IPAP IN BRIEF
A USER'S GUIDE

the **dti**

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Accelerating industrialisation

Enhancing local and export competitiveness

Sustainable energy for growth

Supporting innovation and new technology

Reducing poverty and inequality

Driving African regional industrialisation

“The IPAP’s business is to tackle ‘the devil in the detail’ head on”

MESSAGE FROM THE MINISTER

“This compact booklet is intended as a guide to the recent evolution of industrial policy in South Africa – and, more specifically, to South Africa’s Industrial Policy Action Plan (IPAP) – which has now been in place since 2007. It tries to avoid, on the one hand, being too specialist and, on the other hand, dumbing down the often complicated issues that face us as an emerging middle income country in difficult economic times. It is aimed at all interested South Africans who are concerned about how to meet the daunting challenges we face in terms of economic recovery, sustainable growth and the struggle to overcome the triple scourge of unemployment, poverty and inequality.

Why the IPAP? If the National Development Plan (NDP) sets the overall vision for South Africa’s economy and society on the road to 2030, then IPAP provides the targeted actions and the continuously updated rolling implementation framework for sustained and deepening industrialisation. The IPAP’s business is to tackle ‘the devil in the detail’ head on – and get results. It therefore combines comprehensive policy research, institutional coordination and consensus-building with a problem-solving, bottleneck-busting approach to SA’s industrial development challenges – never losing sight of the wider goal of a stable, secure and prosperous South Africa, more at ease with itself, the African continent and the wider world.”

Rob Davies
Minister of Trade and Industry
April 2015

WHAT IS INDUSTRIAL POLICY?

In broad terms, the Industrial Policy of a country is the sum of its strategic efforts to develop, expand and sustain a competitive manufacturing sector that fosters stable growth, diversification, technological development, decent employment and an improving quality of life for all.

WHY IS INDUSTRIAL POLICY SO IMPORTANT?

Industry is the backbone of the economy

- Given that industry has the highest economic and employment multipliers – and the strongest linkages to all sectors – it is critical for South Africa's long term development.

Industry fosters important growth and productivity factors

- A strong industrial base goes hand in hand with higher economic growth and technical progress.

- The manufacturing sector is more productive than other sectors – about 15% higher than the overall average. It leads to significant productivity improvements in all other sectors and is a critical driver of research and development (R&D) and innovation.

- Manufacturing is indispensable for the development of a strong export strategy based on globally competitive, value-added products.

Industry operates as a hub to the wider economy, offering an important market for supplies and services from other sectors

- Business services as well as other non-industry sectors strongly benefit from industry's demands across the upstream and downstream value chains.

- In the South African context in particular, it is of critical importance to create strong linkages between manufacturing and the mining and agricultural sectors – linkages which in turn help to consolidate a sustainable services sector.

Industry generates strong positive spillovers to other sectors

- Despite having suffered enormous pressure in the wake of the 2008/2009 financial crisis, manufacturing remains an important, potentially decisive sector within the South African economy, given its capacity to generate positive and significant spillover effects on the rest of the economy.

- Demand creation: As noted earlier, manufacturing draws in and creates demand for a huge range of upstream inputs and services, whilst also stimulating very significant additional downstream economic activity in services, maintenance and retail.

- Output multipliers: In South Africa, every additional R1unit of investment spending in the manufacturing sector generates 1.13 units of additional output in the total economy. This in contrast to the output contributions of construction (0.81); mining (0.60); finance (0.49); transport and communication (0.03) and electricity (0.03).

- Employment multipliers: Likewise, every R1 million of additional investment spending in the manufacturing sector will create about 3 decent and sustainable jobs. This in contrast to 2.5 jobs that would be created in construction; 1 in finance; 0.5 in mining; 0.1 in transport and communication and 0.1 in electricity.

- Quality work: Manufacturing provides quality jobs that offer higher wages and better career prospects than many other sectors. Whilst modern industry builds its core workforce around employees who have completed secondary rather than tertiary education, manufacturing sector wages nevertheless remain above average in every skill class.

Industrial growth both depends on and spurs higher quality education and training:

- Sustaining industrial jobs and wages – which contribute strongly to aggregate demand in the economy – depends on building competitive advantage in key productive sectors; and this in turn requires continuous workforce training and up-skilling.

- At the same time, dynamic modern industry is becoming more and more dependent on employees with STEM skills (science, technology, engineering and mathematics); which means that producing these skills to scale (both in-house and in the public secondary and tertiary sectors) has become a critical component of sustainable industrial development.

INDUSTRIAL POLICY IN THE LOCAL CONTEXT

WHERE THE IPAP FITS IN

In 2007 the government adopted the National Industrial Policy Framework (NIPF), and its associated practical implementation plan – the IPAP – as its guiding approach to industrialisation, in line with the job creation strategy advocated in the New Growth Path (NGP).

Since then, the IPAP has continuously updated and refined its emphases on an annual basis, both to ensure that it remains in tune with rapidly changing global and local economic and social developments and, more recently, to align itself with the overall vision and perspectives set out in the National Development Plan (NDP) of 2012.

