.  

viii. An analysis of the use of banking products by the chemicals and plastics SMMEs showed that 87% have access to current and cheques accounts. Access to credit from banks was very low.  

ix. This study found that 84% of the SMMEs in the chemicals and plastics sector were not aware of any organisations that gave advice and support to small business owners. Of the 16% SMMEs who indicated that they were aware of credit and business support organisations, 48% mentioned commercial banks, 38% SEDA, 19% Khula, 14% apiece for IDC and NYDA, 10% apiece for Business Place and CIDB, and the rest (including the dti) were mentioned by only 5%.  

x. 40% of the SMMEs in the chemicals and plastics sector indicated that they need credit and business support or assistance.  

xi. There is a possibility that there is sufficient credit being made available in the SA SMME market, but the terms and conditions under which it can be accessed are not favourable for the SME sector it is intended to serve.  

xii. 43% of the SMEs in the chemicals and plastics sector did not belong to any business chamber, association or council.  

xiii. There are a large number of government programmes that provide support in the SMME market but there is very low take-up of these support services.  

xiv. SEDA can play a big role in the chemicals and plastics by improving on product design, offering incubation support and marketing of its products.  

6. Conclusion  
The study reviewed the chemicals and plastics from a broad industry development analysis perspective, then went on to investigate the SME support services in SA, with a special focus on what role Seda can play in developing SMEs in these two sectors. SME support services can be broadly categorised into two; (i) financial support, and (iii) business development support (BDS). Most SME support organisations offer both, and Seda mainly focuses on the later.
Both secondary and primary researches have revealed that there are a number of sources of finance and business support services for SMEs in SA. It terms of financial support, it was however not possible to determine, with any degree of accuracy, whether the financing available is sufficient to meet the needs of the SME sector due to the lack of information, especially with regard to the demand side and the specific causes for the lack of access. But the study concluded that there is a possibility that there is sufficient credit being made available in the SA SMME market, but the terms and conditions under which it can be accessed are not favourable for the SME sector it is intended to serve. In other words, there is sufficient “quantities” of funding available, but the “quality” of funding (i.e. the product design/services being offered) does not match the needs of the sector. In this case, the policy response should not be designed to increasing the amount of credit available to the sector, but should involve revisiting the product offering of the credit already available and ensuring that it meets the needs of the SME sector it is intended to serve.

Another possibility that needs consideration is that in which credit is available and sufficient to meet demand, but the lack of access is attributable either to the specific characteristics of the SMEs applying for the loan or the lack of awareness that the financing is available. In these instances, the response required would necessarily be different from that of increasing funding available, or indeed, changing product design/service offering.

The study also noted that there are a number of organisations, from both the private and public sector, who offer BDS services to the SMME sector. There are currently a large number of government funded programmes which provide either financial support or BDS, or both. It was however noted that there is low take up of both financial and BDS services. The following were cited as possible reasons for low take-up of SMME financial and BDS services:

i. Lack of awareness of available BDS services,

ii. Time-consuming application process

iii. Frequent changes in conditions of loans

iv. High hurdles in terms of collateral or equity required by finance providers

v. For SMMEs, the first obstacle is the lack of ability to develop an acceptable business plan, followed by lack of capital.

Any new or current product from Seda should therefore be designed to address the above listed gaps. As chronicled in this report, South Africa is not short in terms of available funds. Funds are available from both the public and private sectors. However, the level of awareness and utilisation of these programmes have been disappointingly low.
7. Recommendations

Recommendations have been categorized into two; generic or holistic recommendations which focus on what the SMEs in the chemicals and plastics sectors need, and Seda specific recommendations, which take into account the needs of the SMEs and Seda’s mandate.

7.1 Generic Recommendations

Chemical and plastics sector SMMEs in South Africa face a number of challenges, including high costs of capital, onerous regulatory compliance (especially in health/safety and environmental regulations), a shortage of technical skills, difficult access to international markets, an inflexible labour market and increasing competition (especially from China). The capital intensive, global nature of the chemicals industry makes it difficult for SMEs to be competitive, unless high-value niche products or services are supplied.

For the holistic development of SMEs in the chemicals and plastics sector, the government (represented by the dti and Seda) need to come up with a partnership approach with SMEs, big corporates in the sector, associations, universities, other development financial institutions, and SETAs among others. As listed below, these recommendations are cross cutting:

(i) Increase awareness of BDS and financial services for SMMEs

The study found that 84% of SMMEs were not aware of any BDS and financial services on offer. Of the 16% SMMEs who indicated that they were aware of credit and business support organisations, 38% mentioned Seda and 5% DTI. Furthermore, the SME Survey (2004) found that 70% of the businesses surveyed felt that the Government communicates its incentives poorly.

One of the reasons, it is believed, for this poor uptake of BDS and financing facilities on the market, is the lack of a “single source of information”, a one stop shop if you like of all available support programmes and how to access them (DTI, 2010). The introduction of the DTI’s National Director of Small Business Support Programmes will go a long way providing small business owners with information of the different types of support available. The publication of the National Directory, although a good starting point, will not achieve much if the small business sector is not aware of its existence.

Several studies indicated that most SMEs were not aware of the financial and business development products on the market (or other support available). There is a need to increase awareness among small business owners of the products and services available. Clearly, the lack of awareness of the existence of these programmes will affect access which affects their uptake, thus making it appear that the programmes themselves have been ineffective.
The poor level of awareness provides Seda with an opportunity to put in place measures to increase awareness of the availability of these its products. There is a need to publicise the various schemes and programmes through a wide variety of media on an on-going basis, ensuring that the targeted recipients are reached. The Global Entrepreneurship Week, in conjunction with other forums, provides an ideal opportunity to increase the awareness of support available. Provincial workshops and road shows also help in improving visibility. Lastly, focused sector specific forums and publications should be utilised to reach the chemicals and plastics SMEs. There is an opportunity to collaborate SETAs like merSETA and CHIETA which have a presence in the plastics and chemicals sectors respectively.

(ii) Regulation and compliance
The chemical sector is highly regulated. SMEs in the sector face onerous regulatory compliance (especially in health/safety and environmental regulations). The potentially hazardous nature of the chemical industry has caused the industry to become highly regulated. Regulations exist to control almost every aspect of the chemicals supply chain (which includes the plastics sector). As a result, the cost of compliance is high, impacting negatively on SMEs access to markets and profits. Policy recommendations include:

a) Continue with elimination of regulatory requirements,
b) Rationalise regulations,
c) Benchmark any new regulations with our competitor nations,
d) Business support centres to provide assistance with compliance,
e) Analyse the impact of international and trading partner environmental regulations on local SMME suppliers, and steps to be taken to comply,
f) Application of Safety & Health provisions,
g) Enforcement of municipal zoning requirements,
h) Working with relevant SETAs to train SMMEs staff in regulation, compliancy, safety and quality management issues, and
i) Roll-out grants for product testing and certification.

(iii) Development of niche market subsectors
There are some subsectors which have already been identified by IPAP as priority sectors, namely pharmaceuticals, traditional medicines, cosmetics and other beneficiation activities. Statistics show that the pharmaceutical sub-sector has been experiencing strong growth and export. Growth is being shown in both ethical drugs and generic substitutes, but data indicates that generics manufacture is growing rapidly, while ethical drugs are mostly imported into South Africa for local consumption as well as onward export into Africa.
Pharmaceutical sub-sector

There is a lot to learn from Ireland. The country has managed to attract a number of multi-nationals and is exporting increasing quantities of ethical drugs world-wide. The Irish pharmaceutical industry continues to show very strong growth of 11% per annum. The country also spends about 12% of revenue on R&D. Irish exports grew by 72% between 1994 and 1998, the third highest in the 29 member OECD. Irish export growth rates outpaced World Trade growth in the same period by a factor of three. Ireland has a trade surplus equal to 16% of GNP and is the most export-oriented country in the Eurozone. Ireland now ranks as the third largest exporter in the world on a per capita basis after Singapore and Belgium/Luxembourg.

To develop these niche subsectors, it is recommended that:

a) SA comes up with a strategy to attract multinationals in the pharmaceuticals subsector. An important factor in pharmaceuticals is the level of skilled human resources. Thus multinationals will bring in much needed skills which can be transferred over time to our SMEs.

b) On-going skills development targeted at production and management levels,

c) Commitments from government to buy local products, as most of the products, especially pharmaceuticals are consumed in public hospitals.

Recycling in the Plastic Sector

Plastics recycling is a sector in which South Africa is growing in leaps and bounds. According to the latest Plastics SA figures, 194 recyclers currently operate nationwide. Between them, they recycled 18% of the plastics produced in South Africa in 2010. This equates to 241,853 tons, or 6% more than in 2009. The derived recycling rate for plastics packaging was 30.1% for 2010 and is projected to increase to 35% in the near future. According to Plastics SA, the main reason for the increase in the recycling rate of plastics is the growing demand for recycled plastics that have proven to be versatile, economic and reliable. The growth in virgin material showed a 4.7% increase during 2010. The 2010 survey results shows that the recyclers have managed to:

• Recycle 241,853 tons of plastics,
• Provide 4,800 jobs, and
• Create 35,000 indirect jobs with an annual payroll of R240 million.

Some of the challenges facing the plastics recyclers are (i) the high costs of washing and drying which are prohibiting recyclers from sourcing more post-consumer and landfill recyclables, (ii) high operational costs, which includes: high cost of water and electricity, wages, transport, repairs and maintenance required on the

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recycling plant and its equipment. Though a number of larger recyclers are able to overcome these obstacles by investing heavily in their recycling plants in order to improve efficiencies of their washing and drying facilities, MEs still face challenges owing to capital constraints. Plastics SA calls for government support and a collective effort to find more energy efficient solutions\(^5\).

**(iv) Subsidy to cover cost of electricity**

The highest ranked obstacle to business growth by SMMEs in the chemicals and plastics sector was cost of electricity and water. It was noted that the cost of electricity was too high for the SMMEs. Furthermore, most SMMEs were not getting electricity from Eskom directly but from local municipalities. Since plastics conversion consumes high volumes of electricity any percentage increase in the price of electricity will have a bigger negative impact in the businesses’ bottom line. The National Energy Regulator of South Africa (NERSA) has already approved ESKOM annual average price increase of 16\% and tariff rates for 2012/13 on 9 March 2013. This is expected to have a greater impact on manufacturing of plastics in SA, especially the SMME sector. The price competitiveness of the products is going to be effected, which might open more doors for Chinese products penetration.

Manufacturers faced electricity price increases of around 170\% over the past five years. The resultant margin squeeze is retarding investment and causing business failure. It is also happening against a background of numerous other domestic challenges where many of our competitor economies subsidise the energy and other inputs to support their domestic manufacturers.

Firstly, there is need for strong dialogue within Nedlac and the entire manufacturing sector on electricity prices and its impact on SA competitiveness. It is also recommended that the government subsidies to SMEs in the manufacturing sector. However, there is need for more research and negotiations to come up with a well-defined formula and motivation of financing Eskom’s CAPEX needs in a way which encourages efficiency and thrift.

Secondly the energy cost challenge can present an opportunity for innovative SMEs. Plastics SA noted that “Plastic has more calorific value than coal or wood, and yet it is an irony that as a nation we burn coal every day to generate power and bury our waste plastic – which is a huge waste of energy.”\(^6\) Unrecyclable plastic waste can provide a valuable source of local energy / electricity through Energy from Waste (EfW) - using established clean incineration technology - typical plastic waste contains some 18000 to 20000 BTU/lb versus

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\(^5\) Plastics SA CEO, Anton Hanekom.

fuel oil at around 21,000 BTU/lb. Implementing EfW can help with South Africa’s twin problems of diminishing landfill and the shortage of energy.

According to Plastics SA\(^7\), about 70% of South Africa's energy needs are met from coal (including over 92% of electricity generation and about 30% of transport fuels). Although cheap by international standards, buying coal involves significant costs for energy-intensive processes. For example a single cement kiln can burn up to 180 000 tons of coal a year. Coal becomes more expensive the further you are from the coal mine. According to a recent Environmental Impact Assessment Report\(^8\) into the feasibility of using waste (or ‘alternative fuels’) in a cement kiln, between 35 to 50% of coal can be replaced a year, depending on the composition of the waste. This means a cement company will avoid the costs of 40 000 to 90 000 tons of coal just for one of its cement kilns.

There is so much scope for EfW industrial development, which includes promotion of SMEs. The government, through the DTI and Seda can play a significant role in this endeavour.

Thirdly, SMEs can make use of the National Cleaner Production Centre of South Africa (NCPC-SA); a key industrial sustainability programme of the Department of Trade and Industry (the DTI), hosted at the CSIR\(^9\). The NCPC-SA’s mandate is to assist South African industry to become competitive and sustainable through more efficient and greener production. It assesses companies’ production systems to identify potential savings options, increasing their profitability through cleaner production. The participation options range from three-day audits for SMEs as a starting point to improved energy efficiency to becoming demonstration plants where measurable and verifiable impacts of recommended energy system optimisation interventions may be showcased\(^10\).

\((v)\) Business support services.

40% of the SMMEs in the chemicals and plastics sector indicated that they needed finance and business support services. Of those who indicated that they needed BDS services, 19% wanted assistance on marketing and sales. SMMEs mentioned the strong competition from Asian countries, especially China. This confirms the secondary research results which show a huge influx of Chinese imports into SA. The sector which is most

\(^7\) [http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270](http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270)

\(^8\) [http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270](http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270)

\(^9\) The project is a collaborative initiative between the DTI, the Department of Energy, the Swiss Secretariat for Economic Affairs and the UK Department of International Development. The United Nations Industrial Development Organisation (Unido) is the implementing agent.

\(^10\) [http://www.engineeringnews.co.za/article/organisation-reports-successes-for-its-efficiency-programmes-2012-08-17](http://www.engineeringnews.co.za/article/organisation-reports-successes-for-its-efficiency-programmes-2012-08-17)
vulnerable, according to the survey results, is the chemicals sector. Possible because the sector is dominated by international brands, and the biggest international brands have now moved their manufacturing plants to China. Some of the possible remedies include:

a) escalation of the buying local campaigns;
b) introduction of tariffs and non-tariffs barriers, especially on finished products;
   ➢ the increase in imports has had a negative impact on local employment,
   ➢ by importing, SA is exporting jobs as well as opportunities to manufacture those products locally.
c) exports promotion drive especially in SADC, BRICS and other African countries,
   ➢ Negotiations are currently underway between Plastics SA the DTI to set up the first ever Plastics Exports Council. This will go a long way in marketing SA products, restore lost markets, and opening new markets.
   ➢ SA has been losing its exports market share in Africa, especially in Mozambique and Nigeria.
d) Business support programmes with a *marketing and sales focus*.

(vi) Access to finance
The third ranked single biggest obstacle was access to finance. This finding is in line with the 2011 GEM report released by the University of Cape Town’s Graduate School of Business, which found that a key challenge to small business development is not a lack of available finance, but rather *the knowledge on where and especially how to access it*\(^\text{11}\). Sourcing of capital is however very important at business start-up and growth/expansion phase. More than 60% of both chemicals and plastics SMMEs indicated that the biggest challenge they faced at start-up was sourcing capital. This is however an international trend, as most funders tend to be hesitant in funding green field projects.

There are two primary sources of external finance for new SMEs; equity and debt. External equity in the form of venture capital or the stock exchange, is normally long term, but is usually not available for new SMEs, primarily due to the relatively small levels of financing desired by a new SME. The lack of external equity makes many new SMEs dependent on bank loans and overdrafts, and suppliers credit for early stage financing. Despite the dependence of SMEs on debt finance, access is very limited for new SMEs, especially in developing countries (Mengistae et. al., 2010).

\(^{11}\)GEM Report (2011)
Another source of finance is grant, especially from the government; mostly from the DTI’s MIP\textsuperscript{12}, MCEP\textsuperscript{13} and STP\textsuperscript{14}. Some of the recommendations to increase access to finance include:

\textbf{a)} \textit{Increase the level of assistance and information for SMEs to acquire finance}

It was noted that there is insufficient financing available especially for high technological inclined SMEs. These SMEs require expensive machinery and equipment and their product development phase are fairly long. Secondly, the SABS approvals and quality standards are higher than the R50,000-00 and R90,000-00 respectively as currently provided by Seda. As indicated in the value chain analysis, the upstream of the value chain is capital intensive. Thus, in order to make a meaningful impact in the sector, Seda might need to come up with initiatives which seek to move the SMEs into upstream of the value chain. This requires Seda assisting SME’s to acquire higher loan values with longer repayment periods. The required response, from the DTI perspective, should be designed to increasing the amount of grants available to the sector.

\textbf{b)} \textit{Improving on SME-specific characteristics}

Another possibility that needs consideration is one in which finance is available and sufficient to meet demand in both “quantity” and “quality”, but the lack of access is attributable either to the specific characteristics of the SMEs applying for the loan, or the lack of awareness that the financing is available. In these instances, the interventions will have to be targeted to deal with these specific SME characteristics.

\textbf{c)} \textit{Other initiatives to increase on SME access to finance}

- Encourage development of additional start-up finance schemes as there is a significant market failure amongst private sector lenders to provide adequate funding. This can be done through:
  - Encourage venture capital market
  - Provide timely data for potential investors
  - Provide a mechanism for contact between capital providers and SMEs

\begin{footnotesize}
\textsuperscript{12}The Manufacturing Investment Programme (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.
\textsuperscript{13} The Manufacturing Competitiveness Enhancement Programme (MCEP), one of the key action programmes of the Industrial Policy Action Plan (IPAP) 2012/13 – 2014/15. It provides enhanced manufacturing support to encourage manufacturers to upgrade their production facilities in a manner that sustains employment and maximises value-addition in the short to medium term. The MCEP comprises two sub-programmes: the Production Incentive (PI) and the Industrial Financing Loan Facilities, which is managed by the dti and the Industrial Development Corporation (IDC) respectively.
\textsuperscript{14} Seda Technology Programme (STP) is a division of focusing on technology business incubation, quality & standards and technology transfer services & support to small enterprises.
\end{footnotesize}
Reduce investment risk through loan guarantee schemes

- More support for conducting marketing activities in key export markets – extend the EMIA\(^{15}\) and ensure that sufficient budget is available
- Develop tools (mapping and checklist) that enable potential applications to easily assess which incentives fit a given strategic business need and to make a quick first assessment of eligibility
- Simplify application procedures and tailor to chemicals and plastic industry if possible. Where possible, design new products for the sector.
- Create a stepped application procedure for all incentives, so that the lower capital requirements from SMEs are simple and quick.
- Provide a “one-stop-shop” service where applicants can present a project and its objectives and be connected with the appropriate incentives entity.
- Enhanced, targeted finance schemes in Provinces.
- Come up with a comprehensive chemical and plastics sector supplier development programme. This will ensure procurement to support SMEs.

(vii) Improving the levels of SMEs managerial competence and skills

Regarding the poor level of managerial competence and skills of the small business owners, interventions should focus on providing training and courses that will improve the human resource capacities in this regard. Though currently, various training programmes are provided and support is given to various sectors of industry, including SMEs through the SETAs, awareness and uptake of these programmes has been very low.

The Government is therefore encouraged to continue building on current programmes and establishing new ones if warranted, to improve the levels of managerial competence and skills of the small business owner. The majority of training programmes are implemented through Seda. Partnerships should also be formed with the various SETAs responsible for up-skilling the sector. To improve the effectiveness of the current programmes, SEDA needs to be capacitated by improving staffing levels with individuals with the appropriate skills and experience, and making better/more use of consultants.

The programme designs should be anchored on;

(a) Grants linked to business support services,
(b) Mentorship/incubation programmes,
(c) Financial literacy and education,

(d) Marketing and awareness campaigns, and
(e) Monitoring and evaluations.

(viii) Business mentorship and incubation programmes

The review of literature reveals that there is a strong correlation between the age of an enterprise and its risk profile. Most businesses fail within the first three years of business. The poor sustainability of start-ups highlights the need for interventions aimed at supporting and mentoring entrepreneurs through the early stages of the business cycle.

Studies have also shown that to start and grow your own business in South Africa is challenging on all levels, and 80% of small businesses traditionally fail within the first year. However, Seda Technology Programme (Stp) has ensured the opposite where 80% of businesses supported via incubation survive the first year of operation.\(^\text{16}\)

Seda should consider putting more funding towards business incubation programmes or organisations. There is need to set up new incubations centres in the plastics sector and up-scaling the current structures in the chemical sector.

(ix) Encouraging industrial linkages or clustering

Industrial linkages otherwise known as clusters have been proven in many countries as key tools of sustainable industrial growth strategy. The cluster strategy encourages cooperation among participants in a particular industry creating a value chain for delivery of particular services or products. Cluster building is, in many developed countries, already an accepted tool in economic development. There is strong evidence that forming alliances, clustering and networking help SMEs to compete, grow and cooperate with large firms. By working together, firms can gain the benefits of collective efficiency, enabling them to link with larger producers and break into national and global markets.\(^\text{17}\)

Since most buyers in this study highlighted that they could not buy from SMEs owing to capacity constraints and the inability to supply big orders, the government can help SMEs form clusters or alliances. An alliance is formed by firms coming together in some contractual arrangement. The well-known types of contractual arrangements include the following:


i. **Subcontracting**: involves buying supplies from another firm and working closely on detailed specifications for a complex product.

ii. **Licensing**: includes permission to manufacture a product under license, to distribute a product and to include product in another design.

iii. **Joint-venture**: involves the creation of a third firm to manufacture or market a product which had been developed by the entrepreneurial firm. Equity is usually shared by the partners.

iv. **Strategic alliance**: which is essentially a joint-venture without the creation of a third firm and no equity is involved.

v. **Consortium**: which is usually a group of firms joining together in a buying group to purchase components or equipment which they mutually share.

