



Implementing Localisation Programmes in South Africa

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the dti

Department:
Trade and Industry
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Theoretical context: Industrial Policy

‘There is actually no universally agreed definition of the term (Industrial Policy). The most literal interpretation includes any policy that affects industry (usually interpreted as the manufacturing industry), in the same way in which we would define fiscal policy as policy that affects government revenue and spending, and monetary policy as policy that affects monetary variables.’

Professor Antonio Andreone, Department of Economics, SOAS, University of London. 2016.

Theoretical context: Industrial Policy

‘No country has made the arduous journey from widespread rural poverty to post-industrial wealth without employing targeted and selective government policies to modify its economic structure and boost its economic dynamism.

*Moreover, it is difficult to see how countries at all levels of development can respond constructively to contemporary challenges – from job creation and poverty reduction to participating in the technological revolution and global value chains, from promoting efficient and clean energy to mitigating climate change and greening the economy – **without using some kind of targeted industrial policy.***

Transforming Economies – Salazar-Xirinachs, Nubler and Kozul-Wright. Transforming Economies. UNCTAD/ILO 2016

Therefore Industrial Policy is country-specific: history and context are critical

SA's domestic economy is characterised by multiple, historically deep-seated **structural** fault-lines, including:

- 📁 Resource dependence embedded in a minerals-energy complex; race-based inequality, unemployment and poverty; systemic problems of education and skills formation; financialisation of the economy and 'premature deindustrialisation'
- 📁 The structural problems of the economy have stubbornly persisted long into the democratic transition. In the first phase of the transition a 'Washington Consensus' model of development was adopted which significantly downplayed the role of industrial policy
- 📁 The adoption of the National Industrial Policy Framework (NIPF) in 2008 (and annual IPAP iterations) marked a new phase, placing much stronger emphasis on reindustrialisation
- 📁 Industrial Policy, as elaborated in IPAP, pre-supposes an optimal 'mix and match' of policy and programme interventions, from a wide range of possible options
- 📁 But in the prevailing difficult conditions, cautious pragmatism is required: identifying what is realistically possible and concentrating on building collaborative and conditional partnerships with the private sector and labour are the critical requirements

South African Industrial Policy: The IPAP

The adoption of the *National Industrial Policy Framework (NIPF)* was followed by successive annual iterations of the *Industrial Policy Action Plan (IPAP)*

- Each IPAP iteration sets out a range of inter-linked, mutually supportive cross-cutting and sector specific policy measures and interventions – all time-bound, with clearly identified lead and supporting departments and agencies to carry them out

These policy instruments include, inter alia, ‘ecosystems’ and programmes of:

- industrial financing and incentives
- procurement and supplier development
- trade measures (tariffs, standards and compulsory specifications, customs)
- innovation and technology
- export and investment promotion
- and so on and so forth...

South African Industrial Policy: Constraints

Where things haven't worked; and why...

SA's best efforts at implementing industrial policy have yielded sub-optimal results, failing (with some exceptions) to achieve the scale required for robust re-industrialisation

In the context of the economy's stubborn structural problems, and against the backdrop of very serious exogenous shocks and global headwinds - the 2008/9 Great Recession and its aftermath, including the recent commodity slump - it has become evident that many of the preconditions for successful industrialisation have either not been in place or not realised

Major issues:

- 📁 A lack of policy coherence and programme alignment - across government departments, SOCs and other institutions – leading to fragmentation of efforts and often contradictory interventions
- 📁 Difficulties in building close collaborative, conditional agreements with the private sector and labour - with certain important exceptions
- 📁 Domestic barriers - including electricity, freight and port logistics costs and inefficiencies; economic infrastructure constraints (especially in municipalities); red-tape process and regulatory issues; skills shortages and mismatches etc. – all of which have inhibited growth, productivity, investment, exports, job creation and so forth

Industrial Policy levers for industrial development

📁 The two critical, possibly most important, levers in the SA industrial policy 'toolbox' are:

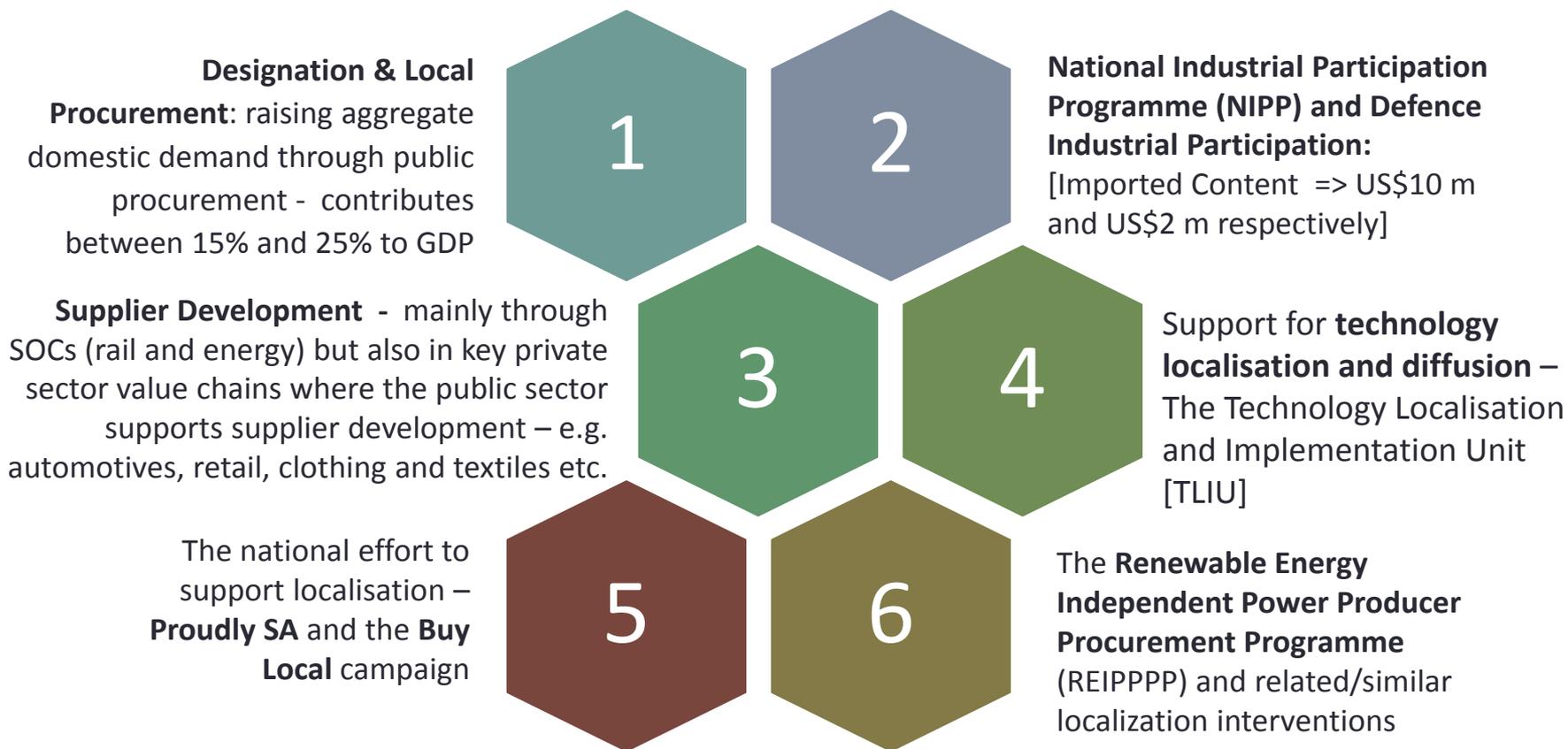
- a) An evolving system of industrial financing, incentives and export support; and
- b) An evolving system of public procurement and supplier development

In circumstances of fiscal constraint, procurement assumes greater importance

📁 **Questions:** What are the main components of the procurement lever in SA? And how can these be strengthened and scaled up? How are we *implementing* localisation programmes and how can they be tightened up?