OVERCOMING THE STRUCTURAL PROBLEMS FACING THE SA ECONOMY

South Africa's economic growth, post-1994, has been on a largely unsustainable path.

- The economy has experienced extensive financialisation – meaning, at the most basic level, that financial markets and the trading of financial instruments have predominated over the industrial economy and the agricultural sector.

- This has led to significant market failures – where the high short term returns available in the consumption-driven sectors of the economy – retail, finance and insurance, real estate, transport, logistics and security – have operated to the detriment of long term 'bricks and mortar' investments in the productive sectors.

- The result has been that investment in the consumption sectors of the economy – which have been growing at twice the rate of the productive sectors – has over time generated unsustainable levels of household debt, whilst manufacturing and agriculture have continued to contribute far less to the economy than they are potentially capable of doing.

- At the same time, the country has steadily lost some of the most important capabilities built up over time in key manufacturing sub-sectors such as foundries, casting, tooling, mining capital equipment and transport equipment, chemicals and marine engineering.

- Unemployment levels remain unacceptably and destabilisingly high – fluctuating between 22.5% and 25% on the narrow definition – and contributing to South Africa's unenviable position as the most unequal country in the world.

- It is therefore critical that concerted support to South Africa's industrialisation is provided by both government and the development finance institutions (DFIs), to begin building a strong platform for the re-entry of large scale private sector investments into the productive economy.

HOW DOES THE IPAP TACKLE THESE PROBLEMS?

- IPAP is centrally focused on bringing significant structural change to the South African economy over the medium to long term. Its main priorities are:

  - To increasingly synchronise macroeconomic and industrial policy.
  - To work with and support manufacturing by continuously developing a wide range of policy measures to raise competitiveness and realise multiple wider benefits to the economy, including expansion of the tax base and a healthier trade balance.

WHY? WHAT ARE THE OVER-ARCHING GOALS?

- To diversify the economy away from primary resource dependence by providing concentrated support to value-adding manufacturing activities and associated services, with strong linkages between manufacturing and primary sectors.

- To help develop enabling conditions for decent job creation; and to include historically disadvantaged people and regions.

- To contribute towards complementary industrialisation in Africa, focused on infrastructure, rapid enhancement of productive capacity, technical cooperation and expanded trade.

THE IPAP PROCESS

IPAP is the product of systematic analysis of the latest trends in the global and regional industrial policy space; and of the continuous search for optimal policy coherence: both within government and between government departments, State-Owned Companies (SOCs) and the full range of stakeholders and social partners.

IPAP's research efforts are aimed at developing effective instruments for public-private sector cooperation and identifying key investment opportunities. This has two aspects:

On the one hand:

- Developing close and supportive reciprocal working relationships with carefully identified leading and dynamic firms to help further enhance their competitiveness, position them favourably in export markets and ensure that they implement strong domestic supplier development programmes.

On the other hand:

- Understanding the dynamic and interlinked evolution of high-tech sectors and new digital technologies; and engaging practically with the foreseeable impacts of these developments on existing and emerging industry sectors.

- Each year, **the dti** launches a revised three-year rolling IPAP, in the context of rapid economic change and continuing global uncertainty.

- It is important to understand that the annual iterations of IPAP do not represent "New Policy' or "Yet Another New Plan", as is sometimes suggested in the media.

As its title indicates, the IPAP is an *action document* that coordinates, adjusts and modifies ongoing interventions aimed at catalysing dynamic, balanced, sustainable and inclusive growth.

IPAP synchronises the activities and responsibilities of many different agencies and stakeholders in both the public and private sectors; and it holds everyone to account for the actions to which they have committed.

- This has proved to be a robust formula, which allows continual scaling up of interventions and sufficient flexibility to respond to change.

Just as many of today's successful industrial firms have built up their capabilities through a process of learning-by-doing, IPAP clearly demonstrates **the dti**'s commitment to constantly refining and improving on the design and implementation of its industrial policy initiatives.

