

2020

Clothing and Textile Competitiveness Programme

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Executive Summary

In response to the effects of the 2007/08 global financial crisis which destroyed 1 million jobs (including thousands in the clothing and textile sector), government introduced a clothing and textile competitiveness programme (CTCP) to stabilise employment and improve overall competitiveness for the sector. The programme also aims to change the structure of the clothing, textiles, footwear, leather & leather goods manufacturing industries by providing funding assistance to invest in competitiveness improvement interventions.

The CTCP, administered by the Industrial Development Corporation (IDC), is made up of two components namely, the Production Incentive Programme (PIP) and the Competitiveness Improvement Programme (CIP).

To date, government has spent approximately R7.6 billion on the CTCP of which 88.3 per cent of the approved value of applications are for the PIP. A total of 2 392 applications were approved, where the PIP accounts for 97.2 per cent. Under the PIP, a significant number of firms have benefited from the CTCP every year since its launch raising the question of how sustainable they might be if the CTCP were withdrawn or reduced. The largest beneficiary firm under the PIP had total approval of R243.1 million over the course of the programme while the smallest approved value was under R100,000. On the other hand, under the CIP most approvals were lower than R70 million except one project which had a total approval of R231.6 million.

Sectorally, the clothing subsector account for 30.5 per cent (or R2.2 billion) of total approvals of the PIP, followed by textiles which account for 18.3 per cent (or R1.3 billion) while technical textiles and footwear account for 13.4 per cent (R968 million) and 11.7 per cent (R840 million), respectively. On the other hand, under the CIP, textiles account for 29.8 per cent (R285.1 million), clothing, 27.8 per cent (R265.8 million) and footwear, 21.8 per cent (R208.1 million) of the total approvals.

Between 2011 and 2018, 5 699 jobs were created. Firms that benefited from the CTCP have seen improved performance across a range of metrics: production, market share, manufacturing value addition, on time and in full delivery. The IDC data shows that beneficiary firms increased their market share dramatically over this period, thus an important qualification when considering these successes: some, at least, are at the expense of firms that did not receive funding from government, which means that the successes in beneficiary firms need to be offset against possible negative effects on non-beneficiaries' output and employment.

While, the Department of Trade, Industry and Competition (DTIC) points to the increase in market share as success, it cannot be conclusively determined what could have happened

without the incentive. In this regard, it should be pointed out that the incentive is small relative to the size of the industry and caution should be exercised in attributing to it undue influence over trends.

Considering that the CTCP still forms a critical component of the Retail, Clothing, Textile, Footwear and Leather (RCTFL) Master Plan, a proper evaluation of the CTCP is necessary to inform how best the programme can support the objectives of the Master Plan.

Some of the challenges encountered during the spending review relate to data gathering from the stakeholders either due to time limitations or data not being collected. For instance, the IDC indicated that it does not collect data related to specific interventions under the CIP programme. Without this data, it becomes difficult to comprehensively analyse expenditure on the programme and to conduct costing models. However, conducting a costing exercise for these type of programmes may be complex in that firms applied funding for different interventions. Similarly, due to limited time, the team could not analyse individual firms that benefited from the CTCP. The team has requested the IDC to submit the data and the results of the analysis will be an addendum to this report. That is why the spending review therefore firmly recommends a comprehensive review to cover all these areas to properly inform decisions about the programme.

CONTENTS

Executive Summary	2
Introduction	1
Policy and Institutional Information	3
Programme Chain of Delivery	5
Performance Analysis	11
Expenditure Observations	22
Options	25
Recommendations	27
Actions	27
Bibliography	29
Appendices	30

Introduction

The 2007/08 global financial crisis resulted in the collapse of global economies. In South Africa, over one million jobs were lost across different sectors where the manufacturing sector was severely affected. Included in the manufacturing sector is the clothing and textile sector. Firms were closed and jobs were lost. Prior to the crisis, influx of under invoiced and illegal imports also resulted in local firms losing the domestic market to cheaper imports. From January 2008 to January 2009, clothing and textile exports decreased by 9 per cent, compared with a 15 per cent increase experienced from January 2007 to January 2008. In addition, this was worsened by lack of notable investment in the sector over the previous years as a result of various “headwinds” such as currency appreciation and volatility; competitiveness challenges; skills deficits and limited economies of scale in parts of the value chain.

Subsequently, government developed a number of sectoral initiatives to respond to the crisis. Among the measures, government through the DTIC developed the CTCP in 2009. The programme aimed to stabilise employment and improve overall competitiveness in the clothing, textiles, footwear, leather and leather goods manufacturing industries. A secondary objective was changing the structure of the clothing, textiles, footwear, leather & leather goods manufacturing industries by providing funding assistance to invest in competitiveness-improvement interventions.

The CTCP aims to help the industry upgrade its processes, products and people. This is expected to move the industry up the value chain to activities that do not compete against “sweatshop” labour practices and pervasive government subsidisation in other developing countries.

One criticism of this approach is that the clothing and textiles sector is one of the most labour-intensive of all manufacturing sectors, with the potential of employing large numbers of unskilled workers in relatively low-wage activities. The process of enhancing competitiveness is often a process of replacing low-wage workers with machinery that is operated by a smaller number of more-skilled workers (which is what the PIP incentive is designed to finance). These workers may earn more than the low-wage workers they replace, but in the process the industry also become less labour-intensive and creates fewer jobs. There are, therefore, some negative effects of this process that policy-makers should be aware of.

The CTCP replaced the duty credit certificate (DCC) programme which was not able to adequately respond to a weakened clothing sector. As a result, the CTCP was viewed as an upgraded incentive.

To date, government has spent approximately R7.6 billion under the CTCP. The DTIC argues that the sector has been stabilised leading to new factories being opened and jobs being created. A significant increase in the value of exports for this sector was also realised over the years.

Policy and Institutional Information

Policy and Legislation

The clothing and textile is a key component of the manufacturing sector which is governed by the Manufacturing Development Act (63 of 1997). In 2007, the National Industrial Policy Framework as operationalised by the annual Industrial Policy Action Plan (IPAP) iterations included the clothing and textile as one of the critical sectors in South Africa as it contributes to employment and general industrialisation.

In 2019, the DTIC developed initiated the Re-imagined Industrialisation strategy. Under this, concept, the department collaborates with various stakeholders to develop master plans for each sector outlining key interventions that aim to stimulate sectoral performance. The CTCP remains a key component of the RCTFL Value Chain Master Plan. The objectives of the RCTFL Master Plan include that by 2030, the sector must create 121 000 new jobs (which would amount to an increase in employment of well over 100 per cent if it were achieved) , enhance the value chain's costs, processes and competitiveness, embrace new technologies, improved returns throughout the value chain, develop management and technical skills, transform the value chain, improve environmental responsiveness of the sector and development of a fair and equitable operating environment. Building demand drivers and verticalisation (i.e. building supply chains that are integrated into retailers' operating models) and ecosystem development form the guiding principles for the implementation of the Master Plan. These will be anchored by promotion of local procurement and enhanced local supply value chains. During engagements with the DTIC, the department conceded that the target to create 121 000 new jobs appears to be over ambitious. It however indicated that because implementation of the Master Plan is premised on the collaboration of government and the private sector and hence government will leverage on private sector resources.

The Master Plan identifies seven core action commitments which include growing the local market, increasing local procurement, stopping illegal imports, providing strategic tariffs and rebates, extension of the CIP and PIP in an appropriate format for three years, aligning production capacity to sales cycles, and transforming the value chain by implementing Broad Based Black Economic Empowerment policies. Progress on these core areas will be monitored through seven task teams on, trade licensing, illicit and illegal trade and manufacturing, tariff protection, supply side incentives and support, skills and productivity development, export competitiveness, and strategies for niche value chains.

Governance arrangements and Monitoring and Evaluation of the CTCP

The DTIC runs the CTCP through the IDC. While the DTIC is the programme owner, the IDC is the programme implementing agency. Within the DTIC, the CTCP falls under Programme 4: Industrial Competitiveness and Growth under the Customised Sectors subprogramme. The section below lists key institutions and stakeholders that are involved or have an interest in the implementation of the CTCP including their roles.

Table 1: CTCP key stakeholders and their roles

Institution	Responsibility
Department of Trade, Industry and Competition	<ul style="list-style-type: none"> • Develops and oversees implementation of industrial policy • Designs industrial policy instruments such the CTCP • Outsources implementation of the CTCP to the IDC • Requests for funding for the CTCP from the National Treasury indicating the amounts required • Provides funding for the CTCP and transfers it to the IDC • Accounts to parliament on utilisation of funds and performance of the CTCP • Approves the CTCP guidelines • Participates in the adjudication of applications for funding under the CTCP • Conduct site visits
IDC	<ul style="list-style-type: none"> • Is the programme management agency for the CTCP (administers the programme on behalf of the DTIC) • In collaboration with the DTIC, develops guidelines for the CTCP including the qualification criteria • Invites applications from interested applicants • Evaluates and adjudicates on the applications in line with the CTCP approval process • Enters into funding agreement with the approved applicants • Disburses money to the applicants • Collects and reports on the performance of the CTCP to the DTIC and Parliament • Conduct site visits

Institution	Responsibility
	<ul style="list-style-type: none"> • Conduct audit of the CTCP
National Treasury	<ul style="list-style-type: none"> • Makes recommendations to Parliament to appropriate funding for the CTCP. The National Treasury can alter amounts proposed by the DTIC however, Parliament has final say • For in-year funding requests that can be approved by it, the NT can approve or not approve requests to increase or decrease the transfer for the CTCP • Requests for the CTCP's performance reports
Companies within the clothing and textile sector	<ul style="list-style-type: none"> • Apply for funding under the CTCP • If approved, they should utilise funds for purposes for which funds were applied for • Comply with the funding agreement with the CTCP • Provide financial and non-financial reports to the IDC • Provide the IDC with access to information it may require
Parliament	<ul style="list-style-type: none"> • Appropriates funding to the DTIC for the CTCP and can therefore decide on the final amount that can be appropriated towards the programme • Call the DTIC and the IDC to account for the CTCP • May conduct site visits

Programme Chain of Delivery

Clothing and Textile Competitiveness Programme Design

The CTCP consists of two programmes that are managed by the CTCP Desk within the IDC. The programmes are; Production Incentive Programme (PIP) and the Competitiveness Improvement Programme (CIP).

Production Incentive Programme

The Production Incentive Programme (PIP) is administered by the CTCP Desk at the IDC. The programme aims to help the industry to upgrade its processes, products and people. The PIP is a market-neutral incentive based on a 7.5 per cent incentive on Manufacturing Value Addition (MVA). The MVA is calculated from net sales less value of goods manufactured

outside of South Africa less value of other bought in finished goods less Material Input Costs less cut, make and trim (CMT) costs. In practice, MVA is roughly equivalent to the wages paid by a firm plus its profits (or minus its losses). The MVA calculation is based on audited financial statements, but as is evident, the larger a company's MVA (essentially its labour costs and profits), the larger the value of support it is eligible to receive.