Public procurement levers for industrial development

An evolving system of procurement and supplier development



All supportive of transformation and black economic empowerment

Technology support as a key lever for localisation

📄 Localisation (and other supply and demand side procurement levers) which do not require **competitiveness improvement** (as a *quid pro quo* for procurement support) - and the robust measurement of this - run the risk of 'featherbedding' domestic manufacturing

📄 The industry/technology nexus:

Need for a laser focus on:

- a) technology transfer/acquisition and diffusion; and
 - b) research and technology development - as key enablers of both incremental and disruptive innovations
- DST and CSIR support instruments for technology acquisition are vital to localisation efforts - e.g. The TLIU and the Mining Hub
 - But *much greater scale* is required to support a deep technology-intensive re-industrialisation strategy for the domestic economy
 - There is a need to address a range of important questions in this regard (See next slide...)

Technology support as a key lever for localisation

The key questions:

- Which sectors should SA concentrate on in order to build globally competitive capabilities related to SA's resource endowment, historical capabilities and the areas in which the country believes it can/should build globally competitive capabilities? (Upstream mining capital equipment; aerospace and defence; beneficiation – titanium and PGMs - fuel cells??)
- Which sectors require less supplier development (localisation) technology support? e.g. where technology is driven by global OEMs (Automotives)
- What are the optimal institutional arrangements between the DST/**dti** and the CSIR for localisation and the deployment of other policy instruments to support technology-intensive localisation? How is fragmentation to be overcome?
- And with what forms of collaboration with the private sector?
- How do other supply- and demand-side instruments complement DST/CSIR instruments? (The National Industrialisation Support Initiative - supported by NIPP – as an exemplar?)
- How can technology criteria be strengthened on the demand side in public procurement instruments?

The key role of SOCs

- 📁 SOCs have played a critical role as enablers and drivers of industrial development in many countries - specifically to leverage public expenditure (both CAPEX and OPEX)
- 📁 In SA, the key policy goals to which SOCs are expected to contribute are the following:
 - To secure local procurement and strategic sourcing/supplier development in key value chains
 - To develop and enhance local manufacturing capacity and capabilities
 - To support industrial innovation and technological developments, especially through technology absorption
 - To create employment and sustain jobs
 - To boost exports and ensure suppliers are integrated into OEM global value chains
 - To support broader economic empowerment through support for black industrialists
- 📁 **But non-compliance is a major impediment...**

Procurement policy work in place ...