Alliances between large companies and SMEs can be promoted, which take the form of vertical linkages where inter-firm relationships are forged along the lines of the production and marketing chain within a specific industry or sub-sector.

**(x) Encourage formation of or joining business associations**

The majority of the SMEs interviewed did not belong to a business association or council. However, both international and local studies have shown that individually, SMEs are weak in almost all aspects – financial capacity, technology, marketing capability, information access and assessment, management expertise, among others. It is, therefore, difficult for them to survive, let alone compete, in a globalized market.

Chambers of commerce and industry and other business associations are important channels for delivering services that governments can provide to SMEs. By being members of chambers/business associations, SMEs are able to collectively address and overcome, common problems and obstacles that prevent their growth and development. Chambers, whose membership invariably consists of largely SMEs and a spread of all business sectors, can: (a) serve as an effective platform for small businessmen to exchange experiences and help each other, (b) provide business development services to its members, (c) present a united voice to the government on policy issues affecting the SMEs, and (d) promote partnerships among members as well as between the government and the private sector. The chambers/business associations will also have better leverage to develop linkages.
between large and small businesses and with R&D institutional facilities for technological development\textsuperscript{18}.

The government can encourage and promote the establishment of chambers/ business associations and enhance their role in the economy by considering the following measures, among others:

(a) adopt a law that formally acknowledges the important role of chambers/ business associations in the economy;
(b) simplify the administrative procedure in the licensing of chambers/ business associations ;
(c) minimize or eliminate the taxes imposed on chambers/business associations and their activities;
(d) assign specific functions to chambers/business associations; and
(e) Provide a forum for regular consultation and dialogue between chambers/business associations and the government.

7.2 Seda Specific Recommendations

(i) Business support services

The second biggest obstacle to growing a business was given as marketing and sales. Business support programmes with a \textit{marketing and sales focus} should be targeted for this sector. Currently Seda’s Learning Academy provides courses to entrepreneurs to teach them how to market their businesses effectively. Tailor-making these courses to the specific marketing and sales challenges faced by SMEs in this sector would make them more effective.

The Manufacturing and Support Programme though still in the pilot stage, will address some of challenges facing SMEs in this sector. The obstacles to business growth noted by the SMEs include: Marketing and Sales, Competition and suitable business premises. The nature of the advisory services offered in this programme should address these sector specific challenges.

(ii) Improving the levels of SMEs managerial competence and skills

Currently Seda has the Business Build and Business Grow offerings which provide business support to existing businesses. Seda Business Build and Business Grow provide support to SMEs to ensure access to export opportunities, access to local markets and facilitate access to finance. These services are highly crucial

\textsuperscript{18} CACCI Recommendations on SME Development for Submission to the APEC Business Advisory Council (ABAC) in 2003. Available online: http://www.cacci.org.tw/Journal/2003%20Vol%201/CACCI%20Recommendations%20on%20SME%20to%20ABAC.PDF
to this sector and would address some of the challenges highlighted by the SME respondents in this study. However, only 38% of respondents were aware of Seda and therefore Seda would need to increase its awareness, visibility and accessibility to SMEs in this sector.

(iii) Business mentorship and incubation programmes
Seda should consider putting more funding towards business incubation programmes or organisations. There is need to set up new incubations centres in the plastics sector and up-scaling the current structures in the chemical sector. Seda should consider putting more funding towards business incubation programmes or organisations. There is need to set up new incubations centres in the plastics sector and up-scaling the current structures in the chemical sector.

The Supplier Development programme is likely to address concerns raised by both buyers and SMEs in this study. The concerns raised by buyers in this study were on the quality of products by SMEs, capacity of SMEs (in terms of stock availability). The Supplier Development programme aims to improve the productivity and quality of products produced by SMEs. 73% of the SMEs respondents had not submitted a government tender, and the Supplier Development programmes would help SMEs to improve the chances of getting private and public contracts.

(iv) Access to finance
Seda Business Build and Business Grow product offering include facilitating access to finance by SMEs. To ensure SMEs in this sector acquire finance Seda might need to come up with initiatives which seek to move the SMEs into upstream of the value chain. This requires Seda assisting SME’s to acquire higher loan values with longer repayment periods. Seda will have to increase the level of assistance and information to SMEs in this sector to acquire the type of finance needed.

(v) Regulation and compliancy
Seda support centres to provide assistance with compliance and adequate training should be provided to SME and their employees on regulations, compliancy, and safety and quality management issues. The Stp is structured to facilitate this service.
1 INTRODUCTION AND BACKGROUND

1.1 Introduction

There is consensus among policy makers, economists and business experts that SMMEs are drivers of economic growth. A healthy SMME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. One of the significant characteristics of a flourishing and growing economy is a vibrant and blooming SME sector. SMMEs play a pivotal role in the development of a nation. They contribute to socio-economic development in various ways; namely, by creating employment for a rural and urban growing labour force and providing desirable sustainability and innovation in the economy as a whole. Fayad (2008) propounds that most of the current multi-million dollar enterprises have their origin in SMMEs.

The democratically elected Government of South Africa realised as early as 1995 the importance of SMEs to the economy. Trevor Manuel, then Minister of Trade and Industry, clearly articulated these issues when he said:\[19\]:

“With millions of South Africans unemployed and underemployed, the Government has no option but to give its full attention to the task of job creation, and generating sustainable and equitable growth. Small, medium and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job.”

Seda, an agency of the DTI, which is mandated to support small enterprises (SMEs), commissioned this study; titled: “Research Study to Identify Needs, Opportunities and Challenges of SMEs in the Plastics and Chemical Sector”. The main objectives of the study are to identify opportunities and services of Seda in the SMEs within the plastics and chemical sector, and to develop a strategy to seize such opportunities in order to create new and support existing enterprises with potential to create jobs.

1.2 Project Background

1.2.1 Small Enterprises Development Agency

Seda is an agency of the DTI mandated to support small enterprises (SMMEs). SEDA was established in 2004 by the National Small Business Act (2004). It was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The Godisa Trust and the Technology Programmes were integrated into Seda in 2006, becoming Seda Technology Programme (STP).

Seda’s vision is “to be the centre of excellence for small enterprise development in South Africa”. To become a centre of excellence, it has an internal department called Programme Analysis and Development (PAD). PAD supports the services and offerings of the Seda delivery network by conducting research, analyse, review, develop or adapt new and existing offerings including the coordination of national programmes and partnerships in order to provide Seda operations with an efficient and effective set of offerings. This department focuses on research of small enterprise needs to inform the development of appropriate programmes, products and services for Seda clients. PAD has three units, namely Offerings Development; Special Projects and Programmes; and Export Development Programme.

As part of its mandate, Seda undertakes research in the SME sector. Research creates knowledge and through the creation of knowledge, Seda will expand its understanding of the challenges faced by SMEs, identify future trends in SMMEs, and recognise what services Seda must further expand and grow.

1.2.2 Project Background

The government, through the DTI, identified plastics and chemical sector as a sector with growth potential and opportunities for development particularly for SMEs. Industrial Policy Action Plan (IPAP2) highlights the plastics, pharmaceuticals and chemicals sectors as key focus areas in the current financial year, where interventions will be broadened and up-scaled. It is within the Seda’s strategic objectives of enhancing the competitiveness of small enterprises through coordinated services, programmes and products.

1.2.3 Purpose of the Study

Seda therefore commissioned this study, whose main purpose is to:

i. Analyse the needs, state and performance of the chemicals and plastics industries in South Africa.
ii. Identify areas of opportunity where SME’s can create sustainable jobs in the chemicals and plastics sector, and

iii. Develop recommendations that will help Seda to effectively support SME’s in chemicals and plastics sector.

1.2.4 Project Objectives

The main objectives of the study are to identify opportunities and services of Seda in the SMEs within the Plastics and Chemical sector, and to develop a strategy to seize such opportunities in order to support new and existing enterprises with potential to create jobs. The following are the objectives of the study:

i. Identify areas of specific demand or opportunity for provision of products and services by local SMEs in the chemicals and plastics sector,

ii. Identify challenges or barriers faced by SMEs and critical factors to operate successfully in the chemicals and plastics sector,

iii. Identify key sector segments and value-chains and analyse key developments in such segments, and

iv. Identify products and services that Seda could provide to SMEs to enable growth in the chemicals and plastics sector.

1.2.5 Project Scope

According to the TORs and the Inception Meeting, the study should provide as much information as possible regarding the trends in the Plastics and Chemical sectors. According to the TOR, the research study should consider the following:

i. Conducting Desktop Research:
   a. Overview of the Plastics and Chemicals Sector, its current development trends and market performance,
   b. Literature Review, and
   c. Alignment to the National, Provincial and Local government growth strategies and relevance to their growth sectors;

ii. Identify and Categorise (Literature Review):
   a. Identify needs, incentives, support required by SMEs within this sector.
   b. Identify constraints to SMEs development and job creation ability,
   c. Identify role players and possible collaboration opportunities,
   d. Identify incentives and support needed by small enterprises,
   e. Identify specific opportunities and challenges, and
   f. Identify interventions required;

iii. Conducting Primary Research:
a. At least 25 interviews should be conducted with Stakeholders/Industry Associations/Pharmaceutical Association/Suppliers of Raw Materials etc.

b. 50 Interviews conducted on buyers of products across the sector from both the plastics and chemicals respectively.

c. Field work Surveys (Non Seda Client Profiling). A total of 150 interviews should be conducted with SMEs across each Sector (Chemicals and Plastics).

iv. Make recommendations on options for market penetration strategies and feed this data into the process of developing business cases to pursue specific opportunities as a programme focus area for Seda.
2 STUDY METHODOLOGY

2.1 Introduction

The study methodologies employed in this study include both secondary and primary research, which also uses quantitative and qualitative research methods.

The project was conducted in phases in order to allow for an evaluation of the deliverables due from each stage and capitalise on the resulting information and knowledge thereof. The end of each phase/stage shall constituted a project milestone with due deliverables as further described in more detail below.

Figure 1: Project Phases

Source: Author’s illustration

The following three section briefly summaries the desktop research, primary research and data capturing and analysis respectively.
2.2 Desktop (Secondary Research)

The first phase of the study included the detailed literature and document review. The research literature and document review, as a process, is a systematic, explicit, and reproducible method for identifying, evaluating and synthesising the existing body of completed and recorded work produced by researchers, scholars and practitioners. The researchers undertook an organised critical account of information that has been published on chemicals and plastic sector, SMME access to finance, and industrial development and then came up with an organised synthesis of the information, ideas and knowledge. A detailed literature review document was submitted to the client for review.

The main sources of quantitative data were Stats SA, the DTI, Seda, CHIETA, merSETA, Quantec Research (Pty) Ltd (Quantec), Global Insight among others. For SMME funding to the sector, the study reviewed government support programmes and funding initiatives; development finance institutions (DFIs); microfinance institutions (MFIs); banks and other financial institutions; business development support (BDS); credit referencing (or credit bureaus) and other stakeholders such as National Credit Regulator (NCR); South African Reserve Bank (SARB); Financial Services Board (FSB) and the Competition Commission of South Africa; Consumer Bureau Association (CBA; Credit Providers Association (CPA); the Ombud Scheme, the Microfinance South Africa (MFSA), among others.

2.3 Primary Research

The second phase of the study was primary research. In-depth face-to-face and telephonic interviews were conducted with key informants, relevant stakeholders, buyers of chemicals and plastics products and SMEs in the sectors.

Three questionnaires (data collection instruments) were designed based on objectives of the study, literature review and review by the client. Data collection was done during October-November 2012.

There was no database available for SMEs in the Plastics and Chemical sector. The researchers created a database from internet searches and the yellow pages. The fieldwork consisted of a hybrid method of telephonic interviews and emailing the questionnaires. Follow-up calls and emails were sent but the response rate remained low and this explains the deviation from the targeted sample size. The table below gives the breakdown of the sample size.

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22See Annexures to this document.
Table 1: Response rate of targeted SMEs

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of SMEs in database created</th>
<th>Number of SMEs who took part in study</th>
<th>Percentage response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>385</td>
<td>70</td>
<td>18%</td>
</tr>
<tr>
<td>Plastics</td>
<td>218</td>
<td>60</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>603</td>
<td>130</td>
<td>22%</td>
</tr>
</tbody>
</table>

2.4 Data Capturing, Cleaning and Analysis

Data entry screens that are identical to the questionnaire were designed using Census and Survey Processing System (CSPro). CSPro is a specialized data capturing software package that combines the features of Integrated Microcomputer Processing System (IMPS) and the Integrated System for Survey Analysis (ISSA) in a single windows environment. CSPro enables the user and data-capturing manager to easily monitor and control the data capturing process in situations where multiple data capturers are used, which were done in this study.

The survey data was coded, entered into CSPro and then cleaned and analysed using the Statistical Package for Social Sciences (SPSS). The analysis was done mainly through using descriptive statistics and inferential analysis. A description of the characteristics of participants and variables was undertaken so as to compare demographic variables. These demographic variables include the type of business, sector, geographical location, etc.

2.5 Report Writing and Project Management

UCS crafted a draft report detailing the main findings of the survey together with conclusions and recommendations. The draft report was presented to the client for comment. The feedback from client was then incorporated leading to the development of final report to Seda.
3 MARKET ANALYSIS OF CHEMICALS AND PLASTICS SECTOR

3.1 Introduction

The chemicals industry, including fuel and plastics fabrication as well as pharmaceuticals is the largest of its kind in Africa. The chemicals and plastics sector produces the basic building blocks of the manufacturing sector in the South African economy. Products which are derived in this sector are utilized in industries as varied as home and personal care, food and beverage, automotive and construction sector. The main feedstock for the production of chemicals and plastics in South Africa are crude oil, natural gas and coal.

Crude oil is the main feedstock and it is mainly imported from the Middle East. Recent sanctions imposed on Iran have led to South Africa cutting down on the oil imported from the country. Other source regions for the crude oil are Angola and Venezuela. Reliance on this imported feedstock exposes chemical manufacturers to the volatility associated with the price of the crude oil. The price of crude oil is determined in the global market through factors such as the Organisation of Petroleum Exporting Countries (OPEC) market supply and other geopolitical considerations. Such fluctuations in the price of the feedstock have bearing on the cost of production of other downstream products i.e. petroleum products, plastics etc.

South Africa also utilizes advanced technologies such as the Gas to Liquid (GTL) and Coal to Liquid (CTL) for the production of chemicals. The GTL and CTL technologies are used by Sasol at its plants in the production of synthetic fuels. As is the case for crude oil, the price of natural gas is determined based on the global market demand and supply dynamics. The South African chemicals and plastics sector is significantly small in the global chemicals market. Due to this small size, local companies operating in the chemicals and plastics sector have no influence on the global prices and are therefore price takers.

Coal is another feedstock which is used in the chemicals and plastics sector. South Africa has vast reserves of coal, which is used as the main fossil fuel for power generation. Growing environmental concerns have seen South Africa’s usage of coal as being counter to the global drive to reduce usage of such fossil fuels. Sasol uses the CTL technology in production of fuel. Most of the coal mining in South Africa is concentrated in the Mpumalanga province.

South Africa has five refineries which are owned by major international oil companies. Sapref situated in Durban is a joint venture between Shell and BP. Natref is located at Sasolburg and is jointly owned by Sasol and Total. Chevref (formerly Calref) is owned by Chevron (formerly Caltex) and the refinery is in Cape Town. PetroSA has a refinery situated in Mossel Bay. Sasol has a synthetic refinery at its Secunda plant.
South Africa’s plastics industry is dominated by packaging with approximately 55% of the local market. South Africa exports polymers but also imports a greater amount of mainly polymer intermediaries such as polystyrene which are not manufactured here. Most plastics companies in South Africa are small, with approximately 2000 companies involved in the plastics converting sector.

As briefly discussed above, from the global market perspective, SA is a small open economy, and therefore local companies operating in the chemicals and plastics sector have no influence on the global prices and are therefore price takers. Secondly, the main feedstock (crude oil) imported. Thus, an understanding of the global chemicals and plastics sector is crucial to the understanding of the local market.

### 3.2 Global summary of chemicals and plastics sector

#### 3.2.1 The global chemicals sector

The global chemicals sector has seen rapid growth since 1970. The global chemical output (produced and shipped) was valued at US$171 billion in 1970 by 2010 it had grown to $4.12 trillion.²³ The global economic downturn experienced from the beginning of 2007 resulted in negative economic growth in many countries in North America and Europe. Despite this decline, the chemicals sector grew over two-fold from 2000 to 2010.

The main driver of this growth is China’s chemical sector nine-fold growth during this period ($104.8 billion in 2000 compared to $903.4 billion in 2010).²⁴ Countries which are part of the Organisation for Economic Cooperation and Development (OECD) constitute the bulk of world chemical production. According to the OECD, although annual global chemical sales doubled over the period 2000 to 2009, OECD’s share decreased from 77% to 63% and the share of the BRICS (Brazil, Russia, India, China and South Africa) countries increased from 13% to 28%.²⁵

Apart from the rise of China as a major chemical sector participant, there have been a number of changes to the global chemicals sector landscape. Growth rates of BRICS countries over the past decade have been significantly higher than OECD countries. As an example, from 2000 to 2010 chemical production in China and India grew at an average annual rate of 24% and 14%, respectively, whereas the growth rate in the US, Japan and Germany was between 5 to 8%.²⁶

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²⁴ same as above

²⁵ same as above

²⁶ same as above
The major chemical manufacturing hubs in the world are in America, Europe, the Middle East and China. Major chemical manufacturing hubs are located close to the feedstock source. Countries in the United Arab Emirates have managed to leverage the existence of large oil deposits to create a well established chemicals manufacturing sector.

Chemicals and plastics are ubiquitous and are used in many different applications. Demand for the products derived from the chemicals sector is highly influenced by the state of the general economy. As an example; lower disposable incomes result in people being less able to make purchases such as automobiles, reduced activity in construction of new houses and also reduced demand for paints and coatings. The global economic downturn which occurred from 2008 resulted in contraction in global demand and the attendant manufacturing activities. Stagnation of growth resulted in constrained chemical and plastics demand. Current reduced demand in the Eurozone has contributed as well to lower manufacturing activities.

Figure 2: Global Shares of Chemicals Sector to Gross Domestic Product (GDP) in 2011

Source: World Bank\(^{27}\)

China’s recent rise as a major consumer of products supplied in the global market is expected to provide impetus for the growth of the chemicals and plastics sector. The country’s constant drive to increase its access to resources to feed its burgeoning manufacturing sector is expected to continue. China is expected to overtake well established manufacturing countries in contribution to global Gross Domestic Product (GDP).

World chemical sales in 2010 amounted to €2,353 billion (US$ 2,823.6 billion)\(^{29}\). Asia’s chemicals are more than double that of the European Union. Taken together, Europe, Asia and North American Free Trade Area (NAFTA) account for 92.7 per cent of world chemicals turnover.

<table>
<thead>
<tr>
<th>Asia</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>575</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>363</td>
</tr>
<tr>
<td>Japan</td>
<td>153</td>
</tr>
<tr>
<td>India</td>
<td>56</td>
</tr>
</tbody>
</table>

Source: CeficChemdata International\(^{28}\) *Rest of Europe = Switzerland, Norway and other Central & Eastern European countries

Africa’s contribution to global chemical production is small, but the chemicals sector is expected to play an increasingly important role in the economies of specific African countries. For example, although small relative to the primary chemical producing nations, South Africa’s chemical sector is the largest in Africa,


\(^{29}\)based on an average exchange rate of €1:$1.2

\(^{30}\)Cefic (same as 6)
contributing about 5% of GDP and employing approximately 150,000 people. In Northern Africa, there are strong chemicals industries in Algeria, Egypt, Libya, Morocco and Tunisia while in West Africa, Nigeria is the primary producer and user of chemicals. Currently, petrochemical commodities, polymers and fertilizers are the main chemical products of African countries.

Figure 4: World Imports and Exports of chemicals by regional shares in 2010

![Imports and Exports Diagram]

Source: CeficChemdata International$^{31}$ = Rest of Europe = Switzerland, Norway and other Central & Eastern Europe

Most of the global chemicals sector trade was concentrated in Asia and Europe. Africa has minimal export and import of chemicals due to the relatively lower industrial base in this region. Although some countries such as Nigeria and Angola (and recently Ghana) have significant crude oil reserves, these countries do not have well established chemical industries.

3.2.2 The global plastics sector

“Plastics are a crucial part of 21st century life. Not only do they provide us with useful, lightweight and durable products, but they play a key role in the sustainable development of our world. Plastics enable the eco-efficient manufacture of products including packaging and electronic devices. Lighter plastic components enable safety and resource efficiency solutions for cars and aircraft. And plastics help to insulate buildings and save lives in healthcare applications.”$^{32}$

China and India have emerged as the major global consumers of the plastics industry. Main end user markets of plastics are packaging, building & construction, automotive and the electrical & electronic equipment markets.