The funds for the incentive are held at the IDC and ring-fenced for each specific company and made available to the approved companies on presentation of qualifying competitiveness improvement interventions. Only companies that are in full tax compliance and that also comply with all labour-related regulations and agreements reached at the Bargaining Council (especially in relation to minimum wages) are eligible for the grant. Cooperatives are ineligible. The PIP covers the following sectors:

- Clothing manufacturers;
- Textile manufacturers;
- CMT operators;
- Footwear manufacturers;
- Leather goods manufacturers;
- Leather processors (Specifically for Leather Goods and Footwear industries); and
- Design houses where the design house is required to collaborate with one or more CMTs.

The PIP aims to structurally change the clothing, textiles, footwear, leather & leather Goods manufacturing industries by providing funding assistance to invest in competitiveness improvement interventions. The PIP encourages and supports upgrading and competitiveness improvement programmes in the sector. The PIP consists of an Upgrade Grant Facility, which focuses on improving competitiveness of firms.

The amount of benefit under the Upgraded Grant Facility is capped at 7.5 per cent of the MVA determined and therefore is referred to as the benefit ceiling. It is the maximum amount that will be available to an applicant in a specific financial year. After the benefit has been determined, a confirmation of the approved benefit ceiling is issued to qualifying applicants. The amount available under the benefit ceiling is accessed on presentation of proof of qualifying expenditure to the satisfaction of the CTCP Desk through the redemption application process. Amounts approved should be used within a period of 24 months. If the applicant fails to use the approved funds within the contract period, the money is forfeited to the CTCP pool.

The Upgrade Grant can be used for the following qualifying expenditure:

- Upgrading of existing plant and equipment;
- Acquisition of new plant and equipment which will have the effect of improving the overall competitiveness of the applicant;
- Developing people;
- Improving manufacturing processes;
- Optimising materials used;
- Developing new products; or
- Market development (excluding normal day-to-day-marketing expenses such as advertising) as part of a clearly defined strategy.

There is an argument that interventions that target upgrade of plant and equipment result in capital intensive processes which contradict the objective to increase employment within the clothing and textile sector which is known to be labour-intensive. Natrass and Seekings (2013) argue that the CTCP has reduced employment in the sector by creating a bias towards more capital-intensive production processes. The DTIC and the IDC, however, argue that the enhanced capital-intensive production processes free up labour for other processes and hence, the CTCP has not resulted in job losses. It is inevitable, however, that a more capital-intensive industry will employ fewer people per unit of output than a more labour-intensive industry.

An Upgrade Grant can also partly be used in conjunction with the CIP. Companies qualifying for an Upgrade Grant have the option of using it towards funding their own contribution of 25 per cent (Ordinary Cluster application) or 35 per cent (Company level application) required in terms of the CIP up to a maximum of 100 per cent for Small and Medium Enterprises (SMEs) and 75 per cent for others.

Once approved, a company can redeem its benefit by applying to the CTCP Desk. However, during initial application for funding, applicants are required to submit FORM 1: Benefit Ceiling Application that is accompanied by FORM 2: Redemption Application, FORM 3: PIP Questionnaire, FORM 4: PIP M&E Questionnaire and FORM 5: Employment Data.

For detailed outline on the processes and methodologies for this component of the CTCP, refer to PIP Guidelines.

Competitiveness Improvement Programme (CIP)

The CIP is the second component of the CTCP and is also administered by the CTCP Desk at the IDC. It aims to create globally competitive firms and clusters. The programme seeks to build and improve capacity and competitiveness of manufacturers and designers through related value chains to effectively supply their customers locally and internationally. Competitiveness encompasses aspects of cost, quality, flexibility, reliability, adaptability and the capability to innovate.

The CIP is premised on the principle that competitiveness is attained if interventions are value chain based as opposed to individual firm approach. Therefore, the CIP is based on cluster formation of either similar manufacturing entities or a value chain cluster. These may comprise manufacturers, suppliers and retailers working together to improve competitiveness of the whole network.

The programme offers ordinary clusters a cost-sharing grant incentive of 75 per cent of the costs of a qualifying project. A cluster is a group of at least five manufacturing companies or a combination of manufacturing and related organisations (e.g. retailers, design houses, component manufacturers) that are collaborating towards improving the competitiveness of cluster members both individually and as a cluster. A cluster can either be national or subnational. The remaining 25 per cent should come from the cluster participants. These incentives will not cover costs pertaining to machinery, equipment, commercial vehicles, land or buildings. Grant support for each approved partnership will be limited to a cumulative ceiling of R25 million over the period of the programme implementation.

The CIP offers national clusters and their supporting subnational clusters an initial investment grant of 100 per cent of the approved qualifying expenditure for the first year, where after it becomes a cost sharing grant of 95 per cent from the CIP in year 2, nine 9 per cent from the CIP in year 3, eight per cent from the CIP in year 4 and 70 per cent from the CIP in year 5. The balance of funding needs to be raised from cluster participants.

Competitiveness improvement support targets the following areas:

Area	Items
People	<ul style="list-style-type: none"> • Training • Labour relations and employee wellness programmes
Product Processes	<ul style="list-style-type: none"> • Product-related supply chain integration • Industrial engineering services • Competitiveness improvement interventions • World-class manufacturing principles • Bottom-line business processes
Market development	<ul style="list-style-type: none"> • Market Research • Market Plan • Product Certification Requirements • Showroom • Brand development • Trade shows, inward- and outward-bound missions
Technological Innovation	<ul style="list-style-type: none"> • New software technology demonstration • New hardware technology demonstration • Process innovation

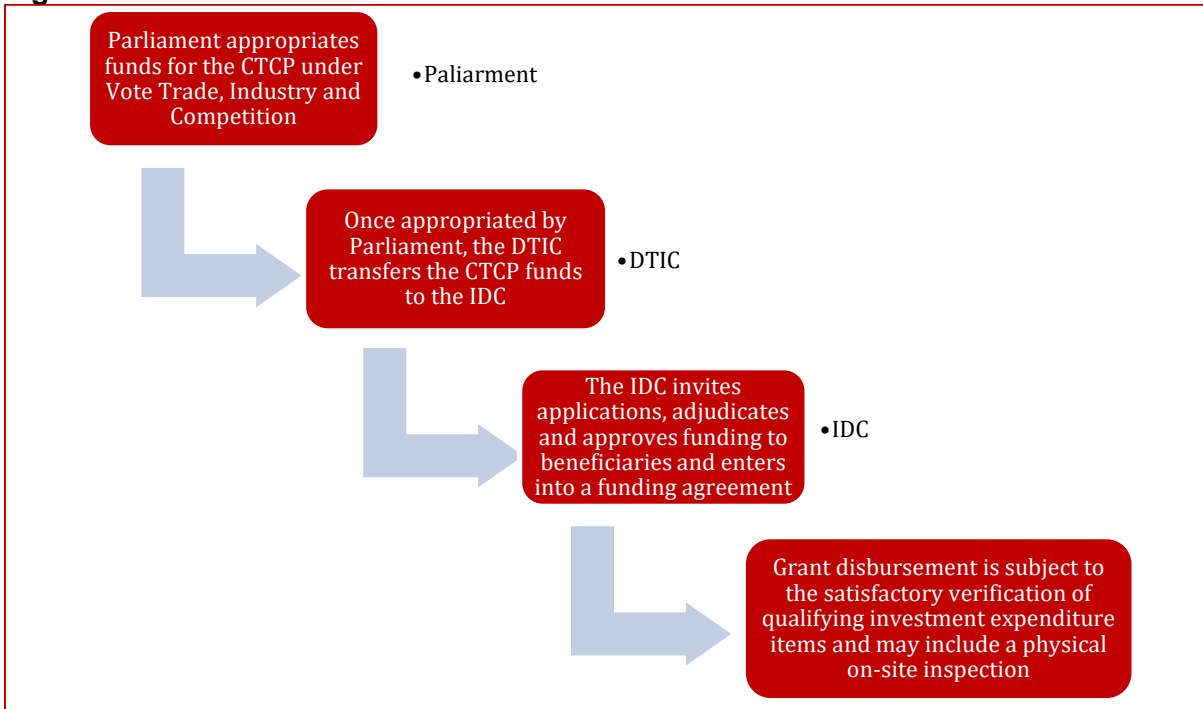
Similar to the PIP, applications are submitted to the CTCP Desk at the IDC which will send a team to conduct a due diligence investigation to evaluate the application and make recommendations to the Projects Approval Panel. On approval, the applicant is informed and a legal agreement is entered into with the IDC. The applicant may then start claiming according to the budget and milestones of the project.

For detailed outline of the processes, refer to the Guidelines for the CIP programme.

Flow of funds

The CTCP is mainly funded from the fiscus through Parliamentary appropriations under the Trade, Industry and Competition Vote. Once, appropriated, the DTIC transfers money to the IDC, which then transfers money to the approved beneficiaries in line with the funding agreements. This process is illustrated in the figure below.

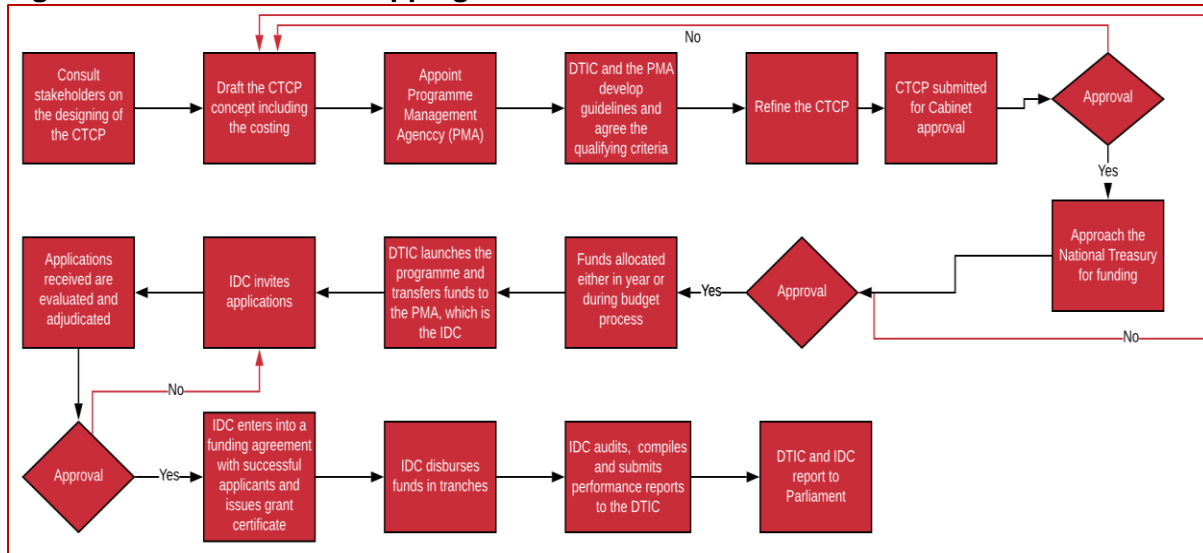
Figure 1: CTCP flow of funds



Source: National Treasury

CTCP Process Mapping

Figure 2: CTCP Process mapping



Source: National Treasury

Performance Analysis

Analysis of the performance of the CTCP since its launch needs to compare with trends in the sector over the same period. Indicators of interest may include employment trends, capacity utilisation, sales volumes, sectoral exports, and production volume among others. However, a closer look at firms that benefited from the CTCP is critical in order to determine the actual impact at firm level as not all players in the sector have benefited from the programme. In addition to the indicators listed above, variables that can help explain this impact include, number of firms that were supported under CTCP, annual turnover, profit levels, number of jobs pre and post CTCP and level of mechanisation.

