

SUPPORTING URBAN SMALL-SCALE MANUFACTURERS: THE CASE OF EMERGING BLACK-OWNED ENTERPRISES IN GAUTENG, SOUTH AFRICA

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Contents

1. Introduction
 2. Gauteng's Emerging Manufacturers: A Profile
 3. The Macro-Policy Environment – Provincial and Local
 - 3.1. The Provincial Tier
 - 3.2. The Local Tier
 - 3.3. Weak Policy Frameworks
 4. Support Needs
 5. The Question of Markets
 - 5.1. Concentrated Market Structures
 - 5.2. Linkages and Inter-Enterprise Cooperation
 - 5.2.1. Linkages between Large Firms and the SMME Economy
 - 5.2.2. Networks and Linkages within the SMME Economy
 - 5.2.3. Government Tenders and Procurement
 6. Concluding Comments
- Glossary
Bibliography
Biographical Sketch

Summary

One key element for sustainable urban development in Africa, Asia and Latin America is support for the growth and survival of small scale enterprise. The objective in this paper is to examine the case of small, medium and micro-enterprise development in post-apartheid South Africa. More specifically, the focus is upon overcoming the problems facing the development and expansion of emerging black-owned manufacturing enterprises in Gauteng Province, South Africa's economic heartland.

Key blockages to development of these emerging manufacturing enterprises relate to access to finance, training and, most importantly, to the expansion of the markets of these emerging enterprises.

Initiatives to expand the markets of these small enterprises relate to inter-enterprise cooperation, promoting business linkages with larger private sector enterprise and programmes for expanding opportunities in the context of public procurement.

1. Introduction

Across the urban developing world, considerable optimism is attached to the economic potential of the small-scale enterprise economy in terms of its contribution towards job creation, income enhancement and poverty alleviation. Support for the small-scale enterprise economy is a critical element in addressing one of the pressure points for achieving sustainable cities. Nevertheless, in many developing countries, particularly in Africa, government support structures for enterprise development are limited and, where they exist, often fail to reach or address the core support needs of the small enterprise economy.

Post-apartheid South Africa offers a particularly interesting context for an examination of issues surrounding small enterprise development. Since the 1994 democratic transition, a new policy framework and accompanying structure of support has been introduced by the South African national government in order to assist and promote the growth of what is termed the SMME (small, medium and micro-enterprise) economy. One of the critical objectives of this new policy framework is support for the empowerment of entrepreneurs drawn from South Africa's formerly disadvantaged racial communities. In this case study, the focus is upon identifying the support needs of groups of emerging entrepreneurs and of black-owned manufacturing enterprise in Gauteng province, South Africa's economic heartland. The case study region of Gauteng is South Africa's most urbanised province and includes the major cities of Johannesburg, Soweto and Pretoria, as well as the settlements that comprise the Witwatersrand. Moreover, urban Gauteng is the major national focus for emerging SMME manufacturers and enjoys the highest enterprise density of all South Africa's provinces.

The paper is structured in terms of four sections of discussion. First, a profile of emergent manufacturers in the Gauteng SMME economy is presented. Second, major elements of the macro-policy environment are examined in terms of the key provincial and local policies that impact upon the emerging SMME economy. Third, the focus turns to the identified sets of problems and support needs of emergent manufacturers. Finally, in the last section, the key theme is addressed of market constraints, concentrated market structures and of the need for an expansion of business linkages and of inter-enterprise cooperation.

2. Gauteng's Emergent Manufacturers: A Profile

According to official data, in 1995 Gauteng had a total of 278 950 SMMEs which employed approximately 1.62 million workers. In sectoral terms, the largest share of Gauteng SMMEs is dominated by retail activities, with manufacturing SMMEs identified as the second most significant, as measured both in terms of total number of establishments and numbers of employment opportunities. Although no precise breakdown of data exists, concerning manufacturing SMMEs, into the categories of established and emergent enterprises, it is clear that the Gauteng manufacturing economy is marked by the overwhelming strength of established SMMEs versus the relative weakness of the emerging SMME economy. By international standards of SMME development, the level of manufacturing that takes place in the emergent sector

of urban South Africa remains relatively low. Overall, the ability of South Africa's formal manufacturers to supply even the low end of the market may partly explain the limited growth of a class of dynamic small manufacturers.