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$^{31}$Cefic (same as 6)

Table 3: Indication of main plastics used in the plastics end user markets

<table>
<thead>
<tr>
<th>Sector</th>
<th>*Main plastics demanded in end user market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LLDPE &amp; LDPE</td>
</tr>
<tr>
<td>Packaging</td>
<td>1</td>
</tr>
<tr>
<td>Building &amp; construction</td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td></td>
</tr>
<tr>
<td>Electrical &amp; electronic</td>
<td>3</td>
</tr>
<tr>
<td>Others (i.e.</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Plastics Europe 33
*NB: The numbering shows the main plastics used for the sectors (ranked 1-4)
LLDPE- Low linear density polyethylene  LDPE- Low linear density polyethylene  PP- Polypropylene  PA- Polyamide  ABS- Acrylonitrile butadiene styrene  PS- Polystyrene  PVC- Polyvinyl chloride  PET- Polyethylenetetraphalate  PUR- polyurethane

Plastic packaging sector is one of the major consumers of plastics. Apart from being used as a substitute for traditional materials, plastic packaging is being increasingly used in healthcare and personal care products, and packaged foods and beverages markets.

Over the recent years, significant aspect of plastics material growth globally has been the innovation of newer application areas for plastics such as increasing plastics applications in many other industries, such as automotive, defence & aerospace, electrical & electronics, telecommunication, building & infrastructure, etc. While the global plastics market is also significantly influenced by the development of new age plastics, emergence of new applications, and the focus on green chemistry due to legislative and environmental requirements.

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33 Same as above
Figure 5: World plastics production by region, 2010

![Pie chart showing world plastics production by region: 1.75% for Middle East and Africa, 21.5% for Europe, 20.5% for NAFTA, 15.0% for Rest of Asia, 12.0% for China, 5.0% for Japan, 4.0% for CIS, 3.0% for Latin America, 1.0% for Middle East and Africa.]

Source: CeficChemdata International

NAFTA - North America Free Trade Agreement
CIS - Commonwealth of Independent States (i.e. Armenia, Kazakhstan, Moldova, Baltic states)

China, Europe and countries in the NAFTA region are the largest plastic manufacturers in the world, constituting 65.5% of total 2010 global production. The rapid industrialization of China is expected to see increasing growth in demand and antecedent production of plastics in the Asian region.

The construction sector and automotive sectors are the major consumers of plastics manufactured globally. Although Africa has some countries such as South Africa, Algeria and Egypt with large refineries, the continent’s share of global plastics output is relatively negligible compared to other regions.

3.3 The SA Chemicals and Plastics Sector

3.3.1 SA Economic Overview

South Africa’s economy has been growing at an average growth rate of 3.5 percent over the past decade. The economy is highly dependent on the commodity cycle due to the dominance of the mining sector contribution to GDP. As a developing economy, the country is affected by sentiment which affects investor perceptions of developing economies, as seen by the drop in GDP in 2009 following the economic crisis. South Africa’s inflation is mainly cost-driven by fluctuations in the value of the domestic currency.

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Source: CeficChemdata International

Underhill Corporate Solutions [www.underhillsolutions.co.za], January 2013
3.3.2 Economic contribution of the chemicals and plastics sector

The chemicals sector contributes strongly to manufacturing in South Africa. According the Stats SA, the coke, petroleum, chemical products, rubber and plastic and the glass and other non-metallic mineral products combined, constituted 23.2% of manufacturing in 2011. Gauteng is the main chemical manufacturing hub with 47% of firms in the sector based there. This is followed by KwaZulu-Natal with 18% of firms and the Western Cape with 16%.

According to the DTI, the chemical’s sector is the largest of its kind in Africa and is highly complex and diversified. From a strategic perspective the sector is segmented into 11 sub-sectors excluding synthetic textile fibres which are listed under the textile industry. The sector production is estimated to be; Liquid Fuels (31%), Plastic Products (20%), Consumer Formulated Chemicals (5%), Inorganic Chemicals (8%), Primary Polymers and Rubbers (7%), Pharmaceuticals (8%), Rubber Products (5%), Bulk Formulated (5%), Organic Chemicals (6%), Pure Functional and Specialties (5%) and Fine Chemicals (<1%) .

SA plastics manufacturing contributed approximately 0.5% to South Africa’s GDP and approximately 3.2% to the manufacturing sector in 2011\(^{35}\). The largest contribution of plastic production is the plastic packaging market. Plastic consumption for 2011 in SA was 1.545 million, which indicates a per capita consumption of

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\(^{35}\)DTI (in-depth interviews, Oct 2012)
30.3kg, a rise of 3kg from 2008 (population of South Africa 51 million). Included in the consumption figure is recycled plastic which contributed 239,300 tons of recycled which re-entered the plastics market in 2011\textsuperscript{36}.

\textbf{Figure 7: Per Capita Plastic Consumption (kg), South Africa, 2011}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{per_capita_plastic_consumption.png}
\caption{Per Capita Plastic Consumption (kg), South Africa, 2007-2011}
\end{figure}

\textit{Source: DTI (2012).}

The compound annual growth rate (CAGR) for the plastic industry over the next 5 years is 4.8 per cent\textsuperscript{37}. This can be attributed to an expected increase in demand for packaged food and an expected rise in the use of plastics in construction.

As noted in the discussion on the global market above, chemicals and plastics are ubiquitous and are used in many different applications. Demand for the products derived from the chemicals sector is highly influenced by the state of the general economy. The global economic downturn which occurred from 2008 resulted in contraction in global demand and the attendant manufacturing activities. Stagnation of growth resulted in constrained chemical and plastics.

\subsection{3.3.3 Employment contribution}
In SA, the tertiary sector contributed 66.5\% to the country’s GDP. The secondary sector contributed 31.6\% to GDP in 2011. Manufacturing is the biggest employer in the secondary sector. In 2010 manufacturing sector constituted 13.0\% of the total employment, while construction contributed 7.9\% and mining constituted 2.4\%. The manufacturing sector has experienced fluctuating employment over the past decade with employment being at the peak in 2007.

\begin{itemize}
\item[\textsuperscript{36}] Plastics SA (in-depth interviews, Oct 2012)
\item[\textsuperscript{37}] DTI (in-depth interviews, Oct 2012)
\end{itemize}
As the global economic downturn set in, there was a reduction in demand for goods which resulted in a slowdown in manufacturing activities. This reduced manufacturing in turn resulted in a decline in employment in the manufacturing sector. Current global stagnation in demand, tied up with the Eurozone crisis is expected to see employment remaining below the pre-crisis levels.

Estimation by Quantec indicates level of employment in the manufacturing sector to be approximately 170,540,000 people in both the formal and informal economies (Quantec 2011).

Figure 8: Employment trends in the Manufacturing Sector

![Graph showing employment trends in the manufacturing sector from 2001 to 2010.](http://www.chieta.org.za/2011/October%203/Draft_version_2%20final%20%282%29%20%2828%29%20%282%29.pdf)

Source: Quantec (2011)

The chemicals sector is one of the major employers in the manufacturing sector. The chemical sector has been shedding jobs consistently over the last 15 years. Total employment has shrunk by roughly 80,000 jobs from 250,000 in 1995 to 170,000 in 2010 which translates to a 32% reduction.  

The reduction has been attributed mainly to implementation of process automation as technology evolves. People who used to be employed to carry out these processes therefore are made redundant. Another factor attributed for the reduction in the numbers of people employed in the sector is the prevalence of HIV/AIDS.

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Higher incidences of the disease have resulted in increased absenteeism, reduced productivity and loss of skills.\textsuperscript{39}

3.3.4 International Trade Analysis

3.3.4.1 Introduction

The main imports in the SA chemicals and plastics sector are mineral fuels, oils and distillation products. SA’s chemical import bill is high due to the reliance on importing crude oil for the production of chemical products in the country.

South Africa is mainly self sufficient with regards to the chemicals and plastic products required in the economy. Analysis of the imports and exports shows only three categories in which exports exceeded imports for 2011 i.e. inorganic chemicals group; salt, sulphur group and explosives groups. Most of the country’s chemical and plastic exports are into the Southern African region. Most of the imported chemicals and plastics are from Europe and Asia, while most of the exports are into the sub-Saharan African region.

Figure 9: South Africa Trade Analysis for 2011

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{trade_analysis.png}
\caption{South Africa Trade Analysis for 2011}
\end{figure}

Source: Trademap LL/LDPE: Low Linear and Low Density Polyethylene  HDPE: High Density Polyethylene PVC: Polyvinyl Chloride PP: Polypropylene PET: Polyethylene terephthalate

\textsuperscript{39} same as above
South Africa is a major global coal producer; in 2011 the country’s exports were $7.52 billion which represented 4.9% of the global coal exports. Although there are growing global concerns regarding usage of coal and other fossil fuels, the South African economy is currently highly dependent on the usage of coal for production of energy. There is currently a drive to increase the usage of renewable energy within the South African industry; it is however expected to take a long duration before alternatives to coal can occupy the major feedstock to the power and energy sector.
South Africa has the most developed manufacturing sector in Southern Africa. Most of the countries in the Southern African region rely on importing chemicals and plastics from the South African market. Major markets for South African exports in priority sub-sectors are as follows:

- Inorganic chemicals: US, India, France and Germany;
- Bulk-formulated chemicals: Zimbabwe, Zambia, Malawi and Tanzania;
- Consumer-formulated chemicals: Angola, Mozambique, the UK and Zambia; and
- Plastics conversion: Zambia, Zimbabwe, China and Mozambique.

Below is a detailed trade analysis discussion by sector.

### 3.3.4.2 Chemicals Sector

As shown the figure below, SA’s an import of chemicals has always been higher than exports. The gap is even widening. The sector experienced a sharp decline in 2008-09 owing to the world economic recession, but it’s now on the recovery path.
The study further analysed the imports by source. Figure 13 below shows that SA imports chemical products mainly from Germany, USA, China, Australia and France. China’s imports into SA grow sharply from R1 billion in 2001 to R6 billion in 2011 (it was the 7th biggest supplier and it now the 3rd in a space of 10 years). This confirms earlier discussions which showed that global chemicals sector is dominated by USA, Europe, Asia and the Middle East.
Figure 13: Top 15 Importing Countries (Chemical Products)

![Graph showing top 15 importing countries for chemical products]

Source: DTI Trade Data

Figure 14, below shows that SA has a positive chemicals trade balance with Africa as continent. Southern African Development Community (SADC) is SA’s major chemicals trading partner, followed by North Africa.

Figure 14: SA Chemicals Trade with Africa

![Graph showing SA chemicals trade with Africa]

Source: DTI Trade Data
A further analysis of the SA chemicals exports by destination shows that the current (2001) top five biggest buyers of SA chemical products are USA, Zimbabwe, India, Belgium and Zambia. It remarkable to note that SA’s exports of chemicals to its top ten buyers actually increased during the world recession. Though the other buyers remain subdued post the recession, exports to USA have picked up from R6 billion before the recession to over R7.3 billion in 2011.

### Plastics Sector

The main plastics which are used in the South African plastics sector are Low Linear and Low Density Polyethylene (LL/LDPE), High Density Polyethylene (HDPE) and Polyethylene terephthalate (PET). LL/LDPE is mainly used in the manufacturing of plastic packaging used in the food and beverage sector.

HDPE is used for the production of industrial packaging such as intermediate bulk containers, plastic tanks and storage bins, plastic drums etc. PET is used for the packaging of different liquids such as soft drinks, lubricants, home and personal care products etc.
Figure 16: South Africa Plastics Trade Analysis

Source: Trademap LL/LDPE- Low Linear and Low Density Polyethylene HDPE: High Density Polyethylene PVC: Polyvinyl Chloride PP: Polypropylene PET: Polyethylene terephthalate

Figure 17: South Africa Plastics Trade Analysis (Continued)

Source: Trademap PVC: Polyvinyl Chloride PS: polystyrene PET: Polyethylene terephthalate n.e.s ~ not elsewhere specified
Just like the chemicals, SA plastics industry imports more than it exports and the imports-exports gap is increasing (see Figure 18 below). SA imports and exports plastics raw materials and finished products, however, exports in general have not been growing at a rapid pace compared to imports. A worrying concern is that SA’s export of raw materials has been increasing since 2004. This means SA is exporting jobs at the expense of the local plastics manufacturing.

Figure 18: SA Trade in Plastics

Source: DTI Trade Data

The biggest source of SA’s plastics imports are China, Germany, USA, Saudi Arabia, and Republic of Korea\(^{42}\). Figure 19 below illustrates the aggressive nature of China in penetrating the SA plastics industry. In 2000 China’s total plastics exports to SA was less than R500 million (and was fairly negligible in terms of total plastics imports in SA) but now it’s the biggest suppliers, exporting almost R3 billion worth of merchandise per year.

\(^{42}\) Also known as South Korea.
Figure 19: Top 15 Importing Countries (Plastics)

Source: DTI Trade Data

Figure 20: Top 15 Exporting Countries (Plastics)

Source: DTI Trade Data

Figure 20 above shows biggest buyers of SA’s plastics. The top five are Zambia, China, Zimbabwe, Brazil and DRC. The biggest growth markets are Zambia, Zimbabwe and Brazil. Zimbabwe’s import of SA plastics was hardly affected by the world recession (but by her own economic meltdown). Even at the height of
economic hardships, Zimbabwe still remained one of the biggest buyers of SA plastics. And now with her economy normalising, demand for SA plastics has been increasing. In summary, SA’s exports of plastics are mainly destined to the SADC region.

SA’s plastics exports to Nigeria and Mozambique has been on a sharp decline since 2008. Though the later shows some signs of picking up, the former is still on a decline. SA might have lost its plastics market in Nigeria to China (or other countries) or the country is pursuing import substitution strategies⁴³.

⁴³This might need further research on how to capture lost markets.
4 INDUSTRIAL ANALYSIS OF SA CHEMICALS AND PLASTICS SECTOR

4.1 Introduction
This chapter analyses the SA chemicals and plastics sector from an industrial development perspective, in greater detail. The main source of information is literature review and in-depth interviews key informants and industry stakeholders, associations and industry bodies.

Some of the key informants and interviews are the DTI sector specialists, sector skills development authorities (CHIETA for the chemicals and merSETA for the plastics manufacturing sector), private sector chemical sector industry analysts(Frost & Sullivan), Chemical and Allied Industries Association (CAIA), and Plastics SA among others.

4.2 Defining the SA Chemicals and Plastics Sector
The classification of the sector is based on 11 sub-sectors that were developed as part of a Customised Sector Programme (CSP) of the DTI. The CSP Business Unit comprises of programs for the development of priority sectors in support of the DTI’s Integrated Manufacturing Strategy and Government’s microeconomic reform strategy. These classifications are comparable with the international Standard Industrial Classification (SIC), as illustrated on the table below.

Table 4: Chemicals and Plastics Sector Classifications

<table>
<thead>
<tr>
<th>SIC</th>
<th>Sector</th>
<th>Sub-Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>33100</td>
<td>Coke Oven Products</td>
<td>Commodity Organics</td>
</tr>
<tr>
<td>33200</td>
<td>Petroleum &amp; Nuclear Fuels</td>
<td>Liquid Fuels</td>
</tr>
<tr>
<td>33400</td>
<td>Basic Chemicals</td>
<td>Commodity Organics, Primary Polymers &amp; Rubbers, Commodity Inorganics, Fine Chemicals, Pure Functional &amp; Specialities, Bulk Formulated Chemicals</td>
</tr>
<tr>
<td>33500</td>
<td>Other Chemicals</td>
<td>Commodity Organics, Pure Functional &amp; Specialities, Bulk Formulated Chemicals, Pharmaceuticals, Consumer Formulated</td>
</tr>
<tr>
<td>33700</td>
<td>Rubber Products</td>
<td>Rubber Products</td>
</tr>
<tr>
<td>33800</td>
<td>Plastic Products</td>
<td>Plastic Products</td>
</tr>
</tbody>
</table>

Source: Nedlac, 2005

44 NEDLAC, 2005 “Promotion of Small and Medium Enterprises in the South African Chemicals Sector”
Due to the capital intensive nature of most of the activities in the chemicals sector, SMMEs are excluded from participating in these markets. As an example, there is a low possibility of an SMME being able to operate in sub-sectors such as Petroleum & Nuclear Fuels, Basic Chemicals and Other commodities.

SMMEs conducting manufacturing in the chemicals and plastics sector are often mainly focused on the ‘Other Chemicals’ sub-sector (SIC 3350) which includes:
- 33510 Pesticides and Agrochemicals
- 33520 Paints, varnishes, coatings, printing ink and mastics
- 33530 Pharmaceuticals, medicinal chemicals and botanical products
- 33541 Soap and other cleaning chemicals
- 33542 Perfumes, cosmetics and other toilet preparations
- 33549 Other – polishes, waxes and dressings
- 33590 Not elsewhere classified (explosives being the major component)

### 4.3 Overall Chemical and Plastics Sector Value Chain

The main feedstocks for the production of chemicals in the South African chemical sector are crude oil, natural gas and coal. These feedstocks make up the basic building blocks of chemical and plastic products. The building blocks are classified into organic and inorganic based on their chemical structure. Different product formulation processes occur and different outputs are realised based on the particular stage of production. A depiction of the overall chemicals and plastics sector value chain is shown below.
Generally, the more upstream processes are of high capital intensity and require adequate process optimisation. As one goes further down the value chain the capital intensity decreases and labour intensity increases.

Commodity organics are pure, relatively low-cost organic type chemicals. Products generally referred to as petrochemicals also form part of this category. These chemicals are used as raw materials in other chemical products as well as for direct uses in end products. Rubber products include all polymer and rubber products in primary forms for use by polymer and rubber converters.

Commodity inorganics are pure, relatively low-cost inorganic type chemicals. These chemicals are used as raw materials in other chemical products such as fertilisers and explosives, as well as for direct uses in end products. Fine chemicals are relatively high value pure chemicals that are typically used as active ingredients in formulated products such as pharmaceuticals and agricultural chemicals.
4.4 SA Chemicals and Plastics Sector Industry

4.4.1 Downstream chemicals and plastics sector

The operations in the downstream sector are in most cases labour intensive and generally consist of formulation production processes as well plastic and rubber conversion processes. Pure functional chemicals could also have synthesis reactions, but these are on a smaller scale than in the upstream sub-sectors. The sub-sectors that form part of the downstream chemical sector include pure functional and formulated speciality chemicals, bulk formulated chemicals, pharmaceuticals, consumer formulated chemicals, as well as plastic and rubber products (DoL Report, 2005).

The majority of operations in the downstream chemical sector can be regarded as smaller or medium sized, and it can therefore be regarded as making a significant contribution to SMMEs. Chemical incubators support new operations in the downstream chemical sector.

Table 5: Downstream Chemicals Sector Analysis

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Product Examples</th>
<th>Major South African Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure functional and formulated speciality chemicals</td>
<td>adhesives and sealants, agricultural chemicals, flavours, industrial cleaning chemicals, inks, lacquer thinners, metal treatment chemicals, paints and coatings, pulp and paper chemicals, textile chemicals, water treatment chemicals</td>
<td>Chemical Services, Dulux, Plascon, Chyrso, Plaaskem, Sygenta, Dow Agrociences, Henkel, Sika, Stoncor, Buckman, Zetachem, Improchem, SA Paper Chemicals, Prominent Paints, Promac Paints, Crest Chemicals, Eagle Inks, Coates, Actichem, Symrise, McCormick SA, Ecolab, Johnson Diversey, Sud Chemie</td>
</tr>
<tr>
<td>Bulk formulated chemicals</td>
<td>explosives, fertilisers</td>
<td>AEL, Omnia, Sasol Nitro and Somchem, Foskor</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>formulated pharmaceuticals and other medicinal products</td>
<td>Adcock Ingram and Aspen Pharmacare, Aventis, Be-Tabs, Cosi Pharmaceuticals, Enaleni Pharmaceuticals, Glaxo Smithkline, Johnson &amp; Johnson</td>
</tr>
<tr>
<td>Consumer formulated chemicals</td>
<td>soaps, household and cleaning products, cosmetics, toiletries</td>
<td>Unilever, Chet Chemicals and Colgate Palmolive, Bliss Chemicals, Classiclean, Cosi Consumer, Polagric, Reckitt Benckiser, Salt Sales Agencies, SC Johnson Wax, Johnson &amp; Johnson, Justine-Avon L’Oreal, National Brands, Revlon SA</td>
</tr>
<tr>
<td>Plastic and rubber</td>
<td>packaging materials, wire and</td>
<td>Aberdare SA PVC, African Cables,</td>
</tr>
</tbody>
</table>
products  | cable casings, pipes, film and sheeting, appliances, construction materials, footwear, automotive products | Alnet, Alplas, Ampaglass, Astrapak, Clipsal, Consol Plastics, DPI Plastics, Hosaf Fibres, Nampak, Vitafoam, Petpak, Megapak, National Urethanes

Source: Chemical Sector- DoL Report

4.4.2 Upstream chemicals and plastics sector

Operations in this sector are mainly capital intensive and there is need for large scale operations which are efficient. The structure of the upstream chemicals sector generally does not cater for operation of SMMEs, except in the case of products associated with the subsectors. Examples include lubricants and biofuels in the liquid fuels subsector and essential oils in the fine chemicals subsector.