The first section of the analysis looks at the general sectoral trends, which will be followed by an analysis of data for firms that received financial support through the CTCP.

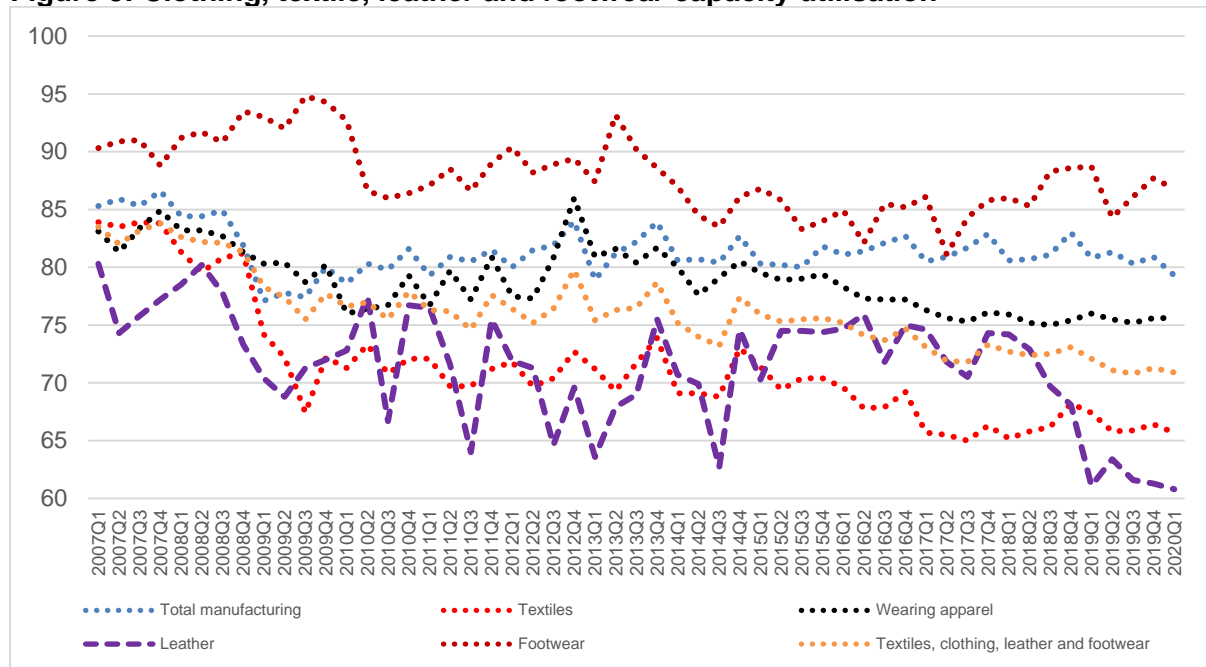
The critical question is how different the outcomes are today compared to what they would have been had there been no CTCP. This is an extremely difficult question to answer: the grant is small relative to the industry, and there are many national and global forces impacting on the industry, so it is difficult to tease out what the specific impact of the CTCP was. In addition, one would also have to factor in changes in the level of tariff protection and in the enforcement of rules governing the import of clothes made outside of South Africa. The data we have do not answer this question definitively, which is one reason we recommend a new approach to evaluating the impact of industry incentives like the CTCP.

Overall sector performance

Capacity Utilisation

Figure 3 below demonstrates trends in capacity utilisation within the different components of clothing, textile, leather and footwear sector compared to the average capacity utilisation within the manufacturing sector.

Figure 3: Clothing, textile, leather and footwear capacity utilisation

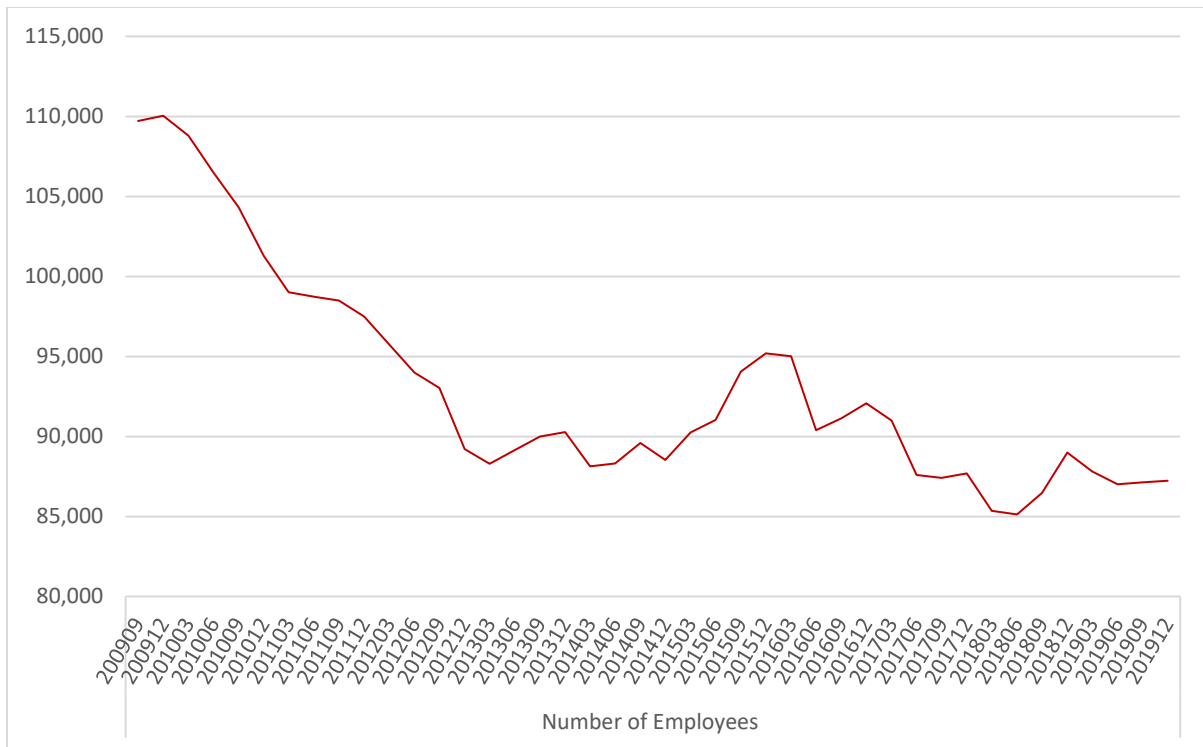


Source: Statistics South Africa

Average capacity utilisation within the textiles, clothing, leather and footwear was lower than the average for the manufacturing sector. Between 2007 Q1 and 2019 Q4, average capacity utilisation was 76.1 per cent. It declined from a peak of 83.8 per cent during 2007 Q4 to 71.3 per cent in 2019 Q4. A sharp decrease occurred between 2007 Q4 and 2009 Q4 which coincided with the global economic crisis and the launch of the CTCP. The trend stabilised thereafter until 2014 Q4 and has been steadily declining since then. Another notable trend is that average capacity utilisation for footwear exceeded both manufacturing and the textiles, clothing, leather and footwear as a whole.

Employment

Figure 4: Clothing, textile, leather and footwear quarter on quarter employment

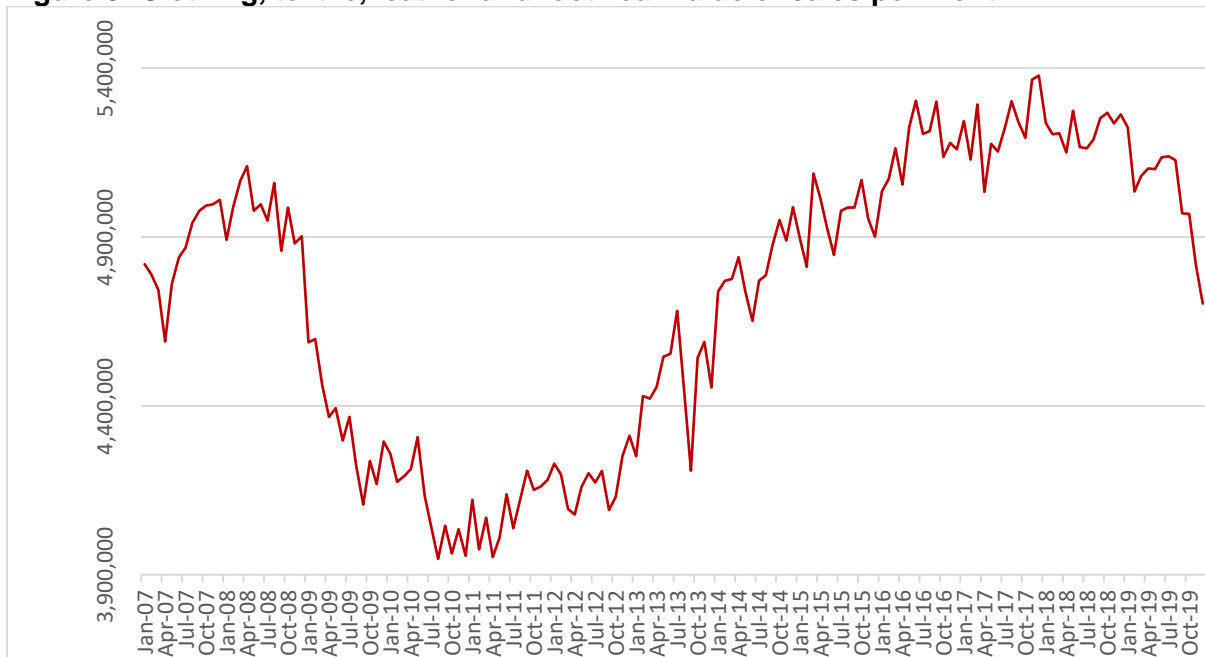


Source: Statistics South Africa

Employment within the textiles, clothing, leather and footwear sharply declined from 110 040 during 2009 Q4 to 88 299 in 2013 Q1. Employment stabilised and increased to 95 201 during 2015 Q4 and later declined to a lowest level of 85 126 during 2018 Q2. It may be interpreted that probably, the CTCP did not have immediate impact. Funds were allocated in 2010/11 while employment declined every quarter until March 2013. The decline since 2016 could be due to other reasons. Nattras and Seekings (2013) argue that the decline in unemployment is attributed to high labour costs due to high minimum wage Bargain Council requirements and intensive international competition for the sector. They further point out that South Africa’s most labour-intensive firms, which produce basic clothes for the mass market in direct competition with China and other low-wage countries, have survived by relocating to lower-wage regions and/or paying below the legal minimum wage. Some firms have relocated production to Lesotho, where minimum wages are substantially lower. Many of these firms do not qualify for support under the CTCP either because of their non-compliance with minimum wages or because they have re-structured themselves as cooperatives.