A number of studies shed light on the kinds of manufacturing activities in which emergent SMMEs are engaged. Existing research shows that the community of Gauteng's emerging SMME manufacturers are involved in a host of different activities, which occur locationally within people's homes, and in backyards, as well as in rental spaces in formal premises. The formal premises include special purpose industrial parks, and mini-factories, as well as the use of old, low-grade, empty C and D grade office space in the central business districts of urban Gauteng. Of critical importance is the role played by Johannesburg inner-city, which has been shown to be a magnet for emergent SMME manufacturers from all parts of Gauteng. The types of industrial activities that have been recorded include, *inter alia*, bakeries and other food-related production activities, the production of soft textile products, burglar-proofing, fencing and steelworks products, metal-pressing, production of windows, wood products (including coffins, furniture and dog kennels), upholstery, and a wide range of clothing goods.

Notwithstanding an array of operations, there occurs a marked specialisation of emerging manufacturers within certain narrow kinds of production activities. Overall, there appear to be three distinctive clusters of production activity which currently dominate the emerging Gauteng SMME economy. First is a group of metal-working activities, which take place in several formally established industrial hives and formal mini-factories across the metropolitan Witwatersrand as well as a thriving backyard economy. The backyard metal-working cluster has been boosted by retrenchments in the formal economy as well as by the opportunities that have opened for subcontracting to larger formal enterprise metal-working producers. Second is a cluster of garments or textiles producers, many of which started out in township backyards and back rooms and have relocated to vacant buildings and office spaces in the inner-city of Johannesburg. As a result of racial residential desegregation, an increasing trend is for a higher proportion of new enterprise births to occur in the inner-city flatlands of Johannesburg rather than in the African townships.

The important clothing and textiles cluster comprises a suite of different activities, including the production of traditional African clothing, pinafore dresses, shirts, hats, overalls, curtains, pillows, duvets, bedspreads, wedding dresses, general tailoring and the making of specialist clothing variously for schools, sports clubs, women's groups or the Zionist Christian Church. Within this cluster is a mixture of both independent producers and dependent sub-contracting enterprises.

The independent producers divide into three groups: those who operate in low-value markets (most typically, pinafore producers); those who are more diversified (producing, for example, curtains or duvets as well as dresses), and those who concentrate on mostly high value items such as custom-made clothing (e.g. certain embroidered goods or wedding dresses). The contracted producers are integrally linked with the rest of the clothing industry and include cut-make-and-trim manufacturers as well as producers of final garments on contract to larger enterprises or for sale in

boutique shops or flea markets.

Lastly is a dispersed scatter of wood-working activities, including cabinet makers and furniture producers who operate from hives and industrial township mini-factories, as well as backyards throughout Gauteng. In the light of the dominance of the furniture sector by large producers and their established subcontractors, most of these emerging SMME wood manufacturers are independent enterprises that operate in localised markets, albeit with some linkages to the formal economy.

Within each of these three clusters of production activities, Africans are the major community of entrepreneurs, albeit in garments production there is also a notable representation by Asians in the formal small and medium-sized categories of enterprises. In terms of the nature of entrepreneurs in the Gauteng SMME manufacturing economy, it is necessary to acknowledge also the growing significance of groups of immigrant entrepreneurs from other parts of sub-Saharan Africa. In terms of manufacturing, most immigrant entrepreneurs originate from francophone West Africa, Malawi, Nigeria or Zimbabwe. Since the demise of apartheid and South Africa's democratic transition in 1994, Gauteng has been a major magnet for these foreign migrants and refugees, many of whom have entered the provincial SMME economy, establishing production activities, the majority of which are strongly clustered in the inner-city of Johannesburg. For immigrant entrepreneurs in manufacturing, their major spheres of production include clothing (including traditional African designs), wire-work and craft goods.

In relation to the gender of entrepreneurs, most available evidence suggests that the emerging manufacturing economy of Gauteng presently is dominated by males. That said, it should be noted that women entrepreneurs have been shown to dominate the African-run segment of the garments cluster in Johannesburg; the group of Asian and immigrant-run clothing SMMEs are, however, strongly male dominated. In a broad study conducted in Mamelodi, close to Pretoria, a common finding is that male entrepreneurs predominate in the emerging manufacturing SMME economy. In particular, male dominance is strong in the wood-working and metal-working clusters of enterprises that are situated in township industrial parks and the industrial hives of Gauteng. In the case of home-based enterprises, the general trend is for such enterprises to be operated primarily by women entrepreneurs. Research in Mamelodi revealed a sharp sexual division of labour with women clustering in clothing, textiles and food-processing enterprises whereas production SMMEs involved in metal working or wood processing tended to have male proprietors. More recent research points to the fact that the important garments SMME economy is highly differentiated and includes a mix of entrepreneurs, with many male entrepreneurs running more specialized clothing production operations, such as the making of leather jackets.