Table 6: Upstream Chemicals Sector Analysis

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Product Examples</th>
<th>Major South African Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid fuels</td>
<td>Diesel, petrol, jetfuel, paraffin, liquified petroleum gas</td>
<td>Chevron (Caltex), Engen refinery (Enref), Natref (Sasol JV with Total SA), Sapref (Shell and BP), PetroSA, Sasol Synfuels</td>
</tr>
<tr>
<td>Commodity organics</td>
<td>Ethylene, aromatic chemicals (benzene, toluene, xylene), ethanol, solvents, waxes, phenols</td>
<td>Sasol, Chemserve, Industrial Oleochemicals, Senmin, Enref, Shell Chemicals</td>
</tr>
<tr>
<td>Primary polymers and rubbers</td>
<td>Polyvinyl chloride (PVC), polyethylene terephthalate (PET), polyethylenes, styrene butadiene rubber and latex</td>
<td>Sasol Polymers, Safripol, Bayer, Karbochem, Hosaf Fibres, SANS Fibres</td>
</tr>
<tr>
<td>Commodity inorganics</td>
<td>Ammonia, aluminium sulphate, caustic soda, hydrochloric acid, industrial gases (i.e. argon, hydrogen, oxygen, nitrogen), titanium dioxide</td>
<td>Omnia, Sasol, AECI, Foskor, NCP Chlorchem, AEL, Afrox, Air Products, PetroSA, Zetachem, Huntsman Tioxide, Chemical Initiatives</td>
</tr>
<tr>
<td>Fine chemicals</td>
<td>Pharmaceutical active ingredients, pesticide actives, flavour chemicals</td>
<td>Fine Chemical Corporation, Dow Agrosciences, Illovo Sugar</td>
</tr>
</tbody>
</table>

Source: Chemical Sector- DoL Report

Chemical Sector- DoL Report

Chemical Sector- Department of Labour (DoL) Report
### 4.4.3 Sub-sector analysis

#### 7.4.3.1. Consumer chemicals

Oil refineries produce olefins using fluid catalytic cracking of petroleum fractions. Chemical plants produce olefins by steam cracking of natural gas liquids like ethane and propane. Aromatics are obtained from the catalytic reforming of naphta.

*Figure 22: Chemicals Sector- Expanded Value Chain Analysis*

![Expanded Value Chain Analysis Diagram](image)

- **Ethylene**
- **Propylene**
- **Butadiene**
- **Benzene**
- **Toluene**
- **Xylene**

- Olefins: used for making synthetic rubber, dyes, and synthetic fibres.
- Aromatics: isocyanates such as TDI & MDI, plastics, and synthetic fibres.

*Source: Own illustration*

*TDI- toluene di-isocyanate  MDI- methylene diphenyl di-isocyanate*

Olefins are the building blocks for polymers and oligomers which are used in manufacturing of products such as plastics, resins, elastomers and lubricants.

Aromatics are used in the manufacturing of a wide range of products such as solvents, adhesives and detergents. Globally there is a movement away from usage of solvents which contain benzene, toluene and xylene (BTX isomers) due to the carcinogenic nature of the chemicals.
Table 7: Major Role Players in the SA Chemicals Sector

<table>
<thead>
<tr>
<th>Large market participants (in no particular order)</th>
<th>Chemical Formulators</th>
<th>Names of associations</th>
<th>Names of incubators for chemicals and plastics industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SASOL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Sasol group of companies constitutes businesses which were established organically. These companies operate across the chemicals, energy, liquid fuels and gas industries.</td>
<td>Dow Chemicals, BASF, Bayer, Lanxess, Huntsman, Plascon, Dulux Paints, Prominent Paints, Orkhila, AkuluMarchon, IMCD, Carst &amp; Walker, Momar Group</td>
<td>ACDASA, Agricultural Chemical Distribution, Association of South Africa</td>
<td>Chemin- principal agent in establishing small and micro enterprises in the downstream chemical manufacturing sector in South Africa</td>
</tr>
<tr>
<td>i) Chemicals- Sasol Olefins and Surfactants, Sasol Polymers, Sasol Solvents, Sasol Nitro (ammonia, fertilizers and mining explosives), Sasol Wax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Fuels &amp; Oils- products such as automotive &amp; industrial lubricants, greases, fuel oils and automotive fuels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. OMNIA HOLDINGS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Omnia Group comprises a balanced and diversified range of complementary chemical services businesses.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Comprises Mining- BME Mining Explosives and Protea Mining Chemicals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Agriculture- Omnia Fertilisers &amp; Omnia Specialities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Chemicals- Protea Chemicals divisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. AECI GROUP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This group comprises many different companies which were mainly acquired and became part of the group. The companies operate autonomously and in some instances compete in the same markets i.e. AkuluMarchon and Crest Chemicals are both distributors in the South African chemicals market.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Mining Services- AEL Mining Explosives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Specialty fibres- SANS Fibres</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Some of the companies already appear as subsidiaries of the 3 large South African chemical groups.
7.4.3.2. **Plastics sector**

The upstream plastics sector is focused on conversion of chemicals into various polymers and plastic resins. South Africa’s dominant polymer producer is Sasol which produces chemicals using coal to liquid (CTL) and gas to liquid (GTL) technologies. Protea Polymers (part of Omnia Group) is another major participant in the polymer industry. Plastic convertors produce products which are used in a variety of end-user markets such as packaging, automotive and construction industries. Packaging is the main plastic end user market and consumes approximately 50% of polymers.49

![Figure 23: Plastics Sector- Expanded Value Chain](source: Own illustration)

**Table 8: Major Role Players in the SA Plastics Sector**

<table>
<thead>
<tr>
<th>Base Chemicals</th>
<th>Polymer Convertors</th>
<th>Names of associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Sasol</td>
<td>i. Nampak, Transpaco, Polypak and Astrapak process nearly 80% of the polymers in the market</td>
<td>i. SAPPMA- Southern African Plastic Pipes Manufacturers</td>
</tr>
<tr>
<td>ii. Omnia</td>
<td>ii. HOSAF- Producer of bottle grade Polyethylene Terephthalate (PET) in South Africa is HOSAF with 120 000 tons per annum capacity of which 70% is used in the manufacture of beverage bottles</td>
<td>ii. PETCO- Polyethylene Terephthalate (PET) plastic recycling</td>
</tr>
<tr>
<td>iii. AECI Group</td>
<td>iii. Major Polyolefin convertors: Astrapak, Bowler Plastics, Huhtamaki, M pact, MCG Industries, Nampak and Polyoak</td>
<td>iii. POLYCO- Polyolefin Plastic Recycling Company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>iv. SAVA- Southern African Vinlys Association</td>
</tr>
</tbody>
</table>

**Source: Own illustration**

49 NEDLAC Plastics Sectoral Study [http://www.nedlac.org.za/media/6695/sectoralstudy-plastic01.pdf](http://www.nedlac.org.za/media/6695/sectoralstudy-plastic01.pdf)
4.5 **Chemicals and Plastics Industry SWOT Analysis**

The analysis of the SA chemicals and plastics sector concludes with an industry Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. The examination of the SA is conducted in the table below.

Table 9 SWOT Analysis of the South African Chemicals Sector

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
</table>
| - Well established chemicals sector serving large number of end user markets  
- Presence of global multinationals encourages technology transfers  
- Rise in demand of products of chemical sector end-user markets (packaging, automotive and building & construction) | - Reliance on imported feedstock  
- Volatility of the local currency along with fluctuations in the prices of feedstock  
- Lack of adequate linkages with other industries in the Sub-Saharan African region |

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
</table>
| - Growing population, rising incomes and Africa’s youthful population expected to contribute to high demand  
- Substitution of traditional materials such as steel, wood etc with new materials such as plastics  
- Government’s infrastructure development plan expected to stimulate growth in demand for products of chemicals end user markets i.e. increased demand for PVC in construction sector | - Increasing imports less expensive chemicals and plastics from Asia is resulting in declining demand for locally manufactured products  
- Competition from alternative materials as new technologies are developed existing materials are being replaced  
- South Africa losing its appeal as a gateway into Africa with Kenya, Nigeria and Egypt serving as ports of entry into the Eastern, Northern and Western regions (respectively) |

*Source: UCS analysis*

Strengths denote factors which give the sector an advantage relative to other sectors. Weaknesses/limitations are characteristics which place companies in the sector at an operational disadvantage. Opportunities refer to external elements which are expected to present growth impetus for the sector. Threats are factors which have potential to hinder growth and potentially reduce the benefits which companies in the sector can obtain.
5 SMME DEVELOPMENT AND ANALYSIS

5.1 Definition of SMME: International Overview

While the importance of the SMME sector and the informal sector is acknowledged internationally, defining an SMME is a challenging task, as every country has its own definition. There is no single, uniformly accepted definition of a small firm (Storey, 1994). Firms differ in their levels of capitalisation, sales and employment. Hence, definitions which employ measures of size (e.g. number of employees, turnover, profitability and net worth) when applied to one sector might lead to all firms being classified as small, while the same size definition when applied to a different sector might lead to a different result.

According to UNIDO\(^{50}\), the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of the classification. For the purposes of policy development, UNIDO generally advises countries to take into account the quantitative and qualitative indicators for SME definition. The following table summarises the main qualitative indicators that may be used in order to differentiate between SMEs and large companies.

Table 10: Application for Qualitative Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>SMEs</th>
<th>Large Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>• Proprietor entrepreneurship</td>
<td>• Manager-entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>• Functions-linked personality</td>
<td>• Division of labour by subject matters</td>
</tr>
<tr>
<td>Personnel</td>
<td>• Lack of university graduates</td>
<td>• Dominance of university graduates</td>
</tr>
<tr>
<td></td>
<td>• All-round knowledge</td>
<td>• Specialisation</td>
</tr>
<tr>
<td>Organisation Sales</td>
<td>• Highly personalized contacts</td>
<td>• Highly formalised communication</td>
</tr>
<tr>
<td>Buyer's relationships</td>
<td>• Competitive position not defined and</td>
<td>• Strong competitive position</td>
</tr>
<tr>
<td>Production</td>
<td>uncertain</td>
<td>• Based on long-term contracts</td>
</tr>
<tr>
<td>Research development</td>
<td>• Unstable</td>
<td>• Capital intensive, economies of scale</td>
</tr>
<tr>
<td></td>
<td>• Labour intensive</td>
<td>• Institutionalised</td>
</tr>
<tr>
<td></td>
<td>• Following the market, intuitive approach</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>• Role of family funds, self financing</td>
<td>• Diversified ownership structure, access to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>anonymous capital market</td>
</tr>
</tbody>
</table>

Source: UNIDO\(^{51}\)

\(^{50}\)http://www.abj.org.jo/AOB_Images/633547381649218750.pdf

The following table gives a synopsis of different SMME definitions by regions.

Table 11: Synopsis of SME Definitions by Region

<table>
<thead>
<tr>
<th>Words</th>
<th>EU</th>
<th>USA</th>
<th>ASIA (Mysia)</th>
<th>EGYPT</th>
<th>GHANA</th>
<th>BRAZIL</th>
<th>RUSSIA</th>
<th>NDIA</th>
<th>CHINA</th>
<th>RSA</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>0</td>
<td>&lt; 5</td>
<td>1 to 4</td>
<td>up to 5</td>
<td>Up to 19</td>
<td>Up to 09</td>
<td>0</td>
<td>0</td>
<td>&lt; 20</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt; 100</td>
<td>5 to 50</td>
<td>5 to 14</td>
<td>6 to 29</td>
<td>20 to 99</td>
<td>10 to 49</td>
<td>15 to 100</td>
<td>0</td>
<td>&lt; 300</td>
</tr>
<tr>
<td>Medium</td>
<td>&lt; 250</td>
<td>&lt; 500</td>
<td>51 to 150</td>
<td>15 to 49</td>
<td>30 to 99</td>
<td>100 to 499</td>
<td>50 to 99</td>
<td>101 to 250</td>
<td>0</td>
<td>300 to 2000</td>
</tr>
<tr>
<td>Turnerover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>$3m</td>
<td>0</td>
<td>RM 250,000</td>
<td>0</td>
<td>$10k</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>&lt; Rs50m</td>
</tr>
<tr>
<td>Small</td>
<td>$13m</td>
<td>0</td>
<td>RM 250,000</td>
<td>0</td>
<td>$100k</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>400 m RUB max</td>
<td>Rs50-80m</td>
</tr>
<tr>
<td>Medium</td>
<td>$87m</td>
<td>0</td>
<td>RM 10 m to</td>
<td>RM 25</td>
<td>0</td>
<td>$1 million</td>
<td>0</td>
<td>0</td>
<td>1 B RUB max</td>
<td>Rs60-99m</td>
</tr>
</tbody>
</table>

Source: Author’s compilation from various sources

5.2 Defining an SME in South Africa

5.2.1 The “official” definition

Like other countries, the issue of what constitutes a small or medium enterprise is a major concern in SA. Various authors have usually given different definitions to this category of business. “A common definition of SMEs includes registered businesses with less than 250 employees” (IFC, 2009: 9). In practice, SMEs are defined in a number of different ways, generally with reference either to the number of employees or to turnover bands (or a combination of both, as in the National Small Business Act 1996, which also allows for variations according to industry sector). The definition of SMEs by size is necessary, but it is not sufficient for an understanding of a sector where the realities are not only complex, but also dynamic.

In SA, a ‘small business’ is official defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as:

“… a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its
branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule.\(^{53}\)"

The NSB Act further categories small businesses in SA into distinct groups, namely: survivalist, micro, very small, small and medium, hence the use of the term “SMME” for small, medium and micro-enterprises. However, the terms ‘SMME’ and ‘SME’ are used interchangeably in SA. The SME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories, the gross assets excluding fixed property; as summarized in Table 12 below.

**Table 12: Broad Definitions of SMMEs in the National Small Business Act**

<table>
<thead>
<tr>
<th>Enterprise Size</th>
<th>Number of Employees</th>
<th>Annual Turnover (ZAR)</th>
<th>Gross Assets, Excluding Fixed Property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium</strong></td>
<td>Fewer than 100 to 200, depending on Industry</td>
<td>Less than R4 million to R50 m depending upon Industry</td>
<td>Less than R2 m to R18 m depending on Industry</td>
</tr>
<tr>
<td><strong>Small</strong></td>
<td>Fewer than 50</td>
<td>Less than R2m to R25 m depending on Industry</td>
<td>Less than R2m to R4.5 m depending on Industry</td>
</tr>
<tr>
<td><strong>Very Small</strong></td>
<td>Fewer than 10 to 20, depending on Industry</td>
<td>Less than R200 000 to R500 000 depending on Industry</td>
<td>Less than R150 000 to R500 000 depending on Industry</td>
</tr>
<tr>
<td><strong>Micro</strong></td>
<td>Fewer than 5</td>
<td>Less than R150 000</td>
<td>Less than R100 000</td>
</tr>
</tbody>
</table>

*Source:* Falkena et al., (2001)

ii. **Survivalist enterprise:** The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.

iii. **Micro-enterprise:** The turnover is less than the value added tax (VAT) registration limit (that is, R150,000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops, minibus taxis and household industries. They employ no more than 5 people.

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\(^{53}\) See Annexure F.
iv. **Very small enterprise:** These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.

v. **Small enterprise:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

vi. **Medium enterprise:** The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

5.2.2 **A common understanding of SMMEs?**

Compared to developed-country standards, SA thresholds are low. Many businesses which Americans or Europeans regard as SMMEs would be regarded as large enterprises in South Africa. Moreover, the fact that the NSB Act distinguishes between enterprises in the different economic sectors and further uses different thresholds for the different sectors is an acknowledgement that what is considered “small” in the different economic sectors will vary depending on the nature of the activity undertaken.

Despite the categorisations having been stipulated in the Act, these categories are not used consistently by state agencies or by private sector data-bases and research studies, making comparisons difficult and unreliable. Moreover, the qualification in the DTI’s Annual Review of Small Business in South Africa 2005 – 2007 (2008: 4) that the “report will embrace as comprehensive a definition of small businesses as possible, provided that the economic activity remains below the thresholds for a large enterprise” is indicative of the fact that there is no common understanding and/or definition.

The DTI report goes on to state that “the terms ‘small business’ and ‘SMME’ are used as synonyms, whereas the term ‘enterprise’ refers specifically to entities (especially close corporations, cooperatives and companies) registered with CIPRO” (DTI, 2008: 4) emphasising the fact that there are different concepts of businesses. For statistical purposes, it would make a great deal of sense for the various data-gathering bodies in the public and private sectors to arrive at, and use, agreed categories covering the SME sector (SBP, 2000b).

---

54 Now CIPC.
5.3 Profile of SME in the Chemicals and Plastics Sector

5.3.1 Introduction

The chemicals and plastics sector falls under the broader manufacturing sector. According to the DTI classification (see Annexure B), SMEs have between 0-200 full-time employees, up to R51 million total annual turnover and up to R19 million total gross asset value. The easiest, reliable and most popular small business categorisation is number of full-time employees, as the businesses tend to be secretive with their financial information.

Figure 24: How many employees do you currently have?

Source: UCS SME Survey (2012)

Though this study used both number of full-time employees and annual turnover, around 41% of the SME respondents refused to indicate the magnitude of their annual turnover.

5.3.2 Profile of SMEs in the Plastics and Chemicals sector

A total of 130 SMEs across all provinces of SA successfully completed the survey questionnaire. 53.5% of these SMEs were from Gauteng and 14% apiece were from Western Cape and KZN. Around 1% of the
respondent SMEs indicated that they were from Northern Cape. 98% of the respondent SMEs were non-Seda’s clients.

Ninety seven percent of the sampled SMEs had registered businesses. Which means 3% we operating informally. Of the registered businesses, 55% were closed corporations (CCs), 42% private companies (PTYs), 3% sole proprietors and 1% co-operatives.

In terms of sectoral classification; 53% in the chemicals sector, 46% in plastics and 2% in both. Their types of business activities were varied. As shown on Figure 25 below, 22% of the respondents indicated that they were involved in chemicals formulation, 22% in plastics conversion, 27% in manufacturing of chemicals and plastics, 36% in marketing and distribution, while 7% were in other related businesses.

**Figure 25: Type of Business Activity**

![Type of Business Activity](source: UCS SME Survey (2012))

The majority of the plastics SME respondents were in the manufacturing of pipes (PVCs), packaging, sheathing, bottles, and other industrial and construction products. On the other hand, the chemicals sector was dominated by SMEs in the production of essential oils, perfumes, cosmetics, toiletries, soaps, lubricants, waxes, candles, fertilizers, pesticides and agrochemicals.
More than 4 in 10 of the SMEs indicated that they had been in business for more than 11 years. SMEs in the plastics sector were more likely to stay in the business longer as 51% indicated that they had been in business for more than 11 years compared to 42% of their chemicals sector counterparts.

**Figure 26: How long has the business been in operation?**

Source: UCS SME Survey (2012)

The SMEs survey revealed that main source of business experience for entrepreneurs in the chemicals and plastics sector is previous job. 60% of the total sample said they got their experience from previous job, 34% learnt how to run the business on their own, 26% went to university and other tertiary programmes while 6% indicated that they learnt business skills from family members. Only 4% had learnt their trade from a business incubation programme.

Generally, the respondent SMEs were happy with the performance of their business in last financial year. More than half (57%) indicated that their business grew last year compared to 15% who indicated that the business shrunk. 49% had a positive and optimistic assessment current and immediate future of their business, as they indicated that their businesses were doing well. As seen on Figure 27 below, 11% indicated that their
businesses were doing ‘very well’. The majority (16%) of the SMEs who said their businesses were doing ‘very well’ were in the plastics sector.

**Figure 27: Current State of Business**

![Figure 27: Current State of Business](image)

*Source: UCS SME Survey (2012)*

Despite the positive outlook, of particular concern are the categories which indicated that their businesses were ‘in trouble but surviving’ and ‘struggling’. 29% of the SMEs in the plastics sector indicated that their businesses were ‘in trouble but surviving’ while 13% of those in the chemicals sector said they were ‘struggling’. Overall, taking out the 49% plus 11% who indicated that they were doing well, it could be concluded that 40% of the SMEs in the chemicals and plastics sector might need some form of assistance.

### 5.3.3 SME challenges to business growth

#### 5.3.3.1 Electricity and Water

The SMEs were asked to rank their single biggest obstacle to business growth, and the results are illustrated below. The majority of SMEs (33%) complained of electricity and water. 51% of these SMMEs were in the plastics sector. It was strongly noted that the cost of electricity was too high for the SMMEs. Furthermore, most SMEs were not getting electricity from Eskom directly but from local municipalities. Since plastics conversion consumes high volumes of electricity any percentage increase in the price of electricity will have a...
bigger negative impact in the businesses’ bottom line. The National Energy Regulator of South Africa (NERSA) has already approved ESKOM’s annual average price increase of 16% and tariff rates for 2012/13 on 9 March 2013\(^5\). This is expected to have a greater impact on manufacturing of plastics in SA, especially the SME sector.

**Figure 28: The Single Biggest Obstacle to Business Growth (Chemical and Plastics Sector)**

![Bar chart showing the single biggest obstacles to business growth in the chemical and plastics sector.](chart.png)

**Source:** UCS SME Survey (2012)

5.3.3.2. Marketing and sales

The second ranked single biggest obstacle was marketing and sales. SMEs mentioned the strong completion from Asian countries, especially China. This confirms the secondary research results which show a huge influx of Chinese imports into SA. The sector which is most vulnerable, according to the survey results, is the chemicals sector. Possible because the sector is dominated by international brands, and the biggest international brands have now moved their manufacturing plants to China. Some of the possible remedies suggested in this study include (i) escalation of the buying local campaigns, (ii) tariffs and non-tariffs especially on finished products, (iii) exports promotion drive especially in SADC, BRICS and other African countries, and (iv) business support programmes with a marketing and sales focus.