Value of sales

Figure 5: Clothing, textile, leather and footwear value of sales per month



Source: Statistics South Africa

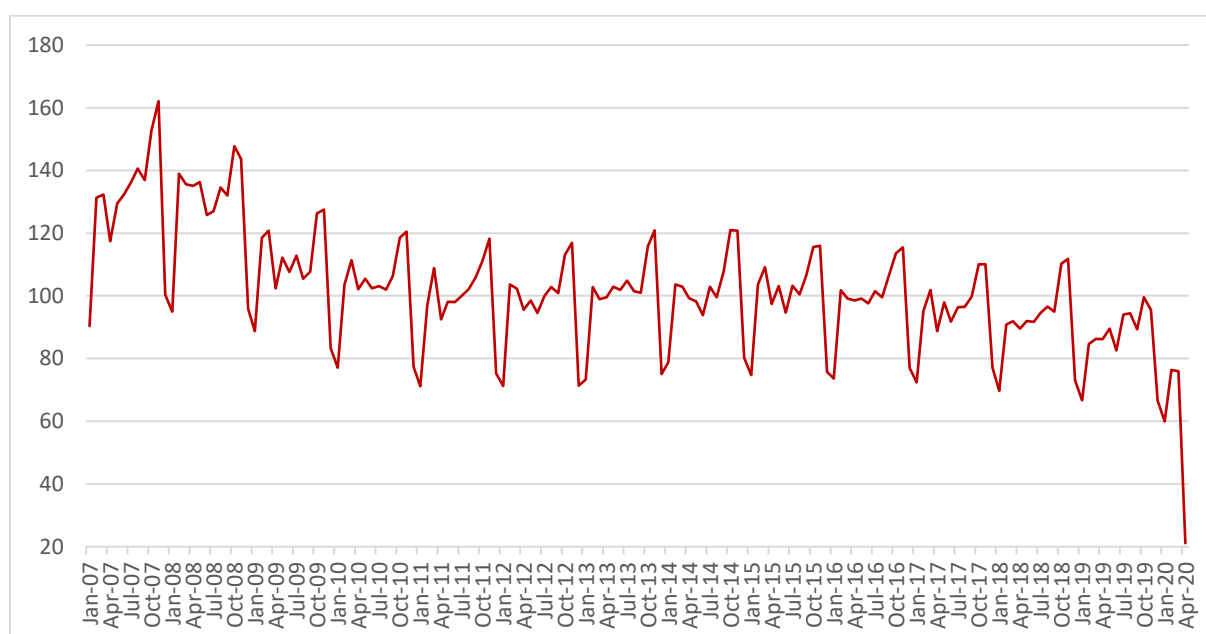
Value of sales for the textile, clothing, leather and footwear, at 2015 prices, declined sharply from R5.1 billion in April 2008 to R3.9 billion in August 2010. However, it improved significantly thereafter to a high of R5.4 billion recorded in December 2017 and has been declining since then. This could be due to suppressed demand and influx of cheaper and illegal imports.

Volume of production

The figure below illustrates the indices of physical volume of production for the textile, clothing, leather and footwear.

The indices fell significantly from 162.1 in November 2007 to 94.9 in January 2008. Production volume declined but stabilised from 2009 to 2016. However, there was a notable overall decrease in 2019. A consistent pattern that seems to occur each year, is the significant decrease in production in January which is preceded by a significant increase between November and December every year probably due to high demand during the festive season. The most favourable interpretation of the data is that the CTCP contributed to stabilising production in the sector.

Figure 6: Physical Volume Production Indices: Textiles, clothing, leather and footwear



Source: Statistics South Africa

CTCP Performance Analysis¹

The clothing and textile sector consist of approximately 1 400 firms spread across the different subsectors. From inception up to 30 June 2019, over 500 companies benefited from the CTCP. The table below shows number of clients under each component of the CTCP per year. It should be noted that a company might benefit from both the CIP and the PIP therefore calculating the total number of clients on the bases on the table below may result in double counting.

Table 2: Number of clients per year

Year	Production Incentive Programme Clients	Competitiveness Improvement Programme Clients
2010		10
2011	192	12
2012	100	8
2013	40	4
2014	64	4
2015	40	3
2016	29	1
2017	35	0
2018	30	8
2019	25	2
Grand Total	555	52

¹ Performance analysis under this section is based on the report for the financial year, 2018/19. The IDC is still compiling a report for 2019/20

From Table 2 above, the PIP constitutes the biggest component of the CTCP by number of clients. In terms of subsectors, most firms are in the clothing followed by the textiles sectors as illustrated on Table 3.

Table 3: Number of PIP beneficiaries per subsector

Subsector	Number of beneficiaries	% of total
Apparel Textiles	18	3.2%
Clothing	212	38.2%
Footwear	69	12.4%
Household Textiles	17	3.1%
Leather	21	3.8%
Leather goods	22	4.0%
Technical Textiles	13	2.3%
Textiles	183	33.0%
Grand Total	555	

Source: IDC

In terms of spread of beneficiaries per province, most beneficiaries for PIP are from KwaZulu Natal followed by Western Cape and then Gauteng Provinces as illustrated on Table 4 below.

Table 4: Number of PIP beneficiaries per province

Province	Number of beneficiaries	% of total
Eastern Cape	45	7.5%
Free State	10	1.7%
Gauteng	90	15.1%
KwaZulu Natal	225	37.7%
Limpopo	3	0.5%
Mpumalanga	1	0.2%
North West	6	1.0%
Northern Cape	3	0.5%
Western Cape	214	35.8%
Grand Total	597	

Source: IDC

Since inception to 2019, a total of 2 664 applications were received of which 95.8 per cent were for the PIP as illustrated on the table below.

Table 5: Total number of applications received

Year	Number of PIP applications received	Number of CIP applications received	Total	% PIP	% CIP
2011		10	10	0%	100%
2011	210	12	222	95%	5%
2012	242	9	251	96%	4%
2013	254	4	258	98%	2%
2014	296	13	309	96%	4%
2015	299	19	318	94%	6%
2016	316	5	321	98%	2%
2017	313	7	320	98%	2%
2018	295	20	315	94%	6%
2019	312	26	338	92%	8%
2020		2	2	0%	100%
Grand Total	2 537	127	2 664	95.2%	4.8%

Source: IDC

In terms of approvals, 2 392 applications were approved mainly from PIP as shown on Table 6 below.

Table 6: Number of approved applications

Year	Number of PIP applications approved	Number of CIP applications approved	Total	% PIP	% CIP
2010		10	10	0%	100%
2011	200	12	212	94%	6%
2012	228	9	237	96%	4%
2013	235	4	239	98%	2%
2014	270	12	282	96%	4%
2015	276	11	287	96%	4%
2016	292		292	100%	0%
2017	294	4	298	99%	1%
2018	266	5	271	98%	2%
2019	264		264	100%	0%
2020					
Grand Total	2 325	67	2 392	97.2%	2.8%

Source: IDC

It is clear that the PIP is the most popular component of the CTCP. It may be worthwhile to investigate why the CIP has attracted fewer applications. Is it because the targeted areas of support do not correspond to the needs of industry or are the application and claim processes onerous so much that the industry gets discouraged? One possible answer for the skewed preference could be that the CIP supports different kinds of work and does not benefit firms directly when compared to the PIP. As a result, firms prefer the PIP where there is direct benefit. Similarly, the design and requirements for the CIP where it works through a cluster of firms within the same value chain might have been difficult to arrange and administer which resulted in fewer applications.

Since inception to 12 August 2020, total value of approved application is R8.2 billion of which 88.3 per cent were for the PIP. Yearly, approvals were as follows:

Table 7: Total value of approvals per year

Year	PIP Grant amount approved	CIP Grant amount approved	Total	% PIP	% CIP
2010		27 513	27 513	0%	100%
2011	635 231	72 602	707 833	90%	10%
2012	577 791	132 695	710 486	81%	19%
2013	599 531	96 316	695 848	86%	14%
2014	763 090	336 690	1 099 780	69%	31%
2015	816 442	169 345	985 787	83%	17%
2016	899 238	0	899 238	100%	0%
2017	975 337	42 083	1 017 420	96%	4%
2018	903 313	78 998	982 311	92%	8%
2019	1 029 037	0	1 029 037	100%	0%
2020					
Grand Total	7 199 011	956 243	8 155 254	88.3%	11.7%

Source: IDC

As at 12 August 2020, R7.3 billion was disbursed of which 88.4 per cent was for the PIP component as shown on Table 8.

Table 8: Value of disbursements per year

Year	PIP Disbursements	CIP Disbursements	Total	% PIP	% CIP
2010					
2011	94 973	6 488	101 462	94%	6%
2012	284 247	19 243	303 490	94%	6%
2013	71 025	33 966	104 991	68%	32%
2014	1 270 458	107 318	1 377 776	92%	8%
2015	589 516	152 851	742 367	79%	21%
2016	765 608	111 341	876 949	87%	13%
2017	864 255	128 950	993 205	87%	13%
2018	964 882	105 436	1 070 318	90%	10%
2019	797 147	124 848	921 995	86%	14%
2020	717 103	54 700	771 803	93%	7%
Grand Total	6 419 216	845 140	7 264 356	88.4%	11.6%

Source: IDC

Assessing the return on investment

In 2019, the DTIC and the IDC carried out a survey of a sample of 211 companies that benefited from the CTCP since the programme started in 2010/11. According to the CTCP Report dated August 2019, recipients had all been able to provide proof of valid bargaining council compliance, audited financial statements, tax clearance certificates, proof of compliance to applicable environmental regulations and those that had positive manufacturing value addition for the period 2011 to 2018. From the sample, R4.9 billion manufacturing value addition was generated while 5 699 additional jobs were created between 2011 and 2018. It is important to note that this is a period during which the industry as whole lost 15 000 jobs, so some of the increase in employment in beneficiary firms reflects the fact they have taken over market share from non-beneficiary firms that have closed or reduced their workforces.

The respondents were mainly from six provinces of which 45.5 per cent were from Western Cape, 42.7 per cent from KwaZulu Natal, 7.1 per cent from Eastern Cape, 2.4 per cent from Gauteng, 1.9 per cent from Free State and 0.5 per cent from Limpopo.

Outcome indicators

For the purpose of this spending review, expected outcomes include an increase in clothing sector's contribution to job creation, improved capacity utilisation by firms and a competitive South Africa's clothing and textile industry. As a result, the accompanying indicators include number of people employed in the sector, average percentage of capacity utilisation and value/volume of exports from the sector.

The CTCP covers the clothing, footwear, leather and leather goods and textiles subsectors. Total performance of the beneficiary firms differed across the subsectors. Employment in clothing subsector has been fluctuating over the period. Total jobs have declined from 16 523 in 2010 to 15 469 in 2018. The highest number of jobs of 17 813 was reached in 2017. However, the proportion of total jobs for firms that received support from the CTCP to the total subsector employment increased from 32.6 per cent in 2010 to 40.3 per cent in 2018.

For the textile subsector, total jobs increased from 12 890 in 2010 to 17 423 in 2016 and has remained stable since. Similarly, the ratio of employment by CTCP beneficiaries to total subsector increased substantially from 31.8 per cent to 51.3 per cent over the same period. Significant increases in the proportion of sectoral jobs have also been realised for the footwear and leather and leather products.