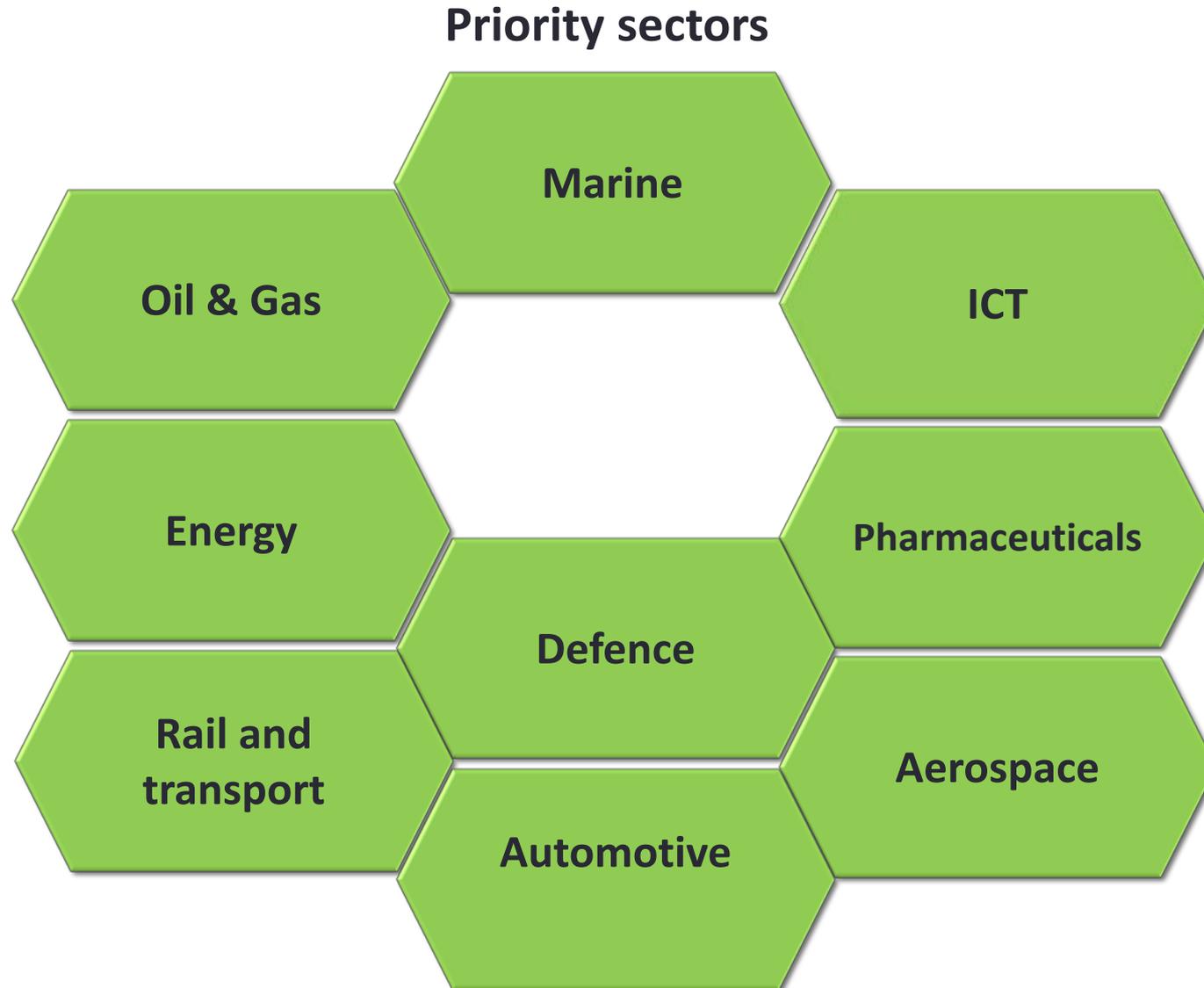
Despite the constraints and problems, steady progress has been made in the following areas:

- Growing appreciation of the importance of the procurement policy lever for industrial policy as a whole
- Improving policy coherence across government
- Better compliance across departments and spheres of government – but much more needs to be done to build the capacity of the state to apply the procurement lever
- Strengthening of existing legislation and compliance mechanisms:
 - New Regulations (Preferential Procurement Regulations) came into effect on 1st of April 2017 with clear directives on remedies for non-compliance – audit function
 - Review of technical specification for local content (SATS 1286:2011) is completed, and is now a National Standard for Measuring Local Content (SANS 1286)
 - Intervened on non-compliant tenders (e.g. transformer tender by Tshwane, furniture tender by the City of Johannesburg)
 - Deepening localisation by utilising Regulation 8.4 on non-designated sectors
 - The dti is working with the Auditor General and the National Treasury to ensure that localization becomes an audit function with sanction for non-compliance

Products designated for local production – is this the optimal mix?