5.3.3.3. Access to finance

The third ranked single biggest obstacle was access to finance. This was followed by an almost similar comment, cost of finance. It is important to note that access to finance was not ranked as the number one biggest obstacle. This surprise finding was confirmed in the 2011 GEM report released by the University of Cape Town’s Graduate School of Business, which found that a key challenge to small business development is not a lack of available finance, but rather the knowledge on where and especially how to access it\(^{56}\). Furthermore, a recent snap survey by enterprise development specialists Fetola (2012) showed that 93% of SMEs businesses were uncertain about where and how to access finance. “It seems that in South Africa at least, there is not so much a problem of insufficient finance for business, but rather the inability to get one’s hands on it.”\(^{57}\)

Sourcing of capital is however very important at business start-up phase. As shown on Figure 29 below, more than 60% of both chemicals and plastics SMEs indicated that the biggest challenge they faced at start-up was sourcing capital. This is an international trend, as most funders tend to be hesitant in funding green field projects. Some of the start-up challenges included unhelpful banks, high electricity costs, and identification of potential clients or markets.

Figure 29: What problems did you face in starting your business?

![Figure 29: What problems did you face in starting your business?](source.png)

Source: UCS SME Survey (2012)

Though not very prominent, compliance issues were identified as the biggest barrier to entry and hindrance to market penetration. Most chemical products have to be tested and certified by SABS. Most SMEs and key

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\(^{56}\) GEM Report (2011)

informants indicated that testing takes too long and the cost was exorbitant. It was also mentioned that most buyers wants to buy products which not only SABS approved but also of certain quality standards (mostly ISO standards). Thus without these, it would be difficult to penetrate certain markets.

The other challenges include access to suitable business premises, sourcing of raw materials (sometimes around 80% of the raw materials is imported), compliance with government and municipal regulations, transport and distribution, and scarcity of skills among others.

According to some of the key informants (Industry experts, Associations etc) we interviewed the main challenges faced by SMEs in this sector include lack of skills, competition from large companies, competition from imported finished products and the high cost nature of the sector.

From the Buyers perspective on of the major procurement challenges they face when they deal with SMEs include: stock availability (as they need to buy in bulk), quality of products and pricing. The view from some buyers was that SMEs at times do not have the stock they require and therefore they would prefer to deal with larger corporations. Some buyers were of the view that the pricing from SMEs is not competitive and their products are not up to the desired quality. The major considerations prior to procuring a product is quality, pricing, SABS approval and availability of product.

The buyers also cited the following advantages to dealing with large companies as opposed to SMEs:

- Prices are more competitive
- Favourable payment methods e.g. 30 day payment period
- Stock availability. Larger companies are perceived as more reliable
- Better service delivered / Better administration

5.3.4 Marketing and sales

During in-depth interviews with SMMEs, buyers, and key informants it highlighted that though it is difficult for SMEs to get credit or to buy raw materials on credit, industry practise was that they would sell their products on credit. It was indicated that some big buyers, especially large retail shops has a 90 day payment option.

Asked whether they offer credit to customers, only 24% said they were not offering credit. 12% said selling on credit was industry practice while 5% said its bigger customers who insist on buying on credit. Those who supply to government institutions also complained that some local municipalities do not comply with a 30 day
payment as indicated by National Treasury. This has a big bearing on SME cashflows. From the buyers perspective the insistence of cash sales was considered a procurement challenge when dealing with SMEs.

**Figure 30: Do you offer credit to your customers?**

![Credit Offer Chart]

*Source: UCS SME Survey (2012)*

Most chemical and plastics SMEs were not active on the government tender system. 73% of all the SMEs interviewed said they had not submitted a government tender in the last 12 months. Reasons for non-submission varied from not knowing about tenders (35%), government not being their target market (14%), too much corruption (13%), not having capacity to do tender proposals (10%) to not being BEE compliant (5%).

Of the 27% who indicated that they had submitted tenders, 64% had been successful. SMEs in the chemicals sector were more active in the tender market as compared to their plastics counterparts. 72% of the chemicals sector SMEs who tendered succeeded compared to 53% of the plastics SMEs.

Respondents SMEs were asked to list their major clients. As shown on the diagram below, the majority of the SMEs interviewed were selling their products to other small businesses and community members. Some of the main benefits of selling to this clientele, from the SME perspective, are that (i) these clients are local hence
low distribution costs; (ii) they buy on cash basis thus improving the SME cashflow, and (iii) no stringent requirement on SABS approval or quality standards. The biggest disadvantage is that the orders are very small hence there is very little scope for business expansion.

**Figure 31: Who are your major clients?**

![Bar chart showing major clients by sector](chart.png)

*Source: UCS SME Survey (2012)*

The bigger buyers were identified as wholesale and retailers; government institutions; large corporates in the construction, agriculture car manufacturing, and other chemicals and plastics manufacturers.

There is definitely a need to improve the marketing and sales strategies of the SMEs in the chemicals and plastics sector. The majority (53%) of the respondents indicated that their main marketing and sales strategy was ‘word of mouth’. Though this can be a powerful tool of marketing in community set up, it might not be enough for a 21st century business, which want to expand. It was encouraging to note that more that 41% used websites, internet and emails for brand visibility.
Figure 32: How do you advertise your company and products?

Source: UCS SME Survey (2012)

The majority (43%) of the SMEs interviewed did not belong to a business association or council.

Figure 33: Which association/group do you belong?

Source: UCS SME Survey (2012)
Both international and local studies have shown that individually, SMEs are weak in almost all aspects – financial capacity, technology, marketing capability, information access and assessment, management expertise, among others. It is, therefore, difficult for them to survive, let alone compete, in a globalized market.

Chambers of commerce and industry and other business associations are important channels for delivering services that governments can provide to SMEs. By being members of chambers/business associations, SMEs are able to collectively address and overcome, common problems and obstacles that prevent their growth and development. Chambers, whose membership invariably consists of largely SMEs and a spread of all business sectors, can: (a) serve as an effective platform for small businessmen to exchange experiences and help each other, (b) provide business development services to its members, (c) present a united voice to the government on policy issues affecting the SMEs, and (d) promote partnerships among members as well as between the government and the private sector. The chambers/business associations will also have better leverage to develop linkages between large and small businesses and with R&D institutional facilities for technological development 58.

The government can encourage and promote the establishment of chambers/ business associations and enhance their role in the economy by considering the following measures, among others:

(f) adopt a law that formally acknowledges the important role of chambers/ business associations in the economy;

(g) simplify the administrative procedure in the licensing of chambers/ business associations; 

(h) minimize or eliminate the taxes imposed on chambers/business associations and their activities;

(i) assign specific functions to chambers/business associations; and

(j) Provide a forum for regular consultation and dialogue between chambers/business associations and the government.

6 ACCESS TO CREDIT AND SUPPORT FOR SMMES

6.1 SA Policy and Institutional Framework

For the past fifteen years, the South African Government has invested in a plethora of initiatives aimed at supporting and growing the SME sector. South Africa’s small business policy was principally informed by the 1995 “White Paper on national strategy on the development and promotion of small business in South Africa” (Timms, 2011: 20). The 1995 White Paper outlined, among other things, the need for the Government to create an enabling legal framework, facilitate access to information and advice, boost procurement from small firms and to improve access to finance and affordable physical infrastructure.

On the policy front, the NSB Act was passed in 1996, and stipulations pertaining to the sector were built into the Broad Based Black Economic Empowerment (BBBEE) Codes of Good Practice (SBP, 2009a). The objectives of the 1995 White Paper now finds practical expression in the Integrated Small Business Development Strategy for 2005 to 2014. The strategy is based on three pillars:

- Increasing the supply of financial and non-financial support;
- Creating demand for SMME products/services; and
- Reducing regulatory constraints.

Support programs targeted at SMMEs are broadly categorized into three groups; access to finance, market access and business support. Access to finance deals with the facilitation for SMMEs to obtain funding required for the setting up of operations. As noted by the DTI, “there are a wide range of support schemes that target small business owners in the areas of research and development, business and marketing support, exports and support for setting up manufacturing, tourism and co-operatives. Most of the support is in the form of incentive schemes which pay out matching grants to business owners, with either half or a large percentage of the project costs being funded by the applicants themselves” (DTI, 2010).

6.1.1 Major public sector support system and institutional framework

The Government’s main agencies and funds are distributed across mainly five different departments: (1) the Department of Trade and Industry (the dti); (2) the Department of Economic Development (DED); (3) the Department of Science and Technology (DST); (4) the Presidency; and (5) the Department of Agriculture.\(^{59}\)

\(^{59}\) See Annexure D for a brief description of the provincial institutions.
6.1.1.1. Department of Trade and Industry (the dti) - www.thedti.gov.za

Small business falls under the Minister of Trade and Industry and specifically under two of the Department’s units; the Enterprise Organisation and the Empowerment and Enterprise Development Division. The department has various entities under it, namely:

i) Small Enterprise Development Agency (Seda) - www.Seda.org.za

Seda is an agency of the South African Department of Trade and Industry (DTI). Seda was established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004.61 “Seda was established in December 2004 as an agency under the Department of Trade and Industry, the dti. The establishment was done by merging three organisations; Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP). The GODISA Trust and the Technology Programmes were integrated into Seda in April 2006, becoming Seda Technology Programme (STP).”62 Seda provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support sphere. The Technology Transfer Unit (TTU) of the STP offers financial assistance in the form of a non-repayable grant up to a maximum of R600 000 per project.

Seda is mandated to implement government’s small business strategy which includes designing and implementation of a standard and common national delivery network for small enterprise development. Seda helps in integrating government-funded small enterprise support agencies across all tiers of government.62

ii) National Empowerment Fund (NEF) – www.nefcorp.co.za

Set up in 1998 and operational in 2004, the NEF aims to fund black-owned and empower (both big and small) businesses. Between 2003 and March 31 2010, the fund made 208 disbursements of over R1.5 billion. Of these, 156 worth R457 million went to small black-owned businesses or franchisees (through the Imbewu Fund).

iii) National Small Business Advisory Council (NSBAC)

The National Small Business Advisory Council (NSBAC)63, launched in 2006, falls under the dti and reports to the minister of Trade and Industry. The council has eight members and serves to advise the Minister on ways to boost support to small businesses. The first council collapsed after two years in 1998 amid allegations of mismanagement.

6.1.1.2. Small Enterprise Funding Agency (SEFA)

SEFA is a wholly owned entity of the Industrial Development Corporation (IDC)\(^{64}\). The entity was launched in April 2012 with a focus on small scale manufacturing, agro processing, services in infrastructure development, mining services, the green economy and tourism. SEFA was formed from a merger of three public organisations, Khula Enterprises\(^{66}\), the SA Microfinance Apex Fund and the IDC’s Small Business Levy Book.

Just like its predecessor Khula, SEFA’s primary aim is to bridge the “funding gap” in the SME market not addressed by commercial financial institutions. Its lending comprises of four (4) components;

a) Funding for retail financial institutions (RFI);

b) Credit guarantee scheme;

c) Equity capital; and

d) Gearing capital for public and private sector funds targeting small enterprises in specific sectors.


The NYDA is a public entity which is owned and funded by government. It is responsible for initiating, facilitating, implementation, coordination and monitoring of youth development interventions aimed at reducing youth unemployment and promoting social cohesion.\(^{67}\) NYDA was formed as a result of a merger between Umsobomvu Youth Fund and the National Youth Commission. “This merger was aimed at creating a single, consolidated structure that is responsible for all aspects of youth development.”\(^{68}\)

NYDA provides funding for SMEs, loans, business consulting services and mentorship to youth involved in different enterprises. Location of the agency in different regions of the country enables easier access to the support programs offered by the agency. The agency disbursed 7,500 micro loans to value of R23 million and a further R4 million in loans in the 2009/10 financial year.

6.1.1.4. Industrial Development Corporation (IDC) - www.idc.co.za

The Government’s development finance institution was set up in 1940, and the funding of small businesses forms a large part of its mandate. The IDC falls under the Department of Economic Development. The IDC financed 159 small enterprises to the tune of R2.13 billion (from a total of R10.9 billion) in 2008/2009. This

\(^{65}\)http://www.khula.org.za/Content/Docs/SEFA_Fact_Sheet.docx
compares to 94 dispersals the year before, valued at R933 million (out of a total of R8.4 billion). One hundred and forty two of the net approvals during 2010 (67% of the total number of approvals) were for SMEs. R2.103 million (more than 23% of the total value of approvals) were for these SMEs (companies with fewer than 200 employees, turnover less than R51 million and/or less than R55 million total assets).

6.1.1.5. SA Micro-finance Apex Fund (Samaf) – www.samaf.org.za
The South African Micro-Finance Apex Fund (Samaf) was established to provide access to micro-loans and support to the social capital mobilisation. Samaf is a wholesale funding institution tasked to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for the purpose of growing their own income and asset base. The primary purpose of Samaf is to reduce poverty and unemployment and also to extend financial services to reach deeper and broader into the rural and peri-urban areas. As a wholesale institution, Samaf provides micro-finance to financial intermediaries such as Financial Services Cooperatives (FSCs) and MFIs who in turn on-lend to their members and clients. Therefore, anyone who wants to obtain a Samaf-backed loan should first join an FSC or apply to the MFI for a loan. Samaf offers two types of loans via its financial intermediaries, microenterprise loans and development loans.

The Micro-enterprise loan is offered to financial intermediaries who then on-lend to poor people to establish and grow their micro survivalist businesses. To qualify, the loan applicant must earn not more that R3,500.00 per month. Development loans are aimed at FSCs and MFIs for on-lending to client households earning R1,500.00 and below per month. Clients can use development loans for paying school fees, medical fees and improvements to the household.

6.1.1.6. Technology Innovation Agency (TIA) - www.tia.org.za
A new umbrella body set up in 2009 and launched in 2010 for funding innovation includes the Tshumisano Trust which housed the technology transfer stations, the Innovation Fund, the Council for Scientific and Industrial Research (CSIR)’s Advanced Manufacturing Technology Strategy.

6.1.1.7. Micro-Agricultural Financial Institute of South Africa (Mafisa)
The Micro-Agricultural Financial Institute of South Africa (Mafisa) was established to contribute to the working poor’s ability to run existing agricultural businesses; to start new ones and be able to develop these into fully commercial operations. Mafisa propels and facilitates the development of financial services intended to uplift very small and micro level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes, etc.
In summary, there are a number of support programmes for SMMEs in SA; at national, provincial and sometimes local level. The DTI SMME Directory provides information on 90 programmes. The Programmes have been grouped into 18 categories as shown in the below. The table provides a brief description of selected SME Government schemes.

<table>
<thead>
<tr>
<th>Programme category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key national support programmes</td>
<td>4</td>
</tr>
<tr>
<td>Business competitions and awards</td>
<td>5</td>
</tr>
<tr>
<td>Credit indemnities/guarantee</td>
<td>2</td>
</tr>
<tr>
<td>Exhibitions</td>
<td>3</td>
</tr>
<tr>
<td>Export development</td>
<td>2</td>
</tr>
<tr>
<td>Finance – national</td>
<td>9</td>
</tr>
<tr>
<td>Finance – youth</td>
<td>1</td>
</tr>
<tr>
<td>Finance – women</td>
<td>3</td>
</tr>
<tr>
<td>Finance – provincial</td>
<td>8</td>
</tr>
<tr>
<td>Incentives and grants</td>
<td>5</td>
</tr>
<tr>
<td>Incubation</td>
<td>22</td>
</tr>
<tr>
<td>Industry – specific programmes</td>
<td>5</td>
</tr>
<tr>
<td>Linkage &amp; Partnerships</td>
<td>2</td>
</tr>
<tr>
<td>Mentorship</td>
<td>2</td>
</tr>
<tr>
<td>Networking</td>
<td>1</td>
</tr>
<tr>
<td>Other support programmes</td>
<td>3</td>
</tr>
<tr>
<td>Premises</td>
<td>1</td>
</tr>
<tr>
<td>Technology advice and transfer</td>
<td>5</td>
</tr>
<tr>
<td>Industry specific support</td>
<td>2</td>
</tr>
<tr>
<td>Training and technical assistance</td>
<td>5</td>
</tr>
<tr>
<td>Venture capital</td>
<td>1</td>
</tr>
<tr>
<td>Women enterprise programs</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
</tr>
</tbody>
</table>

*Source: The DTI National Directory 2010*

69 Gauteng (1), Mpumalanga (2), KZN (1), Eastern Cape (2), Free State (1) and Limpopo (1).
Table 14: Selected SME Government Schemes

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Black Business Supplier Development Programme (BBSDP)</td>
<td>A cost-sharing grant offered to black-owned small enterprises to assist them in improving their competitiveness and sustainability. Grants of up to R1 million are given out for enterprises with an annual turnover of up to R35 million.</td>
<td>BBSDP: Since its inception in 2002 till March 31 2010, 9 657 enterprises with total disbursements of R187.5 million have benefited.</td>
</tr>
</tbody>
</table>
The other guarantee scheme identified in the literature is the Thembani International Guarantee Fund (TIGF). Thembani International Guarantee Fund (TIGF) was established in 1996 as a Section 21 (not-for-profit) organisation through a partner initiative founded by black South Africans living in exile in the United States. TIGF uses loan and grant capital raised from individuals and organisations in the United States and Europe as security for guarantees to cover loans from South African banks. TIGF provides partial guarantees (up to a maximum of 75% of the loan amount not exceeding R10 million) for loans from South African banks to approved borrowers, for a period of 1 to 3 years. Local banks and borrowers are required to share the credit risk. TIGF does not lend money directly to borrowers. TIGF monitors progress on projects to which credit guarantees have been issued. Loans must be repaid regularly according to the loan agreement.

6.1.2 Major Private Sector Support Systems

6.1.2.1. Business Partners Limited (BPL)
Business Partners Limited is a specialist risk finance company for formal small and medium enterprises (SMEs) in South Africa, and selected African countries. BPL supports entrepreneurial growth by providing financing, specialist sector knowledge and added-value services for viable small and medium businesses.70

6.1.2.2. Masisizane Fund
Masisizane Fund is a Non Profit Company (NPC) established from unclaimed shares by the Old Mutual Group in 2007, in consultation with National Treasury. Masisizane supports initiatives such as the facilitation of women-, youth- and people with disability-owned enterprise development. Financial education aimed at improving the financial discipline and knowledge of South Africans is one of the initiatives of Masisizane. The fund also has the Ilima Trust71, which aims to develop capacity and skills within the public service, particularly at municipal level, to facilitate improved service delivery to communities across South Africa. 72

6.1.2.3. Commercial Banks
Commercial banks have different initiatives and programs aimed at assisting small businesses. ABSA’s Small Business Support Centers are aimed at advising SMMEs which are starting out, in need of survival strategies and also those looking at growing their enterprises. Financial advice is offered encompassing aspects such as how to access cost effective banking products.73

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70 Business Partners [http://www.businesspartners.co.za/]
73 ABSA [http://www.absa.co.za/Absacoza/Small-Business/Accessing/Small-Business-Support-Centre]
6.1.2.4. Enablis Incubator

The Enablis Incubator was launched at the G8 meeting in 2002 and officially founded in 2003 by Canadian telecommunications entrepreneur, Charles Sirois, founder and CEO of Telesystem, and global consulting giant Accenture. The incubator helps companies to grow by providing access to finance, coaching & mentoring, entrepreneurial networks etc.

According to the head of the South African chapter of Enablis, “a lot of our work is about educating business owners how best to manage their finances, how to retain records and how to build a solid offering so that they become attractive to sources of finance such as banks or investors.”

6.1.3 Other Sources of SME Funding

Also falling within this category is the steadily expanding trend of larger enterprises providing development services or outreach programmes for small enterprises – be it their clients, their suppliers or some other target group(s). This can be in the sphere of procurement, in training programmes or in the sponsoring of vouchers (for discounts on service charges).

Finally, reference has to be made to the attention given to small business concerns and support by (small) business organisations, whether they are linked to the national federations (Chambers of Commerce and Industry, Sakekamers, Nafcoc, Fabcos, etc.) or part of smaller regional, local or sectoral bodies like traders’ associations and professional bodies. Once again, the organisational efficiency and capacity of most of these associations need further development, but their role in the mobilisation of support and the channelling of member concerns (business owner feedback) is becoming increasingly important.

We can also include education and training institutions here (e.g. SETAs) since many have steadily expanded their offerings of training programmes or short courses for small enterprise managers or entrepreneurs.

Through these departments/agencies, numerous programmes, for funding or otherwise, have been implemented. This set up has however proved problematic for strategic coordination purposes as programmes tend to be implemented in isolation of each other; and also risks the effectiveness of funding programmes to small businesses, a problem that has been identified by a number of commentators, including the dti (DTI, 2008; SBP 2009a; Timms, 2011).

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6.2 SMME Access to Credit and Support in Chemicals and Plastics Sector

6.2.1 Introduction

Many SMMEs cite access to finance as the main challenge they face in the establishment and running of their enterprises. A study conducted by the National Economic Development and Labour Council (NEDLAC) in 2005 showed that relatively few SMMEs in the Chemical sector apply for assistance. The major form of financial assistance received is loan finance from Business Partners.

There is also a certain amount of assistance given by incubators such as Chemin (see Case Study 3, below). “There are many possible avenues of support for SMEs in the chemical sector, ranging from direct measures such as low-interest loans and subsidies for exporters, to high-level policy interventions such as import protection, or enhancement of skills. At a regional level, improvement of infrastructure may be an imperative” (NEDLAC, 2005).