While information on capacity utilisation was not available, the CTCP traces trends in production levels for participating firms. Using 2011 production levels, all the subsectors realised an increase in production between 2011 and 2018. Production in the leather and leather products increased by 123 per cent, footwear by 69 per cent, clothing by 66 per cent and textiles by 27 per cent. On average, production for the sample increased by 44 per cent. Although data was not compared to the sector at large, an increase in production may imply an increase in capacity utilisation. Therefore, it can be interpreted that capacity utilisation by firms that were supported under the CTCP increased since inception of the programme.

A globally competitive sector can be demonstrated by growth in exports especially the proportion of South African exports in the sector compared to global exports value. This may be difficult to determine and conclude that growth in international market share is attributed to the CTCP since it is a small programme by market value and only a few firms benefited. In addition, an industry that is competitive in SA behind protective tariffs is not likely to be competitive in international markets.

Output indicators

Identified output indicators include number of jobs sustained, volume of production, number of operational existing and new firms and annual turnover growth. Employment and production have already been explained above.

With respect to turnover, value of sales for the CTCP beneficiaries increased by an average of 90 per cent between 2011 and 2018. Sales in the footwear subsector increased by 136 per cent, textiles by 103 per cent, leather and leather products by 95 per cent and clothing by 57 per cent. Over the same period, however, GDP increased by 161 per cent, which implies that the contribution of the sector to GDP fell.

The proportion of sales from sampled CTCP participants increased significantly when compared to total clothing sector sales. It increased from 27.1 per cent to 46.6 per cent. Therefore, the CTCP has assisted firms to increase their market share partly due to increased production and improved quality due to investment in capital equipment.

An indicator related to improved competitiveness is manufacturing value addition (MVA) per employee which demonstrates increased labour efficiency as well as the decline in the number of employees in the industry. In terms of the CTCP, beneficiaries are required to invest in capital equipment, training, marketing and product development aimed at increasing competitiveness. On average, the MVA increased by 65 per cent across the CTCP beneficiary sample. However, it increased by 85 per cent for the clothing, 71 per cent for leather and leather products, and 59 per cent for textiles. On the other hand, MVA declined by 11 per cent for footwear between 2011 and 2018.

Producer sustainability as measured by proportion of MVA to sales as a percentage of 2011 values was just 2 per cent across all sectors. The low percentage raises concern on the sustainability of the sector to maintain employment, production and sales levels in the future. While the leather and leather products recorded a significant increase by 34 per cent, footwear and textile recorded decreases by 22 per cent and 4 per cent, respectively. The negative growths are attributed to footwear moving to lower margins cheaper synthetics in place of leather. On the textiles, it is generally lower margins as a result of influx of cheaper and illegal imports.

On time in full (OTIF) is another measure of operational efficiency and customer service which measures delivery reliability. Overall, OTIF increased by 34 per cent across all the subsectors. It therefore demonstrates that suppliers improved their ability to meet their orders in full by 34 per cent which relates to improved production and labour efficiency.

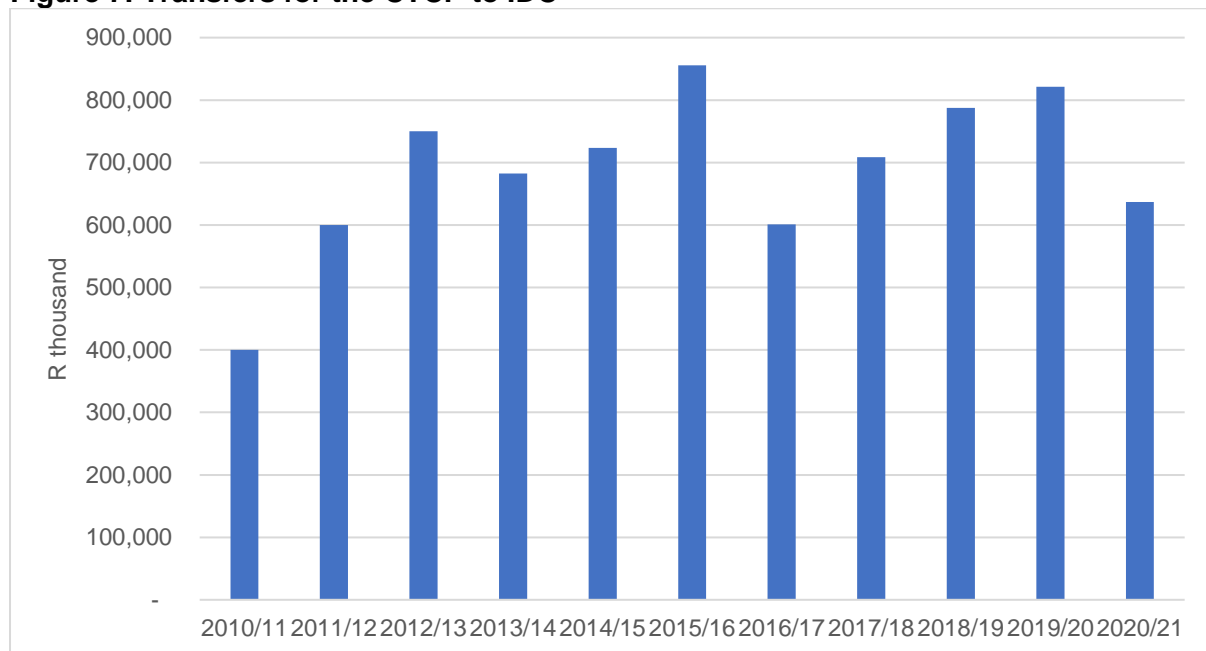
There have been arguments that investment in capital equipment has led to labour redundancy in the clothing sector. However, based on the employment trends provided by the

IDC for beneficiaries of the CTCP, despite the sector becoming capital intensive, employment increased and stabilised the job losses that took place following the global economic crises of 2007/08. On the other hand, improved and upgraded processes, products and people have seen improved efficiency and production. The result is higher levels of employment in beneficiary firms, but less employment per unit of output.

Expenditure Observations

Since 2010/11, R7.6 billion was transferred to the IDC for the implementation of the CTCP. Annual allocations have been fluctuating over the period. The budget for the programme increased by 50 per cent in 2011/12, the second year of its implementation and was followed 25 per cent in 2012/13. In 2013/14, the allocation decreased by 6 per cent and increased thereafter to an annual allocation of R855.6 million in 2015/16. However, the allocation sharply decreased (by 29.8 per cent) in 2016/17. Although this was followed by an 11 per cent annual average increase between 2016/17 and 2019/20. During the 2020 special adjustment budget, the 2020/21 allocation was reduced by 22.4 per cent as DTIC applied budget reductions on all line items.

Figure 7: Transfers for the CTCP to IDC



Funding is split between the PIP and the CIP components of the CTCP. A total of 2 392 applications valued at R8.2 billion were approved since inception of the programme. Value of approvals for the PIP constitute 88.3 per cent. As at 12 August 2020, R7.3 billion was disbursed of which the PIP accounted for 88.4 per cent.

Table 9: Average value of application approved

Year	PIP Grant amount approved	CIP Grant amount approved	Total	% PIP	% CIP	No of PIP approved applications	No of CIP approved applications	Average value of PIP application	Average value of CIP application
2010	0	27 513	27 513	0%	100%		10		2 751
2011	635 231	72 602	707 833	90%	10%	200	12	3 176	6 050
2012	577 791	132 695	710 486	81%	19%	228	9	2 534	14 744
2013	599 531	96 316	695 848	86%	14%	235	4	2 551	24 079
2014	763 090	336 690	1 099 780	69%	31%	270	12	2 826	28 057
2015	816 442	169 345	985 787	83%	17%	276	11	2 958	15 395
2016	899 238	0	899 238	100%	0%	292		3 080	
2017	975 337	42 083	1 017 420	96%	4%	294	4	3 317	10 521
2018	903 313	78 998	982 311	92%	8%	266	5	3 396	15 800
2019	1 029 037	0	1 029 037	100%	0%	264		3 898	
2020									
Grand Total	7 199 011	956 243	8 155 254	88.3%	11.7%	2325	67	3 096	14 272

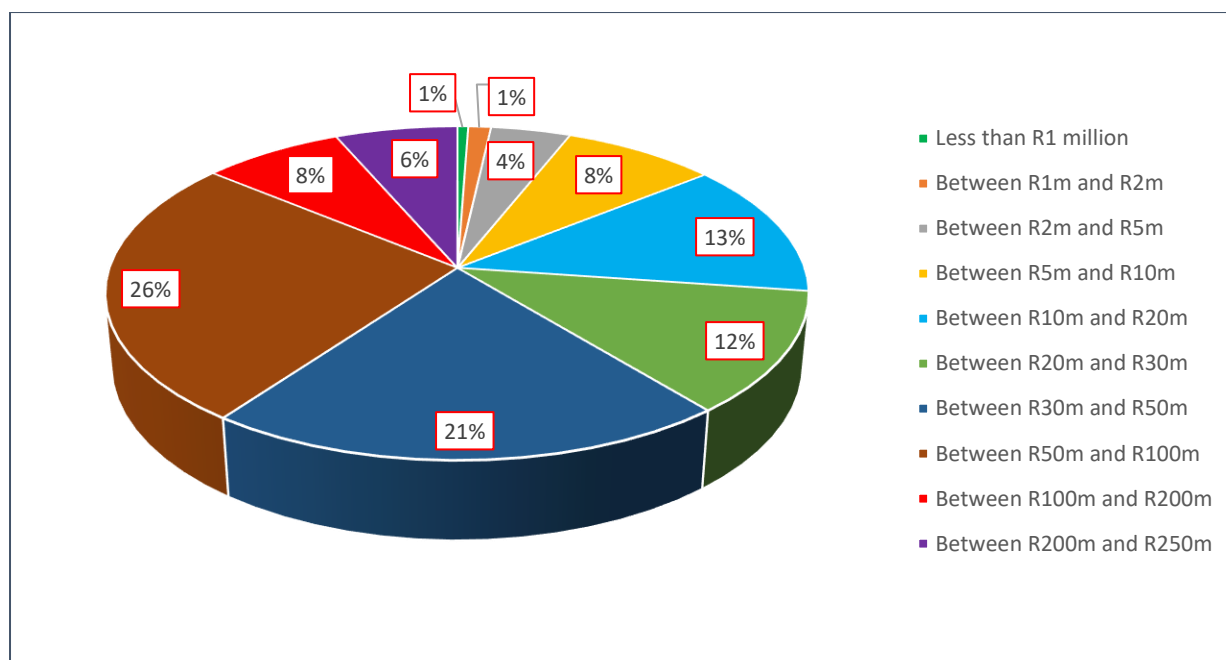
Although the number of applications under the CIP seem to be low, the average value of application is higher than under PIP. For instance, the average value of approved CIP application is R14.3 million while for PIP it is R3.1 million as shown on Table 9.