The particular role of women entrepreneurs deserves to be acknowledged as regard their support needs. Women entrepreneurs often have different goals and employ different business strategies to men. The goal of women, more so than men entrepreneurs, is to feed, clothe and educate their children. To achieve these goals women seek means to secure their income in diverse ways, whereas men pursue individual strategies, taking business risks in pursuit of profits. For many women entrepreneurs who are fitting

business activities around household and child-rearing responsibilities, graduation to a larger business outside the home may not suit their business plan. This points to the gender-differentiated support needs of groups of women entrepreneurs operating in the Gauteng emergent manufacturing economy.

Other research confirms the picture that emerging manufacturers in Gauteng operate in a wide range of markets. The range of activities extends from producing cheap goods for the poor, to lowering costs of production for formal industry by functioning as subcontractors, and yet, sometimes, producing high value, high quality goods for niche markets. Nonetheless, because of the apartheid legacy of discrimination against African-owned manufacturing, such micro-enterprises are typically located in the lowest value, poorest quality, least lucrative segments of the manufacturing sector. Moreover, during the early 1990s it was evident that most growth in the Gauteng SMME manufacturing economy was occurring through the *replication* of micro-businesses rather than the evolutionary expansion of existing enterprises which would result in the increase in the number of employees. A core finding of policy concern is the seemingly tiny fraction of emerging enterprises that eventually “graduate” from the micro-enterprise seedbed to become successful and employment-generating businesses in Gauteng.

Although no longitudinal data exist, it is evident from a range of Gauteng studies that by early 2000 the emerging manufacturing SMME economy was showing some signs of new vitality. New growth was occurring as a result of the continuing birth of new enterprises as well as the expansion of some existing SMMEs. It remains true that the major cause of new enterprise births is the relatively weak state of the formal sector in Gauteng. The weak labour absorptive capacity of the formal economy has meant that much growth takes place as a product of supply-push rather than demand-pull considerations. In Gauteng research, most survey respondents give unemployment as the major reason for starting a new SMME business; the majority of manufacturing start-ups are thus born out of necessity rather than choice. Nevertheless, recent retrenchments and factory closures create fertile conditions for a new wave of more highly skilled workers to set up production enterprises, particularly in the sectors of clothing and metal-working. In addition, the Asian-owned clothing economy contains a strong group of medium-sized garments producers that was initiated for reasons of market opportunities rather than out of survival considerations. Once again, several of the group of immigrant-run clothing producers in Johannesburg must be noted as outstanding examples of demand-pull related SMME origins.

A second key factor in the expansion of Gauteng's emerging manufacturing SMME economy relates to the informalisation of formal enterprise which is linked to growing flexibility in the labour market. Informalisation is the process by which formal factory jobs are increasingly displaced either by jobs in unregistered plants or by homework. For large enterprises, the advantages of subcontracting work to micro-enterprise producers are in terms of circumventing labour regulations, trade unions and lowering labour costs. This process of informalisation occurs through formal enterprise putting-out work to “splinter” operations in small workshops and home-based enterprises. Many large business enterprises are beginning to acknowledge the potential and advantages of emerging manufacturers as potential sub-contractors. Especially in the Johannesburg

clothing cluster, there is evidence of a growing trend of linkages between larger Asian producers and emerging African-owned cut-make-and-trim operations.

The broad picture of the emerging SMME manufacturing economy in Gauteng is thus of a situation of growth and change. In particular, during the post-apartheid period, against a backcloth of a radically changed national policy environment, signs of growth and diversification of production activities are observable within this emerging SMME manufacturing economy. Overall, it has been shown that the emergent manufacturing economy, albeit still small as compared to the established SMMEs, is growing and beginning to diversify out of certain overtraded areas (particularly within clothing). In addition, another optimistic sign is the appearance of a number of distinct industrial clusters of specialised activity, particularly in garments, metal-working and, to some extent, in wood products. In a recent evaluation of the state of Gauteng emerging manufacturers it was concluded that, whilst likely focused on domestic rather than export markets, the immediate and medium-term prospects for Gauteng's emergent manufacturing economy were "reasonably healthy", more especially if a general economic upturn occurs.

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Biographical Sketch

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