Despite the lack of financing being cited as a constraint in other publications, there are a variety of funding programs and financing schemes through the use of guarantees that are available (see the above section), in addition to other support programs. Awareness and the uptake of these schemes, however, have been very low (DTI, 2008).

6.2.2 Chemicals and plastics sector SMME finance and support case studies

6.1.2.1 Case Study 1: Sasol- HEA Clothing (Pty) Ltd (HEA)

HEA is a supplier of protective clothing and work wear to Sasol is a company situated in Evander, near Secunda, in Mpumalanga.

ChemCity, a wholly owned subsidiary of Sasol Chemical Industries, was formed in 1998 and acts as a business incubator to facilitate the establishment of independent downstream SMMEs in the chemical and related sectors. This Sasol subsidiary is designed to provide SMMEs with all the support that they require in order to thrive in the chemical sector. ChemCity provides its services free of charge but does not fund SMMEs.

ChemCity identified several core areas within HEA Clothing that require attention and that are perceived to be critical to ensuring that the company remains sustainable and achieves its growth objectives in the long term. While not exhaustive, the identified areas can be grouped into the following three categories:

i) Operational Efficiency factors - Factory gearing (production line efficiency and production forecasting) and supply chain management

ii) Business Promotion - Development and implementation of marketing strategies

iii) Human Resources Development -
   a. Business and factory management training and mentoring of key production employees, with a strong emphasis on skills transfer.
6.1.2.2. Case Study 2: PetroSA- Enterprise Development Initiatives at PetroSA

PetroSA initiated a Supplier Development Programme which primarily aimed at assisting Historically Disadvantaged South Africans (HDSA) to gain entry into the oil and gas sector in line with the Petroleum and Liquid Fuels Industry Charter (LFC). The initiative was launched in 2004 and has been providing much needed support to black service providers. Support provided includes; business skills training, mentoring and coaching, technical support, as well as business compliance training.

The programme has led to the establishment of such companies as Metamorphic Engineering, Siyakhona Scaffolding, Sophumelela Painting and THJ Fire services, all of which are owned, controlled and managed by black people.

Metamorphic Engineering
A company 80% owned and controlled by black women which provides piping fabrication projects and maintenance engineering services to the PetroSA GTL refinery. With the assistance from Turner and Townsend, this company recently obtained an ISO 9001 accreditation. This accreditation means that the company’s quality systems comply with that of established businesses as far as elements of management are concerned. Management of the business is based on proven, reliable and consistent principles that ensure quality output as expected by international clients within the industry.

Siyakhona Scaffolding
Scaffolding was identified as one area of service that is needed by the oil and gas industry, but does not need high technical skills. Siyakhona Scaffolding, a 100% black owned proprietary limited company that provides scaffolding services to PetroSA and other clients was established. This company is ISO 9001 accredited and has also attained a level 5 CIBD grading certificate. As an SME these are major achievements that position the company to compete on equal footing with other companies for opportunities in the industry.

Sophumelela Painting
A 100% black owned company which provides industrial painting services. Despite some challenges faced by the company in its operations, PetroSA’s continued support has ensured the company’s continual operation. PetroSA has provided financial support which is expected to assist the company firmly back onto its sustainability.

TJ&H Fire Services
This is a small company that provides fire equipment and ensures maintenance services thereof. Currently the company has been focusing on providing the services to PetroSA, but there is room to expand the company’s service offerings to other clients.

Progress is being made to ensure further development and marketing of these companies to the broader industry players and other State Owned Enterprises. This is being spearheaded through the assistance of the South African Supplier Development Agency (SASDA), a subsidiary of the Central Energy Fund (CEF), which is responsible, amongst others, for the development of black suppliers in the industry.
6.1.2.3. Case Study 3: Chemin

Chemin is a chemical incubator which assists in the development of the downstream chemical industry in South Africa. ChemCity, which is Sasol’s enterprise development initiative and also a wholly owned subsidiary of Sasol and Sedichem in Vanderbijlpark are the other chemical incubators in the country.

Chemin is a section 21 company (not for profit enterprise) consisting of members such as,
- CSIR Biochemtek, a division of the Center for Scientific Research (CSIR),
- CMCS, a specialist consultant in the chemical sector,
- Sasol (the largest upstream chemical manufacturer in the SA chemical sector),
- Sterling Waterford (a company involved in the carbon credits and biofuels markets),
- Small Enterprise Development Agency or SEDA (the dti’s agency for supporting small business in SA).

The mission of this incubator is to:
- Stimulate, launch and grow globally competitive and sustainable small and medium enterprise (SME) chemical manufacturing start-ups, as well as project development within established SMEs in SA
- Identify skills gaps within targeted SMEs and provide business, technology and entrepreneurial training, nurturing and skills development
- Provide access to infrastructure and services for appropriate technology and business incubation e.g. office space and equipment, laboratory space and equipment, telecommunication facilities, internet and e-mail facilities, and information technology equipment and software
- Facilitate and significantly increase BEE within the chemical industry
- Establish networks linking global and local companies for investment, technology transfer and market opportunities

In collaboration with a wide network of service providers, Chemin can provide a range of technology incubation services, including feasibility evaluation, forecasting, audits, environmental health and safety regulatory compliance, product registration, analytical services, process and product development. Chemin in Port Elizabeth is a catalyst in the establishment of an entrepreneurial culture leading to the development of a successful downstream chemical industry in SA, also known as a chemical incubator.

6.2.3 Chemicals and plastics sector SME banking behaviour and access to credit

All the SMEs interviewed had a bank account, and the four major banks are dominating in the sector. The most popular bank (36%) was First National Bank (FNB), followed by Standard Bank (34%), ABSA (22%) and lastly Nedbank (11%).
Figure 34: Which bank does your company mainly use for business purposes?

![Figure 34: Which bank does your company mainly use for business purposes?](image)

Source: UCS SME Survey (2012)

Previous studies have noted that having an account with a bank does not necessarily translate to access of loans and credit. For example, an estimation of the total South Africa SME loan book of the four major banks revealed\(^{76}\) that Standard Bank had an SME market share of 35\% while FNB had the lowest at 12\%.

Table 15: Small business book of major banks\(^ {77}\)

<table>
<thead>
<tr>
<th></th>
<th>Standard</th>
<th>Nedbank</th>
<th>ABSA</th>
<th>FNB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME clients</td>
<td>367 500</td>
<td>346 500</td>
<td>210 000</td>
<td>126 000</td>
<td>1 050 000</td>
</tr>
<tr>
<td>Total book</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R13 billion*</td>
</tr>
<tr>
<td>Average size of loan</td>
<td>R39 000</td>
<td>R47 000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td>35%</td>
<td>33%</td>
<td>20%</td>
<td>12%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(Split of market share and average size of loan based on SME Report, Falkena et al., 2001)

* Probably on the low side but no data from Banking Council to date


\(^{77}\)Gaps on the table show that data was not available.
An analysis of the use of banking products by the chemicals and plastics SMEs showed that 87% have access to current and cheques accounts. Access to credit from banks was very low as shown by the following statistics:

**Figure 35: Access to credit with commercial banks**

![Access to credit with commercial banks](chart)

*Source: UCS SME Survey (2012)*

Only 3% of all the SMEs interviewed indicated that they had a loan account with their bank. The majority (19%) had overdraft facility, followed by garage cards (13%) and credit cards (7%). Figure 35 above, shows that plastics SMEs were more likely to have a credit account with their bankers compared to chemical sector SMEs.

When asked to indicate the ‘source of money they used to start their businesses’, more than 62% of the SME respondents indicated that they used personal savings. 7% said they used a personal loan from the bank, 2% used a mortgage loan, and only 1% used loans from development financial institutions (DFIs).

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This is very instructive of how difficult it is to get a business loan. Many entrepreneurs circumvent this by borrowing in their personal capacity and then use the money to finance their business operations.
Of those who borrowed, 69% indicated that they used the money to buy machines and equipment, 56% to for working capital, and 13% to finance business growth. The plastic sector SME were more likely to require capital equipment loans while those in the chemicals sector would require working capital loans.
6.2.4 Awareness of credit and business support organisations

All the SMEs interviewed were asked whether they were aware of any credit and business support organisation (DFIs). The majority (more than 83%) indicated that they were not aware of any DFI which offer a loan or business support (see Figure 38 below). This statistic is in line with several independent studies that have found that very few small enterprises are aware of Government’s initiatives to support small enterprises (Berry et. al., 2002; Foxcroft et. al., 2002). According to the SME Annual Survey (2004), which sampled over 2,500 SMEs and focused specifically on SME perceptions of Government support, over 60% of businesses were aware of the SETAs, 45% of businesses were aware of the Industrial Development Corporation (IDC) and less than a third of businesses surveyed had heard of the Competitiveness Fund. However, less than 15% of businesses had heard of any of the other Government support structures. Use of Government support structures was even lower. Only 1% of businesses had made use of Ntsika,79 the MACs, Khula, Brain and Umsobomvu. The only two structures that had been used by more than 10% of the businesses surveyed were the SETAs and the Competitiveness Fund.

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79 In response to perceived failings of the then small enterprise support infrastructure, the Government has decided to merge Ntsika and Namac to form SEDA.

Source: UCS SME Survey (2012)
A lack of awareness stems from poor marketing\textsuperscript{80}. The SME Survey (2004) found that 70\% of the businesses surveyed felt that the Government communicates its incentives poorly. The SME Survey (2004) also found that 63\% of small businesses think that the impact of general Government incentives is either very bad or bad, and 54\% think that the impact of support structures is either very bad or bad. In addition, there was no evidence that use of a specific Government service results in businesses being more likely to rate Government support for small businesses as useful or very useful.

Overall evidence from a variety of sources, including anecdotal evidence from interviews conducted by the GEM team in South Africa, suggests that small businesses in general are not aware of most of the Government’s efforts to support small enterprises and, even when they are aware of them, are sceptical about their value to their business.

Of the 16% SMMEs who indicated that they were aware of credit and business support organisations, 48% mentioned commercial banks, 38% SEDA, 19% Khula, 14% apiece for IDC and NYDA, 10% apiece for Business Place and CIDB, and the rest were mentioned by only 5%.

**Figure 39: Which business support organisation are you aware of?**

It is important to note from Figure 39 above that Seda’s awareness was rated higher than all other DFIs by the sampled SMEs. This rating may have been affected interview bias since the researchers introduced themselves as by stating that the study had been commissioned by Seda.

*Source: UCS SME Survey (2012)*
7 CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusion

The study reviewed the chemicals and plastics from a broad industry development analysis perspective, then went on to investigate the SME support services in SA, with a special focus on what role Seda can play in developing SMEs in these two sectors. SME support services can be broadly categorised into two; (i) financial support, and (iii) business development support (BDS). Most SME support organisations offer both, and Seda mainly focuses on the later.

Literature is littered with evidence which support the notion that SME development is hampered by a number of factors, which include: lack of finance, managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeeteyet al., 1994; Gockel and Akoena, 2002). Despite the numerous institutions providing training and advisory services, there is still a skills gap in the SMME sector as a whole (Kayanula and Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services, while others do not see the need to upgrade their skills due to complacency.

As indicated above, SA is awash with credit and business support initiatives for the SMME market. However, according to the FinScope (2010) survey, 75% of small business owners were not aware of any organisations that gave advice and support to small business owners, with the figure being the highest for the Northern Cape at 58%. Only 10.3% were aware of the existence of the Umsobomvu Fund and/or the NYDA, 9.3% of the support provided by the banks, 4% - Seda, 3.0% - Khula, 2.3% - the Sector Education and Training Authorities (SETAs), and 1.2% South African Micro Apex Fund (Samaf).

Clearly, the lack of awareness of the existence of these programmes will affect access. So, for example, even if the financing is available, it will not be accessed by those who might need it. A study by Chimucheka and Rungani (2011) found that 28% of SMMEs surveyed had never applied for financing from a bank. The main reasons given were not knowing the procedures for applying for a loan (53%), not knowing about the sources of finance available from the banks (23%) and the high interest rates (7%). 17% indicated that they had enough capital to start and run their own businesses.

This study found that 84% of the SMMEs in the chemicals and plastics sector were not aware of any organisations that gave advice and support to small business owners.
The study also noted that there are a number of organisations, from both the private and public sector, who offer BDS services to the SMME sector. There are currently a large number of government funded programmes which provide either financial support or BDS, or both. It was however noted that there is low take up of both financial and BDS services. The following were cited as possible reasons for low take-up of SMME financial and BDS services:

1. Lack of awareness of available BDS services,
2. Time-consuming application process
3. Frequent changes in conditions of loans
4. High hurdles in terms of collateral or equity required by finance providers
5. For SMMEs, the first obstacle is the lack of ability to develop an acceptable business plan, followed by lack of capital.

Any new or current product from Seda should therefore be designed to address the above listed gaps. As chronicled in this report, South Africa is not short in terms of available funds. Funds are available from both the public and private sectors. However, the level of awareness and utilisation of these programmes have been disappointingly low.

7.2 Closing the Gap, Learning from Past Mistakes

7.2.1 Overview of the government support programmes

There are a number of reasons for the failure of government support programmes to small businesses. Some of the reasons identified include: (1) lack of awareness (outreach); (2) uneven distribution (concentration in metropolitan areas); (3) the high cost of searching for support services which has not been mitigated by effective information on how and where to access support; and (4) cumbersome administrative requirements of government programmes resulting in user fatigue and high levels of disappointment (Berry et. al., 2002).

Using the performance of Ntsika’s Local business service centres (LBSC) programme as an example, it is suggested that the institution overestimated its capacity as well as the capacity of the local business service centres (Berry et. al., 2002). The institution was unable to access enough funding from Ntsika and, as a result, most of the LBSC programmes had to devote resources to raise funds and/or rely heavily on service fees. The need to maximise service fees also resulted in a reluctance to refer clients to qualified service providers as initially envisaged. Both were detrimental to the LSBC programme’s ability to service small businesses in the way initially envisaged. In contrast, the Manufacturing Advisory Centres (MACs) which had a much more focused role and which utilise expert service providers were able to achieve much better results although with a more limited range of businesses.
Evidence from the GEM reports suggests that, in addition to the factors mentioned above, an important reason for the failure of Government programmes to support small businesses is due to poor delivery (Orford et. al., 2005); specifically; the incompetence of the people delivering Government support. An example is the Khula Mentorship programme. Findings from research conducted by the University of Cape Town (UCT) Centre for Innovation and Entrepreneurship (CIE) suggests that mentors can play a critical role in supporting small enterprises; indeed, the centrepiece of a highly successful loan programme run by the UCT CIE aligns loan recipients with mentors. However, the key to these mentors adding value to their clients lies in recruiting suitably experienced mentors. In the case of the Khula Mentorship Programme, however, many of the mentors used have little or no business experience, struggle to understand basic accounting concepts and are consequently not capable of adding value to their clients. The result is a highly expensive programme with little or no impact.

The 2001 GEM report noted that “government interventions were poorly implemented and ineffectively marketed. Khula Enterprise Finance and the dti were heavily criticised, whereas more targeted programmes such as the National Manufacturing Advisory Centre were identified as being more successful”. The 2002 GEM report highlighted the need for informal businesses to have an effective community-based micro-finance infrastructure, stating that “there is a definite lack of microloan organisations offering smaller loans (R300 – R3500) without exorbitantly high interest rates”. Although the National Manufacturing Advisory Centre no longer exists the fact that it was rated highly by business owners in the 2001 GEM report, might require revisiting the assistance it offered business owners.

### 7.2.2 Seda current product offering

Seda is mandated to implement national government’s small business strategy. The goal of Seda is to ensure that the small enterprise sector grows and increases its contribution to sustainable and equitable socio and economic development, employment and wealth creation. They are two implementation divisions within Seda, namely the Enterprise Development Division (EDD) and the Seda Technology Programme (Stp). Seda provides business related information, consultancy, training and mentoring services in all areas of business development. The business support provided by Seda cover five key areas:

- Marketing
- Human Resources
- Operations
- Quality

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81 Unpublished review of Khulamentorship programme completed in 2003 by the UCT CIE.
• Financial Management

The extent and nature of the support is unique to each client’s particular needs. Some of the service offerings are not sector specific but are accessible to SMEs in all industry sectors. A diagnostic assessment of an SMME is done to determine the areas where an entrepreneur requires assistance. For clients in the start-up (initiation) phase of their business Seda has products they call Business Talk and Business Start which involves the following:

• Entrepreneurship awareness events
• Business start-up training
• Franchise awareness
• Business planning
• Business registrations
• Cooperative development

Seda Business Build and Business Grow are products designed for business that are already in operation and provide the following support services:

• Access to local markets
• Access to export opportunities
• Access to technology
• Facilitation of access to finance
• Sector Programmes
• Business Mentoring
• Hotline to assist with late payments SMMEs

The Manufacturing Support Programme is currently in pilot and is designed to achieve the following:

• Providing high-end advisory services to existing manufacturing small and medium enterprises employing between 10 and 200 people
• Improve the productivity of targeted SMEs
• Improve the quality of both products and services of targeted SMEs.
• Improve competitiveness of selected SMEs.
• Contribute to increase in turnover.
• Contribute to export sales.
• Improve raw material supply.
• Decrease wastage.
• Contribute to an improvement in profitability.
• Improve tax contribution.
• Transfer skills to the targeted SMEs.
• Contribute to employment retention.
• Contribute to employment creation.

Figure 40: Seda’s Delivery Model

Seda also provides mentorship services to SME’s and is aiming to create a Mentor Database of mentors that have been vetted and capacitated to provided sufficient mentorship to SMEs.

The Supplier Development Programme aims to develop suppliers for market access linked to specific opportunities from corporate buyers. The programme aims to improve the performance of SMEs in winning public and private sector contracts, improve growth and diversification through procurement and facilitate a localised supply chain.

7.2.2.1. Seda Technology Programme (Stp)
Stp consists of:

a) Incubation
Incubators provide a sheltered and protected environment within which to support and nurture technology-based start-ups and enterprises. Technology Demonstration Centres focus on demonstrating, exhibiting and providing training in use of available technologies with respect value adding processes.

b) **Technology Transfer**

The Technology Transfer division provides a range of technology transfer services that enable small and micro enterprises to have access to appropriate technology, funding for technology transfer interventions, technical advice and support and business assistance.

c) **Quality**

This division provides services to enhance the quality and services produced by South African entrepreneurs for the local and export market through the provision of advice on standards and technical support.

### 7.2.2.2. Enterprise Development Division (EDD)

The EDD division consist of:

a) **Provincial Affairs**

Seda comprises of 9 Provincial Offices and 42 Seda Branches Nationally.

b) **Cooperatives and Community Public Private Partnership (CPPP) Programme**

The CPPP programme aims to identify markets, resources, technical assistance and capacity-building opportunities that will enhance competitiveness and sustainability of enterprises.

c) **The Learning Academy**

Seda courses support entrepreneurial success. The LA is a fully accredited training provider and its five day entrepreneurial courses which help business owners to learn to:

- Market their business effectively
- Understand the importance of building a reputable business profile as a marketing
- Maintain financial records and develop their business plans

The training courses cover issue pertinent to small business growth like financial management, customer care, report writing and business writing skills.

d) **Programme Analysis & Development (PAD)**

PAD supports the service and offerings of Seda delivery network by conducting research, analyse, review, develop or adapt new and existing offering including the coordination of national programmes and partnerships in order to provide Seda operations with an efficient and effective set of offerings.

### 7.2.3 A review of SEDA’s current offering and the needs of the SMEs in the Plastics and Chemical Sector
• The Supplier Development programme is likely to address concerns raised by both buyers and SMEs in this study. The concerns raised by buyers in this study were on the quality of products by SMEs, capacity of SMEs (in terms of stock availability). The Supplier Development programme aims to improve the productivity and quality of products produced by SMEs. 73% of the SMEs respondents had not submitted a government tender, and the Supplier Development programmes would help SMEs to improve the chances of getting private and public contracts.

• Seda Business Build and Business Grow provide support to SMEs to ensure access to export opportunities, access to local markets and facilitate access to finance. These services are highly crucial to this sector and would address some of the challenges highlighted by the SME respondents in this study. 18% of respondents cited access to finance as the single biggest obstacle they are facing to grow their business. Seda currently provides information and assistance on how to access finance and SMEs in this sector need to be made aware of it.

• The Manufacturing Support Programme does address some of the issues raised by SME respondents in the Chemical and Plastics industry.

7.3 What Does the Market Want?

The study results show that the chemical and plastic SMEs in South Africa face a number of challenges, including high costs of capital, onerous regulatory compliance (especially in health/safety and environmental regulations), a shortage of technical skills, difficult access to international markets, an inflexible labour market and increasing competition. The capital intensive, global nature of the chemicals and plastics industry makes it difficult for SMEs to be competitive, unless high-value niche products or services are supplied.

This study asked SMEs in chemicals and plastics sector to indicate the type and structure of financial grants they would need. 28% of the total sample could not give specifics since they had never heard of Seda. Those who had suggestions, would prefer business expansion loans (33%), capital expenditure loans (27%), working capital (12%), export credit guarantee (11%) and invoice financing (1%).
Figure 41: Type of financial support required by SMEs

<table>
<thead>
<tr>
<th></th>
<th>Plastics</th>
<th>Chemicals</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business expansion loan</td>
<td>28%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>None</td>
<td>30%</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Capital loan (for plant and machinery)</td>
<td>16%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>Export credit guarantee</td>
<td>2%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Invoice financing/discounting</td>
<td>2%</td>
<td>7%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: UCS SME Survey (2012)

As shown on Figure 41 above, the majority (38%) of the chemicals SMEs would want Seda to offer business expansion loans. This is evidence of the sector which is growing and expanding. The plastics SMEs on the other hand would want both business expansion and capital expenditure loans. There is higher demand for export credit guarantee loans from the plastics SMEs.