At subsector level, approvals for the clothing subsector constituted 30.5 per cent (or R2.2 billion) of the total approvals for the PIP, followed by textiles which accounts for 18.3 per cent (or R1.3 billion) while the technical textiles and footwear account for 13.4 per cent (R968 million) and 11.7 per cent (R840 million), respectively. On the other hand, under the CIP, the textiles accounts for 29.8 per cent (R285.1 million), clothing, 27.8 per cent (R265.8 million) and footwear, 21.8 per cent (R208.1 million) of the total approvals.

Figure 8 below shows the distribution of total approved values by the different thresholds under the PIP. Over the period, 26 per cent of the total approved value was made up of 27 applications with individual values between R50 million and R100 million. 39 applications with values of between R30 million and R50 million constituted 21 per cent. On the other hand, 87 applications with values of less than R1 million constituted 1 per cent while 2 applications with values higher than R200 million constituted 6 per cent.

Interestingly, the CIP distribution was rather sparse. Most approvals were lower than R70 million per application. There was only 1 approval with a value of R231.6 million. Similarly, most of the firms did not benefit every year during the existence of the CTCP as opposed to the PIP. Rather, most firms only benefited once.

Figure 8: Threshold of approvals



Source: National Treasury from data provided by the IDC

Table 10 shows that the average amount disbursed under the CIP is R12.6 million compared to R2.8 million for PIP.

Table 10: Average value of disbursements

Year	PIP Disbursements	CIP Disbursements	Total	% PIP	% CIP	No of PIP approved applications	No of CIP approved applications	Average value of PIP application	Average value of CIP application
2010							10		-
2011	94 973	6 488	101 462	94%	6%	200	12	475	541
2012	284 247	19 243	303 490	94%	6%	228	9	1 247	2 138
2013	71 025	33 966	104 991	68%	32%	235	4	302	8 491
2014	1 270 458	107 318	1 377 776	92%	8%	270	12	4 705	8 943
2015	589 516	152 851	742 367	79%	21%	276	11	2 136	13 896
2016	765 608	111 341	876 949	87%	13%	292		2 622	
2017	864 255	128 950	993 205	87%	13%	294	4	2 940	32 237
2018	964 882	105 436	1 070 318	90%	10%	266	5	3 627	21 087
2019	797 147	124 848	921 995	86%	14%	264		3 019	
2020	717 103	54 700	771 803	93%	7%				
Grand Total	6 419 216	845 140	7 264 356	88.4%	11.6%	2 325	67	2 761	12 614

This may indicate that despite having few applications, the average value of CIP applications was high. It may be worth to evaluate the impact that CIP support brought to the firms that benefited from the CIP. On the other hand, the high volume of applications under the PIP demonstrated that firms needed support on the PIP more than on the CIP. Based on the number of applications, one may argue that the CIP intervention is not attractive. However, it may be worthwhile to investigate the higher preference for PIP in order to make firm conclusion.

To date, government has spent R7.6 billion on the CTCP programme. On the other hand, 5 699 additional jobs were created. This translates to cumulative R1.3 million per job over the

period from 2011 to 2018 and R147 000 per job per year. However, there are concerns that the incentive is accessible to firms that are compliant with Bargaining Council rules/agreements. There is a view that non-compliant firms tend to be more labour intensive. Therefore, rewarding Bargaining Council compliant firms only, reduces industry-wide employment. The argument that CTCP beneficiaries have increased their market share, although it may be viewed as a success for the programme, it also implies this happens at the expense of companies that lost market share which may have resulted in job losses for these firms. In worst-case scenario, some non-compliant firms were closed down through writs of execution against non-compliant companies, thereby ceding their market share to those that received CTCP financial support. For instance, by November 2010, 26 factories in Newcastle had been closed down (Nattras and Seekings, 2013). Therefore, a good measure could have been comparing trends of job losses for firms that lost market share to additional jobs created by the beneficiaries of the CTCP. What could have been the net effect?

However, the DTIC argues that compliance with Bargaining Council is non-negotiable as it is labour law requirements. There is a need to conduct a comprehensive evaluation of the CTCP to unpack these diverse views about the programme and help make proper decisions.

Based on the expenditure data provided, one is not able to analyse how funds were utilised with respect to specific competitiveness improvement programme such as training, product, processes, market development, and technological innovation. This is mainly because the current data collection system does not have the mechanism for this. A recommendation would be that the IDC and the DTIC should incorporate these components in their reporting system to enable assessment and analysis of how the specific interventions have contributed to achieving the objectives of the programme.

Options

Although preliminary observation points to wide preference of the PIP more than the CIP, one cannot make conclusive recommendations especially on the potential savings to be realised. However, looking at the number of applications for each component of the CTCP, it appears that firms prefer the PIP to the CIP. One possible answer for the skewed preference could be that the CIP supports different kinds of work and does not benefit firms directly when compared to the PIP. As a result, firms prefer the PIP where there is direct benefit.

Based on the data provided by the DTIC and IDC, it shows that firms that have benefited from the incentive have increased their production, sales, market share, employment and competitiveness as measured by value addition when compared to the overall sector.

The increase in domestic market share by CTCP beneficiaries, while showing positive impact of the programme, it is worrying as it demonstrates that the incentive may have created an unfair advantage for qualifying firms. If the programme continues, it may result in firms that have not benefited getting weaker and probably collapse. This has implications on how we interpret the success of the programme. A consideration could be to provide a bigger incentive programme to the whole sector. However, this may not be sustainable for government as the sector is significantly bigger than the current pool of beneficiaries and therefore an increase in the level of government support will constrain the fiscus. In addition, it is not possible to increase the budget for the programme during this time of fiscal consolidation. Finally, it is not obvious how government could offer incentives to firms that do not comply with various requirements of our labour and tax laws. The issues involved are complex and difficult.

Rather, government should focus on other reforms required to protect the sector from the influx of cheap and illegal imports in order to create local markets. For instance, in the RCTFL Master Plan, government has committed itself to enforce designated category status for public procurement, support the buy local campaign, extend the CIP and PIP programmes for three years aligned to verticalisation and transformation, provide trade relief and rebates, provide Competition Act exemptions, training, establishment of a special economic zone for clothing, discouraging influx of illegal imports, among others. While these measures are commended, the proposal to extend the CIP and PIP needs to be based on a comprehensive evaluation which will help redesign of the programme where necessary to align with the new objectives, for instance enforcing local procurement of raw materials of a certain proportion in order to be considered for the incentive. It seems that some components of the programme did not work well and hence, the need for a review. It is worth noting that, this forms part of the terms of reference for the Task Team 4: Supply side incentives and support. The review of the CIP and PIP should therefore be prioritised and expedited.

Another issue of note is that the structure of the competitiveness grants rewards big firms more than small firms. Therefore, big firms will grow bigger more quickly than small firms will grow. The firms can apply for funding more than once implying that bigger forms can crowd out smaller firms and hence resulting in increased barriers to entry.

Recommendations

The scope of the spending review was limited due to time constraints. There are many arguments that have been advanced against the programme. For instance, some academics have argued that government funding through the CTCP has resulted in increased capital investment by firms. Due to increased capital investment, it is argued that the programme has rather resulted in less jobs being created. Due to limited time, these arguments could not be evaluated.

Similarly, to properly understand the impact of the incentive, an assessment of firms that benefited and those that did not, becomes necessary. While the IDC has indicated that it collects a variety of financial and non-financial data for CTCP beneficiaries, individual firm data was not evaluated due to time limitations. At this stage, it is difficult to determine how much of what happened would have happened without the incentives.

It is therefore recommended that a comprehensive review of the impact of the CTCP should be conducted to determine impact of the incentive. This approach should use the quasi-experiment methodologies in which the performance of a “treatment group” (the companies that get the subsidy) is compared to the performance of a “control group” (companies that did not get the subsidies) so that policy-makers can have a much more precise understanding of the impact of the subsidies on beneficiary firms as well as on non-beneficiary firms.

Considering that the CTCP forms a key pillar of the RCTFL Master Plan, the review of the programme should be conducted urgently. The proposal to extend the programme by 3 years should be informed by evidence. Furthermore, redesign of the programme to align with the objectives of the Master Plan can only be informed by a comprehensive review of the CTCP and its components.

The IDC and the DTIC should incorporate reporting on specific competitiveness improvement programme such as training, product, processes, market development, and technological innovation in their reporting system to enable assessment and analysis of how the specific interventions contributed to achieving the objectives of the programme.

Actions

The main action required is that the DTIC should carry out a comprehensive evaluation of the CTCP to determine its full impact. This should include the design of the programme in view of the recommendation that the PIP and the CIP should be extended by 3 years to support the RCTFL component as opposed to the CIP.

The National Treasury will provide an addendum to this report once the data on individual firms has been received from the IDC.

To improve monitoring and assessment of impact of the programme, there is a need for the IDC to incorporate and collect data on the specific competitiveness improvement programme such as training, product, processes, market development, and technological innovation where funding was provided.

There is a need to implement an exit strategy for some of the firms that have benefited from the PIP each year since 2011. The sustainability of these firms without the incentive is cast in doubt.