Sectors/Products Already Designated	Local Content Thresholds	
Description		Date
1. Rail Rolling Stock	65%	16-07-2012
2. Power Pylons and Substation Structures	100%	16-07-2012
3. Bus Bodies	80%	16-07-2012
4. Canned/Processed Vegetables	80%	16-07-2012
5. Textile, Clothing, Leather and Footwear Sector	100%	16-07-2012
6. Certain Pharmaceutical Products	Per tender	07-12-2011
7. Set-top Boxes	30%	26-09-2012
8. Furniture Products	65 - 100%	15-11-2012
9. Electrical and Telecom Cables	90%	08-05-2013
10. Valve Products and Actuators	70%	06-02-2014
11. Working Vessels (Boats)	10-100%	01-08-2014
12. Residential Electricity & Water Meters	30-70%	01-08-2014
13. Steel Conveyance Pipes	80-100%	28-09-2015
14. Transformers and Shunt Reactors	10-100%	28-09-2015
15. Two Way Radio Terminals	20-100%	30-06-2016
16. Solar PV Components	15-90%	30-06-2016
17. Rail Signalling System	40-100%	30-06-2016
18. Wheelie Bins	100%	18-08-2016
19. Solar Water Heaters	70%	19-07-2012
20. Fire Fighting Vehicles	30%	21-11-2016
21. Steel Products and Components for Const	100%	13-01-2017

NIPP as a complementary localisation and technology instrument



Qualifying NIPP projects in supported sectors



But how can NIPP be strengthened as part of tender adjudication as a complementary instrument to support localisation and technology transfer?

Institutional linkages in the implementation of NIPP and other procurement levers

Internal Work-streams

- Sectoral Work-streams
- Local Content
- B-BBEE

External Work-streams

- National Treasury
- DPE - CSDP
- Armscor - DIP
- Transport (NDT)
- DST and CSIR (R&D: TLIU and NISI.)
- Defence
- Health

SOCs

- Denel (aerospace & defence)
- PetroSA (oil & gas)
- Transnet (transport logistics)
- Eskom (power)
- SAA (aircraft fleet systems)
- Others

Contribution by *Proudly South African* (PSA) to localization drive

Indicators	Key Programmes
Public sector intervention in support of designations	<ul style="list-style-type: none"> • Tender monitoring system developed, targeted at all tenders issued by organs of state. The system is currently linked with 439 govt & public entities' websites. • Public Sector Procurement Forums established at Provincial level
Private sector-targeted interventions in support of designations	<ul style="list-style-type: none"> • Database of local products and services, with recruitment of members intensified in designated sectors. • Road shows in the form of Business forums are undertaken in all nine provinces with the primary aims of educating the private sector.
Support <i>Proudly SA</i> to ensure that its logo becomes the first 'mark' of local manufacturing	<ul style="list-style-type: none"> • Funding has been made available to <i>Proudly SA</i> to enable it to implement its activities, including marketing activities, resuscitating the Buy Back SA campaign, and implementation of a robust compliance system which enables Proudly SA to properly certify companies that make their products locally.
Off-the-shelf purchases: promotion of bar codes of all locally manufactured and packaged consumer goods	<ul style="list-style-type: none"> • Retailers are engaged to ensure that they support local manufacturers and increase the levels of locally made products sold in their stores. • EDCON committed to increasing locally made stock levels to +50% by Sep 2017. • Woolworth, Mr Price and Foschini Group have localisation strategies.

Focus areas: public procurement policy reforms and interventions

- 📁 Upcoming Public Procurement Lab - led by DPME and PPPFA Reforms (new Public Procurement Act)
- 📁 Work closely with the DST and CSIR to scale up existing - and build new - technology support platforms. Consolidation and alignment of NIPP and procurement levers to maximise outcomes – e.g. NISI
- 📁 Work with the AG and procurement entities to secure compliance
- 📁 Conduct impact analysis studies on the designations, localisation and supplier development and whether reciprocal conditionalities are being met?
- 📁 Continue to capacitate both practitioners and industry on local content implementation - jointly with National Treasury and *Proudly SA*
- 📁 Build a greater understanding and support for public procurement and supplier development and a national Buy Local campaign
- 📁 Maintain a position in multi-lateral fora and trade relationships to defend the procurement policy space
- 📁 Strengthen and apply policy levers for private sector localisation and supplier development – automotives; CTLF; Retail etc. WTO compliance is important

Thank you