The SMEs further proposed that, financial products should have a longer repayment period (around 3-5 years for capital expenditure loans), low or zero interest rate, easily accessible (quick approvals and disbursements), or the support should be in the form of grants (see diagram below). It is import to note here that only 5% of the SMEs want financial support in the form of grant. This shows that the SMEs view financial support as a business transaction rather than government grants.
SMEs were also asked to indicate the type business support they would need Seda to provide. The results are fairly in line with previous studies. 31% said they would need marketing plans\textsuperscript{83}, 30% incubation, 18% business management and administration, 15% business plans, 14% export promotion and lastly feasibility studies (1%).

\textsuperscript{83} please refer to marketing and sales sub-section above.
The importance of and demand for business incubation came out clearly and strongly in the in-depth interviews with key informants. Industry experts noted that business incubation programmes are important for the development of the sector as they provide technical support, mentoring, business administration skills, networking and marketing skills, finance and other small business requirements ‘under one roof’. This study noted that there are three chemicals sector incubators in SA, namely: (i) Chemin- principal agent in establishing small and micro enterprises in the downstream chemical manufacturing sector in SA, (ii) Sedichem- Sedibeng Chemical and Business Technology Incubator, and (iii) ChemCity- a wholly owned subsidiary of Sasol Chemical Industries. To the best of the researchers’ knowledge, there is no business incubator for the plastics SMMEs.

As shown on Figure 43 above, 46% of the plastics SMEs would want Seda to establish plastics business incubation programmes.

The study’s analysis (both secondary and primary research) this far has identified the key success factors for chemical and plastic SMEs, and shows that there are a large number of government programmes to provide...
support in most of these areas. *However, there is very low take-up of support services*, for the following reasons:

i. Lack of awareness of available support, either in terms of finance or information

ii. Time-consuming application process

iii. Frequent changes in conditions of loans

iv. High hurdles in terms of collateral or equity required by finance providers

v. For SMMEs, the first obstacle is the lack of ability to develop an acceptable business plan, followed by lack of capital.

Any new or current product from Seda should therefore be designed to address the above listed gaps. As chronicled in the preceding chapters, South Africa is not short in terms of available funds. Funds are available from both the public and private sectors. However, the level of awareness and utilisation of these programmes have been disappointingly low.

### 7.4 Recommendations

Recommendations have been categorized into two; generic or holistic recommendations which focus on what the SMEs in the chemicals and plastics sectors need, and Seda specific recommendations, which take into account the needs of the SMEs and Seda’s mandate.

#### 7.4.1 Generic Recommendations

Chemical and plastics sector SMMEs in South Africa face a number of challenges, including high costs of capital, onerous regulatory compliance (especially in health/safety and environmental regulations), a shortage of technical skills, difficult access to international markets, an inflexible labour market and increasing competition (especially from China). The capital intensive, global nature of the chemicals industry makes it difficult for SMEs to be competitive, unless high-value niche products or services are supplied.

For the holistic development of SMEs in the chemicals and plastics sector, the government (represented by the dti and Seda) need to come up with a partnership approach with SMEs, big corporates in the sector, associations, universities, other development financial institutions, and SETAs among others. As listed below, these recommendations are cross cutting:

7.4.1.1. **Increase awareness of BDS and financial services for SMMEs**

The study found that 84% of SMMEs were not aware of any BDS and financial services on offer. Of the 16% SMMEs who indicated that they were aware of credit and business support organisations, 38% mentioned
Seda and 5% DTI. Furthermore, the SME Survey (2004) found that 70% of the businesses surveyed felt that the Government communicates its incentives poorly.

One of the reasons, it is believed, for this poor uptake of BDS and financing facilities on the market, is the lack of a “single source of information”, a one stop shop if you like of all available support programmes and how to access them (DTI, 2010). The introduction of the DTI’s National Director of Small Business Support Programmes will go a long way providing small business owners with information of the different types of support available. The publication of the National Directory, although a good starting point, will not achieve much if the small business sector is not aware of its existence.

Several studies indicated that most SMEs were not aware of the financial and business development products on the market (or other support available). There is a need to increase awareness among small business owners of the products and services available. Clearly, the lack of awareness of the existence of these programmes will affect access which affects their uptake, thus making it appear that the programmes themselves have been ineffective.

The poor level of awareness provides Seda with an opportunity to put in place measures to increase awareness of the availability of these its products. There is a need to publicise the various schemes and programmes through a wide variety of media on an on-going basis, ensuring that the targeted recipients are reached. The Global Entrepreneurship Week, in conjunction with other forums, provides an ideal opportunity to increase the awareness of support available. Provincial workshops and road shows also help in improving visibility. Lastly, focused sector specific forums and publications should be utilised to reach the chemicals and plastics SMEs. There is an opportunity to collaborate SETAs like merSETA and CHIETA which have a presence in the plastics and chemicals sectors respectively.

7.4.1.2. Regulation and compliancy
The chemical sector is highly regulated. SMEs in the sector face onerous regulatory compliance (especially in health/safety and environmental regulations). The potentially hazardous nature of the chemical industry has caused the industry to become highly regulated. Regulations exist to control almost every aspect of the chemicals supply chain (which includes the plastics sector). As a result, the cost of compliance is high, impacting negatively on SMEs access to markets and profits. Policy recommendations include;

a) Continue with elimination of regulatory requirements,
b) Rationalise regulations,
c) Benchmark any new regulations with our competitor nations,
d) Business support centres to provide assistance with compliance,
e) Analyse the impact of international and trading partner environmental regulations on local SMME suppliers, and steps to be taken to comply,

f) Application of Safety & Health provisions,

g) Enforcement of municipal zoning requirements,

h) Working with relevant SETAs to train SMMEs staff in regulation, compliance, safety and quality management issues, and

i) Roll-out grants for product testing and certification.

7.4.1.3. Development of niche market subsectors

There are some subsectors which have already been identified by IPAP as priority sectors, namely pharmaceuticals, traditional medicines, cosmetics and other beneficiation activities. Statistics show that the pharmaceutical sub-sector has been experiencing strong growth and export. Growth is being shown in both ethical drugs and generic substitutes, but data indicates that generics manufacture is growing rapidly, while ethical drugs are mostly imported into South Africa for local consumption as well as onward export into Africa.

Pharmaceuticals

There is a lot to learn from the Ireland. The country has managed to attract a number of multi-nationals and is exporting increasing quantities of ethical drugs world-wide. The Irish pharmaceutical industry continues to show very strong growth of 11% per annum. The country also spends about 12% of revenue on R&D. Irish exports grew by 72% between 1994 and 1998, the third highest in the 29 member OECD. Irish export growth rates outpaced World Trade growth in the same period by a factor of three. Ireland has a trade surplus equal to 16% of GNP and is the most export-oriented country in the Eurozone. Ireland now ranks as the third largest exporter in the world on a per capita basis after Singapore and Belgium / Luxembourg.

To develop these niche subsectors, it is recommended that:

a) SA comes up with a strategy to attract multinationals in the pharmaceuticals subsector. An important factor in pharmaceuticals is the level of skilled human resources. Thus multinationals will bring in much needed skills which can be transferred over time to our SMEs.

b) On-going skills development targeted at production and management levels,

c) Commitments from government to buy local products, as most of the products, especially pharmaceuticals are consumed in public hospitals.
### Recycling in the Plastic Sector

#### Figure 44: Plastics Recycling in South Africa

#### THE PLASTIC IDENTIFICATION CODE

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Type of Plastic</th>
<th>Properties</th>
<th>Common Uses</th>
<th>Recycled in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 PET</td>
<td>Polyethylene Terephthalate (PET)</td>
<td>Clear, tough, solvent resistant, barrier to gas and moisture, softens at 80°C</td>
<td>Soft drink and water bottles, salad Comes, biscuit trays, salad dressing and containers</td>
<td>Pillow and sleeping bag filling, clothing, soft drink bottles, carpeting, building insulation</td>
</tr>
<tr>
<td>2 HDPE</td>
<td>High Density Polyethylene</td>
<td>Hard to semi-flexible, resistant to chemicals and moisture, waxy surface, opaque, softens at 75°C, easily coloured, processed and formed</td>
<td>Shopping bags, freezer bags, milk bottles, ice cream containers, juice bottles, shampoo, chemical and detergent bottles, buckets, rigid agricultural pipe, crates</td>
<td>Recycling bins, compost bins, buckets, detergent containers, posts, fencing, pipes, pastic timber</td>
</tr>
<tr>
<td>3 PVC</td>
<td>Unplasticized Polyvinyl Chloride PVC-U</td>
<td>Strong, tough, can be clear, can be solvent welded, softens at 80°C</td>
<td>Cosmetic containers, electrical conduit, plumbing pipes and fittings, blister packs, wall cladding, roof sheeting, bottles</td>
<td>Flooring, film and sheets, cables, speed bumps, packaging, binders, mud flaps and mats, new gumboots and shoes</td>
</tr>
<tr>
<td>4 LDPE</td>
<td>Low density Polyethylene</td>
<td>Soft, flexible, waxy surface, translucent, softens at 70°C, scratches easily</td>
<td>Cling wrap, garbage bags, squeeze bottles, irrigation tubing, mulch film, refuse bags</td>
<td>Bin liners, pallet sheets</td>
</tr>
<tr>
<td>5 PP</td>
<td>Polypropylene</td>
<td>Hard but still flexible, waxy surface, softens at 140°C, translucent, withstands solvents, versatile</td>
<td>Bottles and ice cream tubes, potato chip bags, airways, microwave dishes, kettles, garden furniture, lunch boxes, packaging tape</td>
<td>Pags, bins, pipes, pallet sheets, oil funnels, car battery cases, trays</td>
</tr>
<tr>
<td>6 PS</td>
<td>Polystyrene</td>
<td>Clear, glassy, rigid, opaque, semi-tough, softens at 95°C. Affected by fat, acids and solvents, but resistant to alkalis, salt solutions. Low water absorption, when not pigmented is clear, is odour and taste free. Special types of PS are available for special applications.</td>
<td>CD cases, plastic cutlery, imitation glassware, low cost brittle toys, video cases. Foamed polystyrene cups, takeaway clamshells, foamed meat trays, protective packaging and building and food insulation</td>
<td>Coat hangers, coasters, white ware components, stationary trays and accessories, picture frames, seed trays, building products</td>
</tr>
<tr>
<td>7 OTHER</td>
<td>Letter below indicate ISO code for plastic type e.g., SAN, ABS, PC, Nylon</td>
<td>Includes all resins and multi-materials (e.g., laminates). Properties dependent on plastic or combination of plastics.</td>
<td>Automotive and appliance components, computers, electronics, cooler bottles, packaging</td>
<td>Automotive components, pastic timber</td>
</tr>
</tbody>
</table>

Plastics recycling is a sector in which South Africa is growing in leaps and bounds. According to the latest Plastics SA\textsuperscript{84} figures, 194 recyclers currently operate nationwide. Between them, they recycled 18% of the plastics produced in South Africa in 2010. This equates to 241,853 tons, or 6% more than in 2009. The derived recycling rate for plastics packaging was 30.1% for 2010 and is projected to increase to 35% in the near future. According to Plastics SA, the main reason for the increase in the recycling rate of plastics is the growing demand for recycled plastics that have proven to be versatile, economic and reliable. The growth in virgin material showed a 4.7% increase during 2010. The 2010 survey results shows that the recyclers have managed to:

- Recycle 241,853 tons of plastics,
- Provide 4,800 jobs, and
- Create 35,000 indirect jobs with an annual payroll of R240 million.

Of the 241,853 tons of plastics that were recycled in 2010, 182,032 tons consisted of plastics packaging. This is an increase of 6%, which is mainly due to the increased recycling rates for low density polyethylene (PE-LD) and PET (Polyethylene Terephthalate), which is used to package consumable items such as food, clothes and appliances.

At present, almost every type of paper and board can be recycled in South Africa and 28% is returned for reuse. South Africa has founded three Recycling Forums, located in Western Cape, Natal and East Rand\textsuperscript{85}.

Some of the challenges facing the plastics recyclers are (i) the high costs of washing and drying which are prohibiting recyclers from sourcing more post-consumer and landfill recyclables, (ii) high operational costs, which includes: high cost of water and electricity, wages, transport, repairs and maintenance required on the recycling plant and its equipment. Though a number of larger recyclers are able to overcome these obstacles by investing heavily in their recycling plants in order to improve efficiencies of their washing and drying facilities, MEs still face challenges owing to capital constraints. Plastics SA calls for government support and a collective effort to find more energy efficient solutions\textsuperscript{86}.

\textit{7.4.1.4. Subsidy to cover cost of electricity}

The highest ranked obstacle to business growth by SMMEs in the chemicals and plastics sector was cost of electricity and water. It was noted that the cost of electricity was too high for the SMMEs. Furthermore, most SMMEs were not getting electricity from Eskom directly but from local municipalities. Since plastics

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\textsuperscript{84} http://www.plasticsinfo.co.za/images/2742.pdf
\textsuperscript{85} http://www.remburssi.org/projects/southafrica/sa_tgo/industries.htm
\textsuperscript{86} Plastics SA CEO, Anton Hanekom.
conversion consumes high volumes of electricity any percentage increase in the price of electricity will have a bigger negative impact in the businesses’ bottom line. The National Energy Regulator of South Africa (NERSA) has already approved ESKOM annual average price increase of 16% and tariff rates for 2012/13 on 9 March 2013. This is expected to have a greater impact on manufacturing of plastics in SA, especially the SMME sector. The price competitiveness of the products is going to be effected, which might open more doors for Chinese products penetration.

Manufacturers faced electricity price increases of around 170% over the past five years. The resultant margin squeeze is retarding investment and causing business failure. It is also happening against a background of numerous other domestic challenges where many of our competitor economies subsidise the energy and other inputs to support their domestic manufacturers.

There is need for strong dialogue within Nedlac and the entire manufacturing sector on electricity prices and its impact on SA competitiveness. It is also recommended that the government subsidies to SMEs in the manufacturing sector. However, there is need for more research and negotiations to come up with a well-defined formula and motivation of financing Eskom’s CAPEX needs in a way which encourages efficiency and thrift.

Secondly the energy cost challenge can present an opportunity for innovative SMEs. Plastics SA noted that “Plastic has more calorific value than coal or wood, and yet it is an irony that as a nation we burn coal every day to generate power and bury our waste plastic – which is a huge waste of energy.”\(^{87}\) Unrecyclable plastic waste can provide a valuable source of local energy / electricity through Energy from Waste (EfW) - using established clean incineration technology - typical plastic waste contains some 18000 to 20000 BTU/lb versus fuel oil at around 21,000 BTU/lb. Implementing EfW can help with South Africa’s twin problems of diminishing landfill and the shortage of energy. EfW will not hinder increased recycling and there’s no credible evidence of EfW emissions affecting health. Energy from waste is accepted and proven for cleanly capturing the energy content of waste and replacing fossil fuels. It also reduces the creation of CO2 and methane.

According to Plastics SA\(^ {88}\), about 70% of South Africa's energy needs are met from coal (including over 92% of electricity generation and about 30% of transport fuels). Although cheap by international standards, buying coal involves significant costs for energy-intensive processes. For example a single cement kiln can burn up to 180 000 tons of coal a year. Coal becomes more expensive the further you are from the coal mine. According

\(^{87}\) http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270
\(^{88}\) http://www.plasticsinfo.co.za/default.asp?CPH_ID=1270
to a recent Environmental Impact Assessment Report into the feasibility of using waste (or ‘alternative fuels’) in a cement kiln, between 35 to 50% of coal can be replaced a year, depending on the composition of the waste. This means a cement company will avoid the costs of 40 000 to 90 000 tons of coal just for one of its cement kilns.

There is so much scope for EfW industrial development, which includes promotion of SMEs. The government, through the DTI and Seda can play a significant role in this endeavour.

Thirdly, SMEs can make use of the National Cleaner Production Centre of South Africa (NCPC-SA); a key industrial sustainability programme of the Department of Trade and Industry (the DTI), hosted at the CSIR. The NCPC-SA’s mandate is to assist South African industry to become competitive and sustainable through more efficient and greener production. It assesses companies’ production systems to identify potential savings options, increasing their profitability through cleaner production. The participation options range from three-day audits for SMEs as a starting point to improved energy efficiency to becoming demonstration plants where measurable and verifiable impacts of recommended energy system optimisation interventions may be showcased.

7.4.1.5. Business support services.

40% of the SMMEs in the chemicals and plastics sector indicated that they needed finance and business support services. Of those who indicated that they needed BDS services, 19% wanted assistance on marketing and sales. SMMEs mentioned the strong competition from Asian countries, especially China. This confirms the secondary research results which show a huge influx of Chinese imports into SA. The sector which is most vulnerable, according to the survey results, is the chemicals sector. Possible because the sector is dominated by international brands, and the biggest international brands have now moved their manufacturing plants to China. Some of the possible remedies include:

- e) escalation of the buying local campaigns;
- f) introduction of tariffs and non-tariffs barriers, especially on finished products;
  - the increase in imports has had a negative impact on local employment,
  - by importing, SA is exporting jobs as well as opportunities to manufacture those products locally.


90 The project is a collaborative initiative between the DTI, the Department of Energy, the Swiss Secretariat for Economic Affairs and the UK Department of International Development. The United Nations Industrial Development Organisation (Unido) is the implementing agent.

91 [http://www.engineeringnews.co.za/article/organisation-reports-successes-for-its-efficiency-programmes-2012-08-17](http://www.engineeringnews.co.za/article/organisation-reports-successes-for-its-efficiency-programmes-2012-08-17)
g) exports promotion drive especially in SADC, BRICS and other African countries,
   - Negotiations are currently underway between Plastics SA the DTI to set up the first ever Plastics Exports Council. This will go a long way in marketing SA products, restore lost markets, and opening new markets.
   - SA has been losing its exports market share in Africa, especially in Mozambique and Nigeria.

h) Business support programmes with a marketing and sales focus.

7.4.1.6. Access to finance

The third ranked single biggest obstacle was access to finance. This finding is in line with the 2011 GEM report released by the University of Cape Town’s Graduate School of Business, which found that a key challenge to small business development is not a lack of available finance, but rather the knowledge on where and especially how to access it. Sourcing of capital is however very important at business start-up and growth/expansion phase. More than 60% of both chemicals and plastics SMMEs indicated that the biggest challenge they faced at start-up was sourcing capital. This is however an international trend, as most funders tend to be hesitant in funding green field projects.

There are two primary sources of external finance for new SMEs; equity and debt. External equity in the form of venture capital or the stock exchange, is normally long term, but is usually not available for new SMEs, primarily due to the relatively small levels of financing desired by a new SME. The lack of external equity makes many new SMEs dependent on bank loans and overdrafts, and suppliers credit for early stage financing. Despite the dependence of SMEs on debt finance, access is very limited for new SMEs, especially in developing countries (Mengistae et. al., 2010).

Another source of finance is grant, especially from the government; mostly from the DTI’s MIP, MCEP, and STP. Some of the recommendations to increase access to finance include:

   a) Increase the level of assistance and information for SMEs to acquire finance

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92 GEM Report (2011)
93 The Manufacturing Investment Programme (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.
94 The Manufacturing Competitiveness Enhancement Programme (MCEP), one of the key action programmes of the Industrial Policy Action Plan (IPAP) 2012/13 – 2014/15. It provides enhanced manufacturing support to encourage manufacturers to upgrade their production facilities in a manner that sustains employment and maximises value-addition in the short to medium term. The MCEP comprises two sub-programmes: the Production Incentive (PI) and the Industrial Financing Loan Facilities, which is managed by the dti and the Industrial Development Corporation (IDC) respectively.
95 Seda Technology Programme (STP) is a division of focusing on technology business incubation, quality & standards and technology transfer services & support to small enterprises.
It was noted that there is insufficient financing available especially for high technological inclined SMEs. These SMEs require expensive machinery and equipment and their product development phase are fairly long. Secondly, the SABS approvals and quality standards are higher than the R50,000-00 and R90,000-00 respectively as currently provided by Seda. As indicated in the value chain analysis, the upstream of the value chain is capital intensive. Thus, in order to make a meaningful impact in the sector, Seda might need to come up with initiatives which seek to move the SMEs into upstream of the value chain. This requires Seda assisting SME’s to acquire higher loan values with longer repayment periods. The required response, from the DTI perspective, should be designed to increasing the amount of grants available to the sector.

b) Improving on SME-specific characteristics
Another possibility that needs consideration is one in which finance is available and sufficient to meet demand in both “quantity” and “quality”, but the lack of access is attributable either to the specific characteristics of the SMEs applying for the loan, or the lack of awareness that the financing is available. In these instances, the interventions will have to be targeted to deal with these specific SME characteristics.

c) Other initiatives to increase on SME access to finance
• Encourage development of additional start-up finance schemes as there is a significant market failure amongst private sector lenders to provide adequate funding. This can be done through:
  ➢ Encourage venture capital market
  ➢ Provide timely data for potential investors
  ➢ Provide a mechanism for contact between capital providers and SMEs
  ➢ Reduce investment risk through loan guarantee schemes
• More support for conducting marketing activities in key export markets – extend the EMIA\(^6\) and ensure that sufficient budget is available
• Develop tools (mapping and checklist) that enable potential applications to easily assess which incentives fit a given strategic business need and to make a quick first assessment of eligibility
• Simplify application procedures and tailor to chemicals and plastic industry if possible. Where possible, design new products for the sector.
• Create a stepped application procedure for all incentives, so that the lower capital requirements from SMEs are simple and quick.