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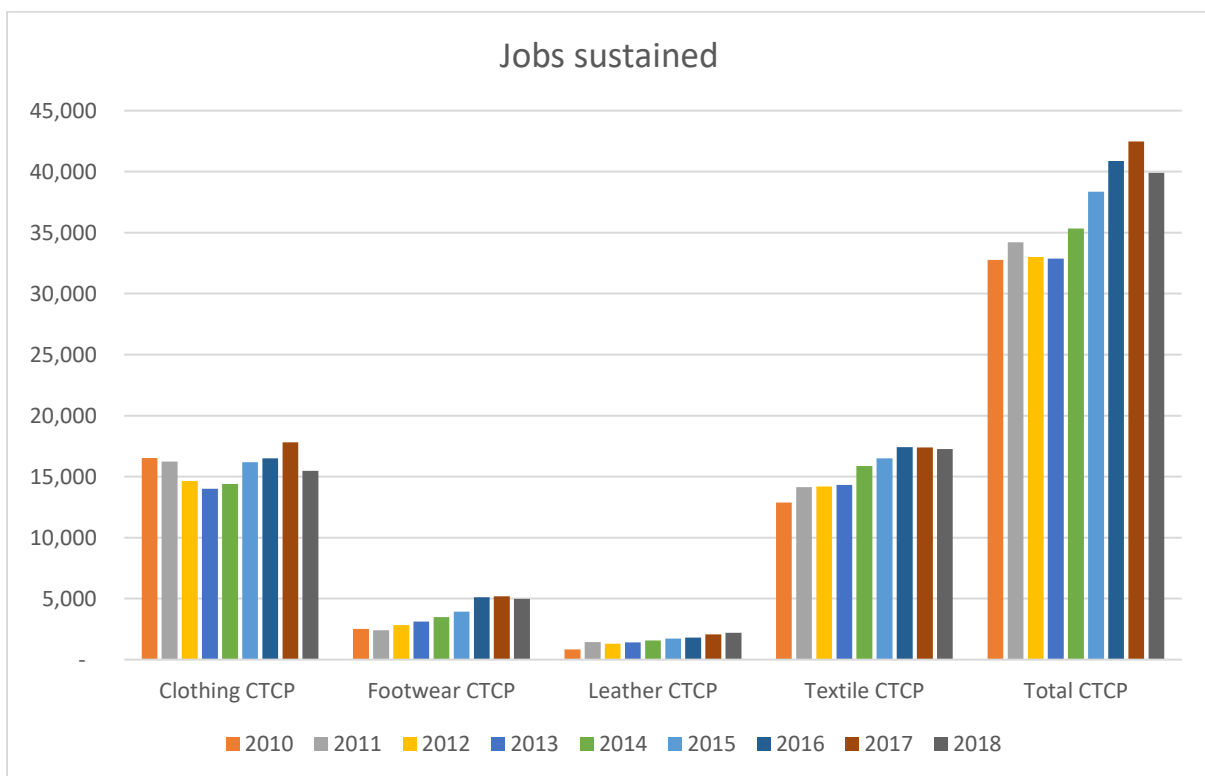
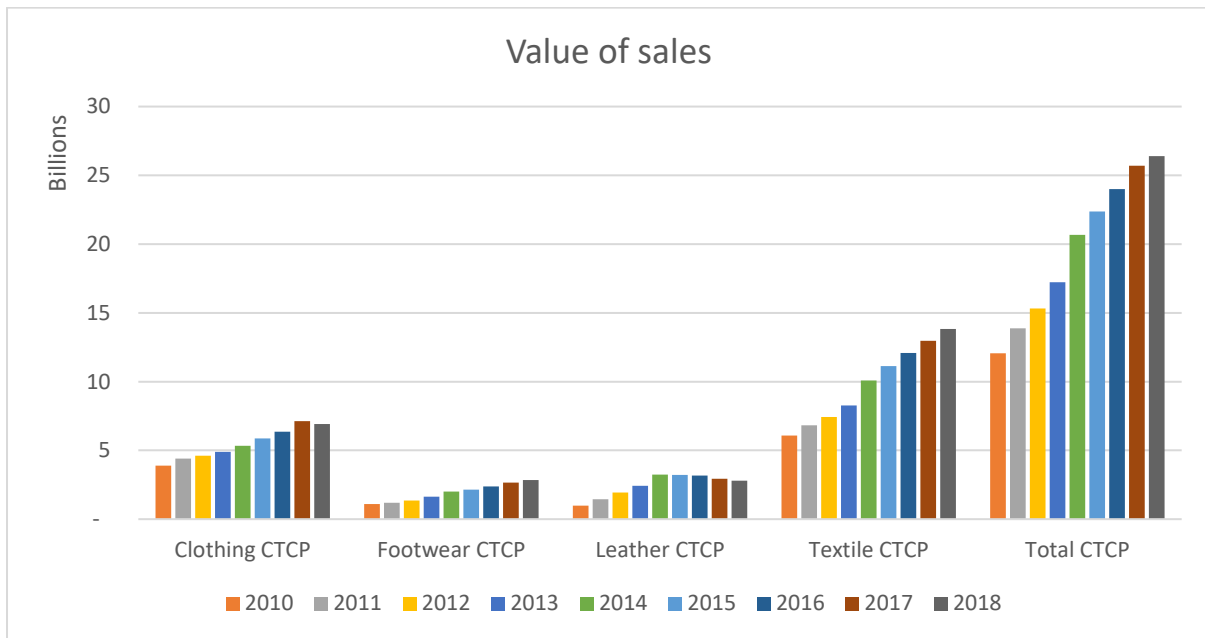
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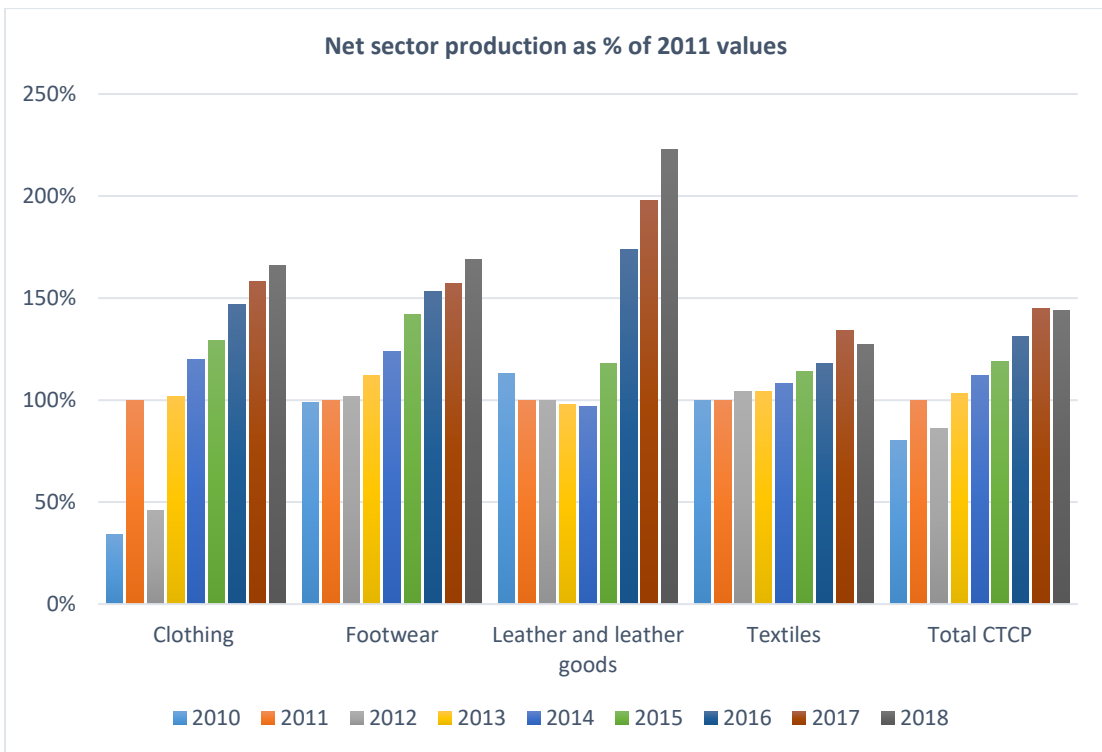
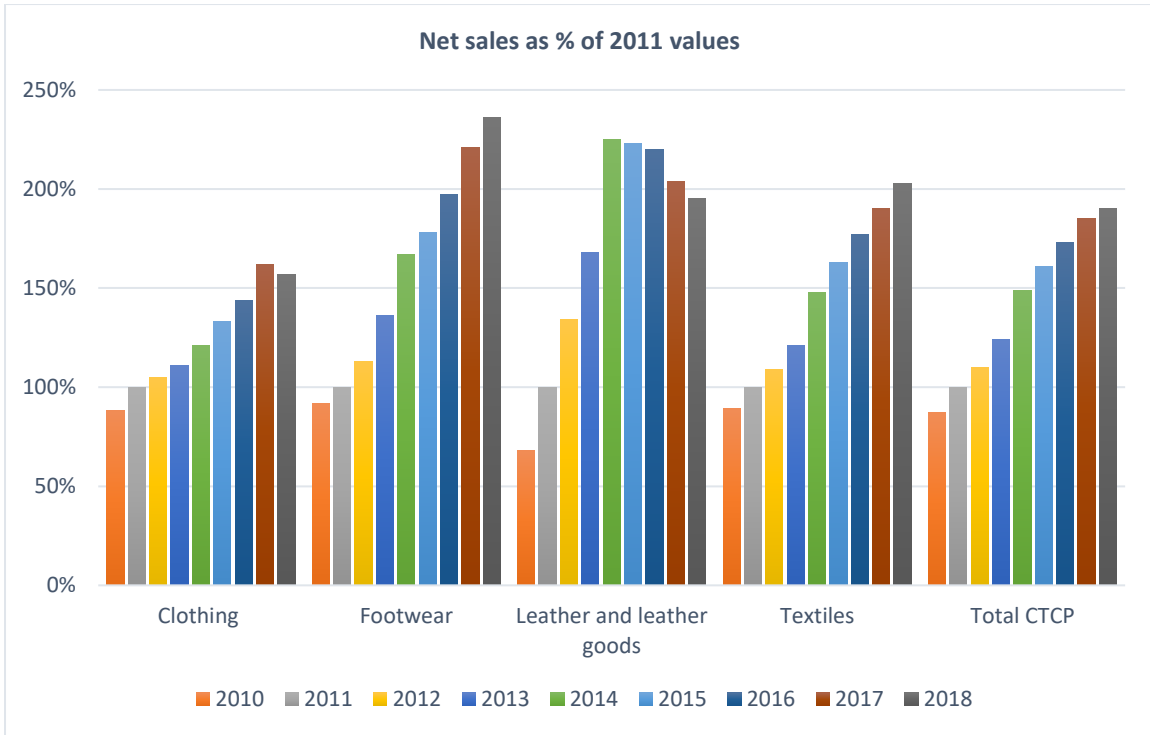
Appendices

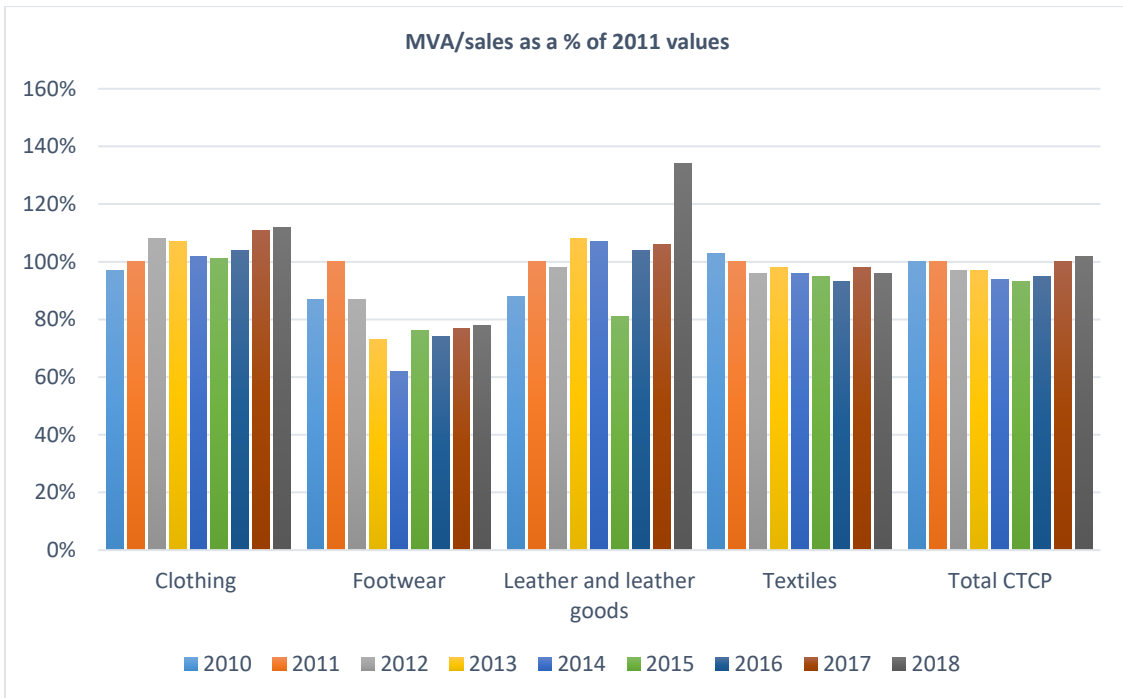
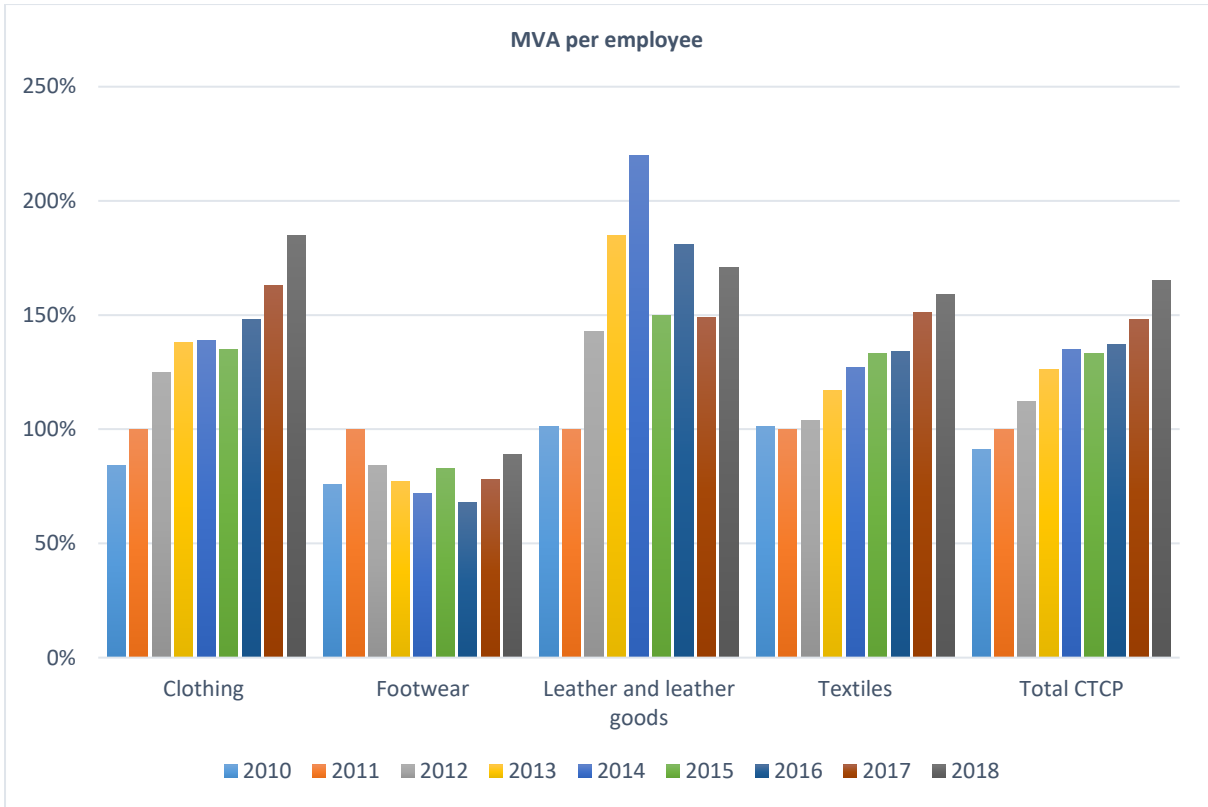
Appendix A: Clothing and Textile Competitiveness Programme Logframe

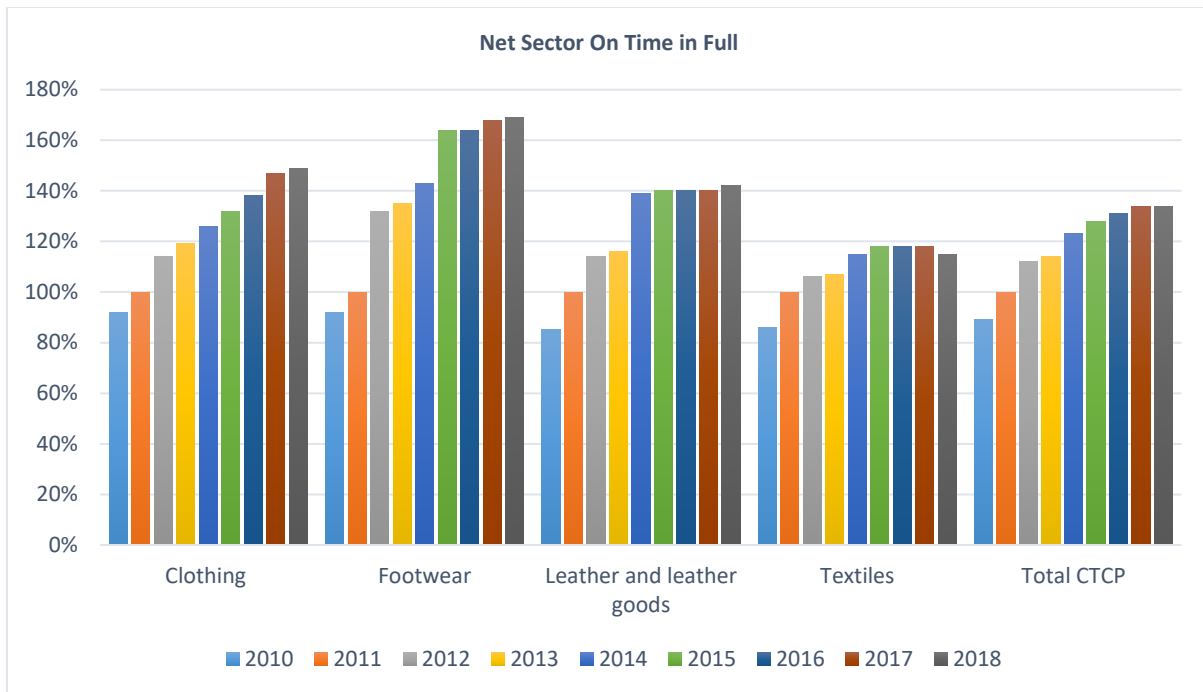
IMPACT	IMP1	Improved standards of living				
Indicator		Employment rate				
Frequency		Quarterly				
Source of data		Statistics SA Quarterly Employment Reports				
OUTCOME	OUTC1	Increase in the clothing sector's contribution to job creation	OUTC2	Improved capacity utilisation by firms	OUTC3	Globally competitive SA clothing and textile industry
Indicator		Number of people employed		Average percentage of capacity utilisation		Number of operational firms and value/volume of exports from the sector
Frequency		Quarterly		Quarterly		Annually
Source of data		Statistics SA Quarterly Employment Reports		Statistics SA Quarterly GDP Report		DTIC performance management system
Final Output	FOUT1	Permanent jobs created	FOUT2	Increase in production level	FOUT3	Increase in entry into the sector and improved competitiveness
Indicator		Number of jobs sustained		Volume of production		Number of operational existing and new firms/Annual turnover growth
Frequency		Quarterly		Quarterly		Annually
Source of data		Statistics SA Quarterly Employment Reports		Statistics SA Quarterly GDP Report		DTIC performance management system
Intermediate outputs	IOUT1	Financial support strategy		Continuous plant operation		Expansion of production capacity and number of new competitive firms
Indicator		Document on the CTCP		Plant operating time		Number of new firms/increase in value addition/Cost of sales
Frequency		Annually		Quarterly		Annually
Source of data		National Treasury		Statistics SA Quarterly GDP Report		Statistics SA Quarterly reports
Activities	ACT 1.4	Develop a CTCP Business case		Monitor progress on the implementation of the incentive	ACT 2.3	Monitor progress on the implementation of the incentive
Indicator		Approved CTCP business case		Value of funding disbursed		Value of funding disbursed and new firms/Number of days taken to disburse money from time of claim receipt
Frequency						
Source of data		DTIC		DTIC and IDC		DTIC and IDC/Sector Association
Activities	ACT 1.3	Cost the interventions and determine funding		Approve applications for the production improvement incentive	ACT 2.3	Approve applications for the expansion and new entry incentive
Indicator		Document on the financial implications for each proposed intervention		Number of approved applications		Number of approved applications/Number of days taken to complete approval of applic
Frequency						
Source of data		DTIC		DTIC and IDC		DTIC and IDC
Activities	ACT 1.2	Identify and select options for interventions		Determine calculation of the production improvement incentive	ACT 2.2	Determine calculation of the expansion or new entry incentive
Indicator		List of possible options available		Criteria for calculating the incentive		Criteria for calculating the incentive
Frequency						
Source of data		DTIC		DTIC and IDC		DTIC and IDC
Activities	ACT 1.1	Develop a statement problem		Develop a component of the CTCP that incentivises increased production	ACT 2.1	Develop a component of the CTCP that incentivise expansion, proved competitiveness and new entry
Indicator		Document which explains the problem to be addressed		Production improvement component included in the CTCP		Expansion and competitiveness component included in the CTCP
Frequency						
Source of data				DTIC and IDC		DTIC and IDC
Inputs		DG: DTIC, DDG: Industrial Growth and Competitiveness, CD: Clothing and Textile, IDC: Clothing and Textile Desk, Clothing and Textile Industry Reps, National Treasury; Public Finance		DG: DTIC, DDG: Industrial Growth and Competitiveness, CD: Clothing and Textile, IDC: Clothing and Textile Desk, Clothing and Textile Industry Reps		DG: DTIC, DDG: Industrial Growth and Competitiveness, CD: Clothing and Textile, IDC: Clothing and Textile Desk, Clothing and Textile Industry Reps
Indicator						
Frequency						
Source of data						
Programme elements		Retain jobs		Increase production in the sector		Expand the sector
Responsibility						

Appendix B: CTCP Performance









Year	Production Incentive Programme Clients	Competitiveness Improvement Programme Clients
2010		10
2011	192	12
2012	100	8
2013	40	4
2014	64	4
2015	40	3
2016	29	1
2017	33	
2018	27	8
2019	24	2
Grand Total	549	52

Subsector	Number of beneficiaries	% of total
Apparel Textiles	18	3.2%
Clothing	212	38.2%
Footwear	69	12.4%
Household Textiles	17	3.1%
Leather	21	3.8%
Leather goods	22	4.0%
Technical Textiles	13	2.3%
Textiles	183	33.0%
Grand Total	555	

Province	Number of beneficiaries	% of total
Eastern Cape	45	7.5%
Free State	10	1.7%
Gauteng	90	15.1%
KwaZulu Natal	225	37.7%
Limpopo	3	0.5%
Mpumalanga	1	0.2%
North West	6	1.0%
Northern Cape	3	0.5%
Western Cape	214	35.8%
Grand Total	597	

Threshold	Number of firms	Total value of approvals
Less than R1 million	146	41 243 746
Between R1m and R2m	59	87 240 331
Between R2m and R5m	96	305 804 268
Between R5m and R10m	83	591 628 319
Between R10m and R20m	64	933 911 014
Between R20m and R30m	35	850 889 164
Between R30m and R50m	39	1 511 977 358
Between R50m and R100m	27	1 868 488 623
Between R100m and R200m	4	540 702 547
Between R200m and R250m	2	468 025 507
Total	555	7 199 910 877