- Provide a “one-stop-shop” service where applicants can present a project and its objectives and be connected with the appropriate incentives entity.
- Enhanced, targeted finance schemes in Provinces.
- Come up with a comprehensive chemical and plastics sector supplier development programme. This will ensure procurement to support SMEs.

**7.4.1.7. Improving the levels of SMEs managerial competence and skills**

Regarding the poor level of managerial competence and skills of the small business owners, interventions should focus on providing training and courses that will improve the human resource capacities in this regard. Though currently, various training programmes are provided and support is given to various sectors of industry, including SMEs through the SETAs, awareness and uptake of these programmes has been very low.

The Government is therefore encouraged to continue building on current programmes and establishing new ones if warranted, to improve the levels of managerial competence and skills of the small business owner. The majority of training programmes are implemented through Seda. Partnerships should also be formed with the various SETAs responsible for up-skilling the sector. To improve the effectiveness of the current programmes, SEDA needs to be capacitated by improving staffing levels with individuals with the appropriate skills and experience, and making better/more use of consultants.

The programme designs should be anchored on:

(a) Grants linked to business support services,
(b) Mentorship/incubation programmes,
(c) Financial literacy and education,
(d) Marketing and awareness campaigns, and
(e) Monitoring and evaluations.

**7.4.1.8. Business mentorship and incubation programmes**

The review of literature reveals that there is a strong correlation between the age of an enterprise and its risk profile. Most businesses fail within the first three years of business. The poor sustainability of start-ups highlights the need for interventions aimed at supporting and mentoring entrepreneurs through the early stages of the business cycle.

Studies have also shown that to start and grow your own business in South Africa is challenging on all levels, and 80% of small businesses traditionally fail within the first year. However, Seda Technology Programme
RESEARCH STUDY TO IDENTIFY THE NEEDS, OPPORTUNITIES AND CHALLENGES OF SMES THE PLASTICS AND CHEMICALS SECTOR

(Stp) has ensured the opposite where 80% of businesses supported via incubation survive the first year of operation. 

Seda should consider putting more funding towards business incubation programmes or organisations. There is need to set up new incubations centres in the plastics sector and up-scaling the current structures in the chemical sector.

7.4.2 Recommendations: Is There Scope for Seda?

The researchers are aware that Seda is not mandated to provide financial support, however Seda does refer clients to stakeholders they collaborate with in assisting small enterprises. Seda through its STP Technology Transfer Fund provides financial assistance in the forms of grants to SMEs in specialised sectors. A greater understanding of the needs and requirements of SMEs will ensure Seda forms the right partnerships to ensure the needs of SMEs in this sector are met.

7.4.2.1. Marketing of current Seda products

As noted above, there is generally low uptake on available products, especially on government schemes. One of the reasons, it is believed, for this poor uptake of facilities available, including financing, is the lack of a “single source of information”, a one stop shop if you like of all available support programmes and how to access them (DTI, 2010). The introduction of the DTI’s National Director of Small Business Support Programmes will go a long way providing small business owners with information of the different types of support available. The publication of the National Directory, although a good starting point, will not achieve much if the small business sector is not aware of its existence.

Several studies indicated that most SMEs were not aware of the financial products on the market (or other support available). There is a need to increase awareness among small business owners of the products and services available. Clearly, the lack of awareness of the existence of these programmes will affect access which affects their uptake, thus making it appear that the programmes themselves have been ineffective. So, for example, even if the financing is available, it will not be accessed by those who might need it.

The poor level of awareness provides Seda with an opportunity to put in place measures to increase awareness of the availability of these its products. There is a need to publicise the various schemes and programmes through a wide variety of media on an on-going basis, ensuring that the targeted recipients are reached.

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Global Entrepreneurship Week, in conjunction with other forums, provides an ideal opportunity to increase the awareness of support available. Provincial workshops and road shows also help in improving visibility. Lastly, focused sector specific forums and publications should be utilised to reach the chemicals and plastics SMEs. There is an opportunity to use SETAs like merSETA and CHIETA which have a presence in the plastics and chemicals sectors respectively.

This can be implemented immediately.

**7.4.2.2. Business support services**

The second biggest obstacle to growing a business was given as marketing and sales. Business support programmes with a *marketing and sales focus* should be targeted for this sector. Currently Seda’s Learning Academy provides courses to entrepreneurs to teach them how to market their businesses effectively. Tailoring these courses to the specific marketing and sales challenges faced by SMEs in this sector would make them more effective.

The Manufacturing and Support Programme though still in the pilot stage, will address some of challenges facing SMEs in this sector. The obstacles to business growth noted by the SMEs include: Marketing and Sales, Competition and suitable business premises. The nature of the advisory services offered in this programme should address these sector specific challenges.

**7.4.2.3. Improving the levels of SMEs managerial competence and skills**

Currently Seda has the Business Build and Business Grow offerings which provide business support to existing businesses. Seda Business Build and Business Grow provide support to SMEs to ensure access to export opportunities, access to local markets and facilitate access to finance. These services are highly crucial to this sector and would address some of the challenges highlighted by the SME respondents in this study. However, only 38% of respondents were aware of Seda and therefore Seda would need to increase its awareness, visibility and accessibility to SMEs in this sector.

Partnerships should also be formed with the various SETAs responsible for up-skilling the sector. To improve the effectiveness of the current programmes, Seda needs to be capacitated by improving staffing levels with individuals with the appropriate skills and experience, and making better/more use of consultants. The programme designs should be anchored on:

(a) Grants linked to business support services,
(b) Mentorship/incubation programmes,
(c) Financial literacy and education,
(d) Marketing and awareness campaigns, and
(e) Monitoring and evaluations.

7.4.2.4. Business mentorship and incubation programmes
Seda should consider putting more funding towards business incubation programmes or organisations. There is need to set up new incubations centres in the plastics sector and up-scaling the current structures in the chemical sector. **There is currently no plastics sector incubator in SA. Seda can, in the short to medium term, start working on the establishment plastics business incubation programmes.**

The Supplier Development programme is likely to address concerns raised by both buyers and SMEs in this study. The concerns raised by buyers in this study were on the quality of products by SMEs, capacity of SMEs (in terms of stock availability). The Supplier Development programme aims to improve the productivity and quality of products produced by SMEs. 73% of the SMEs respondents had not submitted a government tender, and the Supplier Development programmes would help SMEs to improve the chances of getting private and public contracts.

7.4.2.5. Access to finance
Seda Business Build and Business Grow product offering include facilitating access to finance by SMEs. To ensure SMEs in this sector acquire finance Seda might need to come up with initiatives which seek to move the SMEs into upstream of the value chain. This requires Seda assisting SME’s to acquire higher loan values with longer repayment periods. Seda will have to increase the level of assistance and information to SMEs in this sector to acquire the type of finance needed.

7.4.2.6. Regulation and compliance
Seda support centres to provide assistance with compliance and adequate training should be provided to SME and their employees on regulations, compliance, and safety and quality management issues. The Stp is structured to facilitate this service.

It was however noted that there is insufficient financing available especially for high technological inclined SMEs. These SMEs require expensive machinery and equipment and their product development phase are fairly long. Secondly, the SABS approvals and quality standards are higher than the R50,000-00 and R90,000-00 respectively as currently provided by Seda. As indicated in the value chain analysis, the upstream of the value chain is capital intensive. Thus, in order to make a meaningful impact in the sector, Seda might need to come up with initiatives which seek to move the SMEs into upstream of the value chain. This requires higher
loan values with longer repayment periods. The required response, from the DTI and Seda, should be designed to increasing the amount of grants available to the sector.
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RESEARCH STUDY TO IDENTIFY THE NEEDS, OPPORTUNITIES AND CHALLENGES OF SMES THE PLASTICS AND CHEMICALS SECTOR


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SARB Annual Report 2010


Underhill Corporate Solutions [www.underhillsolutions.co.za], January 2013


Chimucheka, T. and Rungani, E. C (2011) The impact of inaccessibility to bank finance and lack of financial management knowledge to small, medium and micro enterprises in Buffalo City Municipality, South Africa

ANNEXURE A: EVALUATION OF SELECTED SME SCHEMES

A recent study conducted by Timm (2011) provides useful lessons to be learnt from other emerging countries, specifically India and Brazil, on improving SME support in South Africa.

1. **Financial support – credit guarantee scheme, Khula**

Compared to its Indian counterpart, the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE), Khula’s guarantee scheme’s performance has been very poor since its inception in 1996. The scheme is aimed at business owners who lack sufficient collateral to access traditional bank finance. The scheme disburses amounts ranging from R10,000 to R3 million, covering between 50% and 90% of the loan amount, depending on security available. Since its inception, the number of guarantees given out by Khula has not exceeded 800. The highest number of guarantees given out was 797 in the 2001/2002 financial year.

Khula’s default rate on its guarantee scheme between 2005/2006 and 2009/2010 came to 42.15% of the total loan amount, with 80.1% or 1,381 loans in those five financial years in default. In India, the equivalent figure in terms of the total value of loans in default was 2.5%. The non-repayment of loans in South Africa is a big problem. Unless this problem is attended to as a matter of urgency, any attempts to increase lending to small businesses will make little impact.

Timm (2011) makes a number of proposals to improve Khula’s performance drawing on lessons learnt from its Indian counterpart, the CGTMSE. Recommendations made include, firstly, targeted lending. He suggests that the Financial Services Sector Charter could be used as an important tool to encourage banks to be more involved in lending to SMEs and drive bank’s involvement in Khula’s guarantee scheme as banks can score valuable points on the BEE scorecard for meeting targets under the charter.

The second recommendation made is improved turnaround times for applications using “strong IT systems” such as the use of a web portal which allows member banks to feed applications for guarantees back to Khula’s offices for processing. With an online system, business owners can apply for and receive a guarantee within 24 hours. The longest waiting period would be 2 to 3 days if the application is made on a weekend. While Khula currently aims to finalise applications within 3 days, member banks’ processes can

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98 The Indian Government’s priority lending policy requires commercial banks to lend 40% of their net bank credit to priority sectors of which small business are an integral part. Foreign banks are required to lend 32% to priority sectors with 10% specifically earmarked for the small-scale sector. Banks that fail to meet these requirements are penalised.

99 In India, all branches of banks participating in the guarantee scheme have access to the CGTMSE’s website using a user ID and password which the banker uses to access the scheme’s website and feed an application into the system. This system has helped streamline the handling of applications.
take weeks to finalise. There is no back end IT system at Khula and applications to the guarantee are simply emailed to Khula by the banks.

The third recommendation is the holding of regular workshops and meetings with banks to explain to them the significance of the guarantee scheme and get the banks buy in. Getting the buy in from banks has been difficult for Khula. It is necessary for Khula to meet regularly with the banks to review processes and the banks needed to ensure that the banks’ staff members assigned to the scheme were committed.

The fourth, and possibly the most important recommendation is improving the rate at which Khula responds to paying out defaulting loans, a big concern for the banks. Khula requires the banks to seek a default judgement first against a business owner before lodging a claim, which can take from one to 3 months\(^{100}\). Moreover, the process for making a claim is cumbersome and must be supported by 5/6 pieces of documentation to support the claim. In contrast, the CGTMSE makes the first payment the same day the application is posted\(^{101}\) and very little documentation is required\(^{102}\), the scheme’s “unique selling proposition”. Although Khula settlements are made in one lump sum within 30 days of receipt of all information, banks first have to secure a default judgement and all sureties in court before they can lodge a claim.

The fifth recommendation is the “sharpening of the assessment process”. The Khula assessment is more intensive and documentation requirements are more onerous than for most banks’ internal credit applications. Despite this, the default rate for Khula backed loans is higher than the bank’s own business credit portfolio, a sign that the Khula’s assessment criteria are not as robust as they could be\(^{103}\). Moreover, the administration of the Khula scheme is costly.

It is evident from the above, that the “gap” in this case is not a result necessarily of financing not being available, but rather the manner in which the scheme is administered does not promote access to financing via this route because the banks are reluctant to lend on the basis of a Khula guarantee\(^{104}\). Therefore, any improvements in the performance of the Khula guarantee scheme can only be achieved by changing the manner in which the scheme is managed and administered.

\(^{100}\) And up to 5 years in extreme cases.

\(^{101}\) 75% of the guaranteed amount. The balance is paid once the legal process to recover the loans is completed.

\(^{102}\) When filing the claim, the applicant has to indicate (by ticking the relevant boxes) whether: (1) the guarantee is valid; (2) the loan has been classified as nonperforming; (3) they have issued a recall notice; (4) they have filed in the appropriate forum; and (5) there is certification from an AGM-level officer.

\(^{103}\) This problem is probably compounded by the “entitlement culture” with “loans being perceived as grants” by borrowers as the loans are funded from public money and therefore does not have to be paid back (Timm, 2011: 37).

\(^{104}\) i.e. perceived benefits by the banks are not worth the effort.
2. **Business support - Seda**

The availability of quality, affordable business advice and support is just as important, if not more so, than access to finance and markets. Seda was established in 2004 by the Small Business Act and is mandated to support enterprises. Its performance, however, has been criticised on a number of fronts, including its focus on unsophisticated, micro-enterprises (whose capacity to generate employment is questionable) and for offering generic, rather than sector specific support. Absent from Seda’s support profile are medium sized firms, despite the agency’s assertion that it focuses 20% of its support to these firms. And although it was intended to be a one stop shop, Seda has no control over the Government’s many small business support programmes.

There are many lessons to be learnt from its Brazilian counterpart, Sebrae. The first is the use of innovative methods to widen the agency’s reach. Sebrae uses a variety of channels (such as television, radio, print media, competitions and blogs) to reach business owners, in addition to its call centre, website and branch networks. As noted by the FinScope Small Business Survey, only 4% had heard of Seda and a mere one percent of business owners had accessed Seda branches. There is a need, therefore, for Seda to increase its presence through a variety of methods. The launching of Seda information kiosks in 2010 is a move in the right direction and will serve to increase Seda’s brand more effectively whilst doubling as an efficient business information supply service.

Another lesson from to be learnt by Seda from its Brazilian counterpart, is to make more use of private sector consultants. While Sebrae makes use of over 9,500 private sector consultants, Seda was cutting back on the number of consultants it uses in favour of in-house business advisors who have little or no business training. Although Seda has increased its internal training capacity, the people providing the training and advice have no or very little business experience which will limit Seda’s effectiveness in offering more sophisticated and focused (sector specific) support as no amount of training can substitute for real experience a consultant would have gained from running his/her own business. There is need to improve the number and quality of consultants in South Africa and Seda should focus on initiatives that would upskill private sector business consultants rather than training in-house business advisors.

The third lesson to be learnt, according to Timm (2011), is for Seda to target more sophisticated clients. The dilemma that Seda faces, is whether to support more high-growth businesses which are traditionally run by more skilled and wealthy entrepreneurs, but which create many more jobs; or, to support micro-enterprises which offer those without a job the possibility of income, but which will either soon fail or will amble along without creating more than one or two jobs.
Lastly, with respect to Seda, Timm recommends that the Seda puts in place systems to monitor the impact of interventions. The systems can be used to motivate consultants and internal staff to deepen the impact of their support to entrepreneurs as incentive schemes can be tied in to those interventions which perform well.

3. Market support – set asides for SMEs

Business owners also need access to markets to succeed. Government can increase its support in this area by setting aside certain types of procurement for SMEs, as a number of countries like South Korea\textsuperscript{105}, the United States and Japan do. Small businesses have the potential to grow if they are able to participate in Government’s planned expenditure in infrastructure, for instance. To date, efforts to put set asides in place have been vetoed by the National Treasury on the grounds that they are unconstitutional. Moreover, the National Treasury probably shares the concern that many other governments have that set asides may serve to inflate the costs of procurement.

A study by Nakabayashi (2009), however, that evaluated Japan’s policy of allocation approximately 50% of construction contracts to small firms revealed that the increase in costs associated with procuring more from small firms was “neutral” (Timm, 2011; 46). On its own, the policy of set asides may not be sufficient and needs to be accompanied by developing “e-procurement” systems which would have the effect of reducing the bidding costs, thus making tendering more accessible to all and the reduction in the time it takes for Government to pay suppliers. In addition to business support and finance, the Government should, therefore, consider how public procurement can be used to facilitate small business growth in South Africa.

4. Other initiatives

In addition to the above Timm (2011) notes that South Africa could do much to create a successful awareness campaign to promote entrepreneurship. South Africa needs to create role models which will inspire others to become entrepreneurs and embark on a massive, ongoing entrepreneurship campaign. At the moment, there is not enough acknowledgment of the contribution that entrepreneurs make to the economy. According to the GEM 2009 Report, “GEM studies over the years have conclusively shown that the low rate of early stage entrepreneurial activity in South Africa is influenced by the low level of overall education, social and entrepreneurial factors that do not encourage entrepreneurship as a career path of choice, a lack of access to finance and a difficult regulatory environment” (Timm, 2011: 48).

Timm concludes his study with what he terms as “key learnings” being the development of a national entrepreneurial vision with measurable targets and backing from the President, establishment of more forums

\textsuperscript{105} South Korea, whose miracle economic growth was largely driven by the promotion of small businesses, has had a set aside policy for small enterprises since 1965 (Timm, 2011: 43).
based on private public sector partnerships, the simplification of the Government’s support structure, implementation of effective real-time monitoring mechanisms in place and improving the capacity of Government agencies.

**ANNEXUREB: SMME CLASSIFICATIONS**

Threshold for the classification for micro, very small, small and medium enterprises

<table>
<thead>
<tr>
<th>Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)</th>
<th>Site or Class</th>
<th>Total full-time equivalent of paid employees (Less than)</th>
<th>Total annual turnover (Rm) (Less than)</th>
<th>Total gross asset value (fixed property excluded) (Rm) (Less than)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
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<td></td>
<td>Micro</td>
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<td>0.10</td>
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<td>Mining and Quarrying</td>
<td>Medium</td>
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<td>39.00</td>
<td>23.00</td>
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a. **Buyers – What procurement challenges do you face when dealing with SMEs?**

- They need cash for every transaction (Buyer, KZN)
- Most SMEs are not SABS approved and they require cash upfront (Buyer, GP)
- They cannot deliver in time. Lack of capacity to meet clients needs and lack of funds make them compromise quality of products (Buyer, MP)
- I have never faced any challenge (Buyer, KZN)

b. **Buyers – What are the advantages of dealing with large corporations as opposed to SME’s?**

- Stock is always available (Buyer, GP)
- We don’t deal with SMEs because we buy in bulk and they cannot provide us with large quantities (Buyer GP)
- Price competitiveness and stock availability (Buyer, GP)
- You buy on account and all documentation supports their product (Buyer GP)
- Better service and good quality products (Buyer, Western Cape)

c. **SMEs – Assistance required for the next 1-5 years and structure of product**

- No or low interest rate loan (SME, Chemicals, EC)
- Loan repayment structure over a long period of time (SME, Marketing and Distribution, KZN)
- Long term plan on repaying loans (SME, Marketing and Distribution, Western Cape)
- Quick response in people looking for assistance (SME, Chemicals, Gauteng)
- Easily accessible (SME, Chemicals, Gauteng)
- Quick response in helping people looking for assistance (SME, Chemicals, Gauteng)
- Assist where they can (SME, Chemicals, Gauteng)
- Assistance in terms of re-financing/revalue the factory (SME, Chemicals, Gauteng)
- Good repayment plan for a loan (SME, Marketing and Distribution, KZN)
- Industrial Development Corporation (IDC) to speak to them about the way forward (SME, Plastics, Western Cape)
- Export credit guarantee (SME, Plastics, Western Cape)
- Financial support with long term repayment method (SME, Plastics, Gauteng)
- Longer period of repaying the loan (SME, Manufacturer, Gauteng)
- Flexible repayment structure of loans (SME, Chemicals, Gauteng)
- Favourable interest rates on loans (SME, Plastics, Gauteng)
- Help with business growth loan (SME, Manufacturing, Gauteng)
- SEDA must have loans designed to suit every business whether small or big (SME, Manufacturing, Gauteng)
- Expansion loan with long term repayment structure (SME, Manufacturing, Western Cape)
- Business expansion loan (SME, Chemicals, Western Cape)
- Easily accessible finance (SME, Marketing and Distribution, KZN)
- Need loan for mould development if it can be easily accessible (SME, Plastics, Gauteng)
- Business expansion loan with long term repayment structure (SME, Plastics, KZN)
- Working capital loan with low interest rates (SME, Plastics, Western Cape)
- Business expansion loan to start another branch (SME, Chemicals, Western Cape)
- Working capital loan with long repayment method (SME, Marketing and Distribution, Gauteng)
- Business growth loan (SME, Manufacturing, Gauteng)
- Capital loan on a long term repayment plan (SME, Manufacturing, Gauteng)
- Correctly priced loans (SME, Plastics, Gauteng)
- Export credit guarantee (SME, Plastics, Western Cape)
- Long term repayment plan (SME, Marketing and Distribution, Western Cape)