KEY LINKAGES: THE IPAP, THE NDP AND THE MTSF

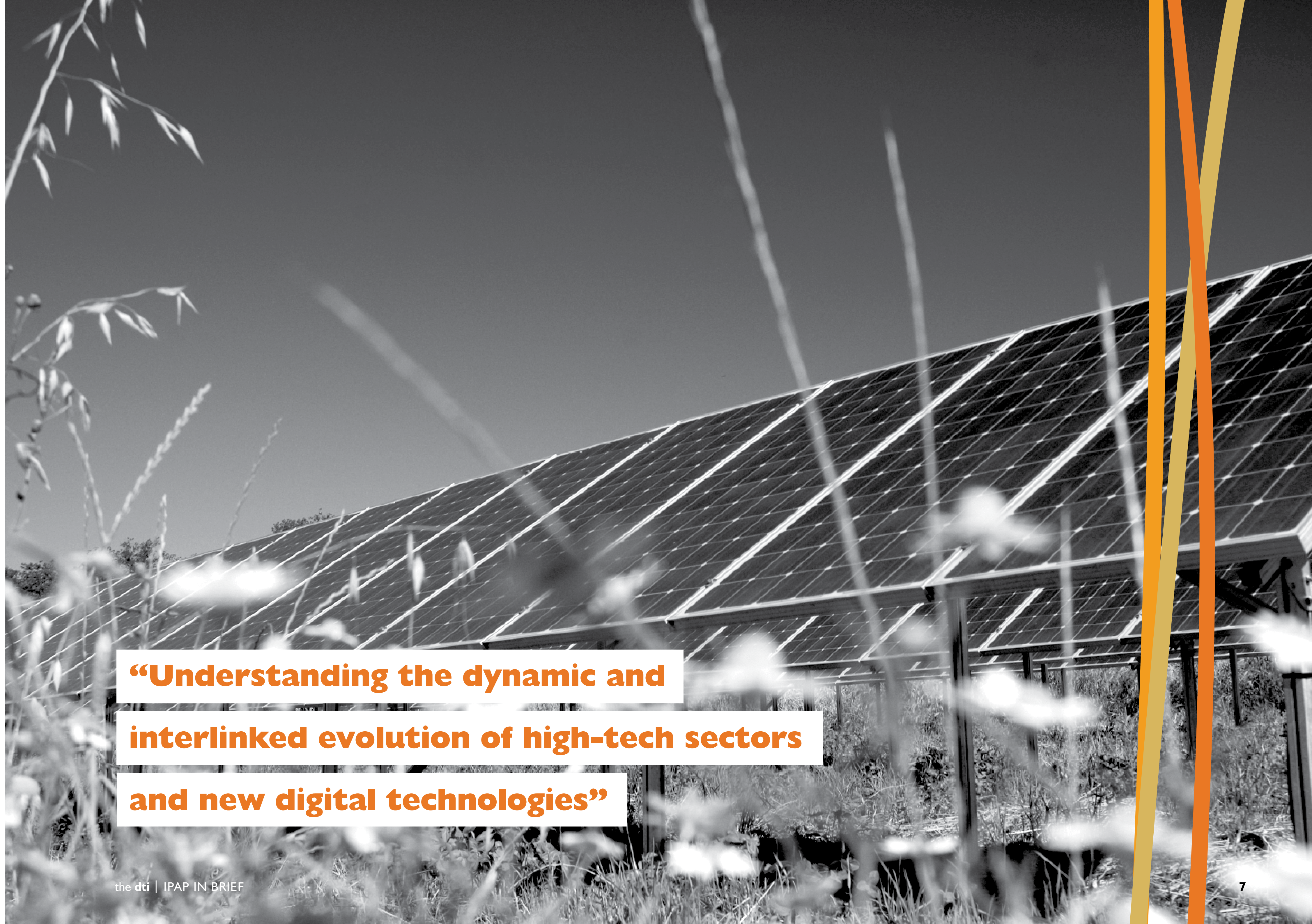
The National Development Plan (NDP)
Highlights the need for SA to develop a more competitive and diversified economy with a higher global share of dynamic products and greater depth and breadth of domestic linkages. (NDP, p. 103).

Recognises that resources are either a curse or a blessing (NDP, p. 98) – which way this goes being critically dependent on the coherence of investment and regulatory policy.

Posits the need to move steadily away from an exchange rate linked primarily to commodity prices towards one based on the sophistication of SA's overall export basket. (NDP, p. 98-99).

In order to achieve these objectives it advocates deepening the productive base in mining, agriculture, manufacturing and services, intensified stimulation of local and foreign markets and strengthening of conditions to support labour-absorbing activities. (NDP, p. 103).

The Medium Term Strategic Framework 2014-2019 (MTSF)
Positions the IPAP as one of the key pillars of radical economic transformation in South Africa, predicated on rapid and inclusive growth in the productive sectors of the economy and the creation of a skilled and capable workforce to support an inclusive growth path. (MTSF, pp. 20, 22).



“Promoting innovation and research to make local manufacturing more competitive”

HOW ARE THE IPAP’S GOALS ACHIEVED?

- By targeting specific industries for rapid development – particularly labour-intensive value-adding sectors where South Africa enjoys potentially decisive competitive advantages - notably in mineral resources and agriculture.
- By working intensively with industry and labour to develop new industrial clusters and create dynamic backward and forward linkages between larger companies and smaller local enterprises.
- By implementing stronger developmental conditionalities and extracting stronger reciprocal obligations from beneficiaries of state support in areas such as investment in plant and technology, competitiveness upgrading, employment retention and creation etc.
- By cooperating actively with the Department of Science and Technology (DST) to promote innovation and research, in order to make local manufacturing more competitive – both domestically and in international markets.
- IPAP interventions range from economic stimulation, procurement, industrial financing and incentives to carefully-focused regulation: vigilant competition policy, flexible tariff setting, effective customs controls and so forth.
- Sound industrial policy can also successfully stimulate and drive other sectors. For example:
  - Agro-processing can create new opportunities across the agricultural value chain as a whole;
  - Beneficiation[1] can extract more value from mineral and other primary resources;
  - Services become more viable in the context of manufacturing diversification.

[1] Beneficiation, or value-added processing, involves the transformation of a primary material (produced by mining and other extractive processes) into more finished products which have a higher export sales value.

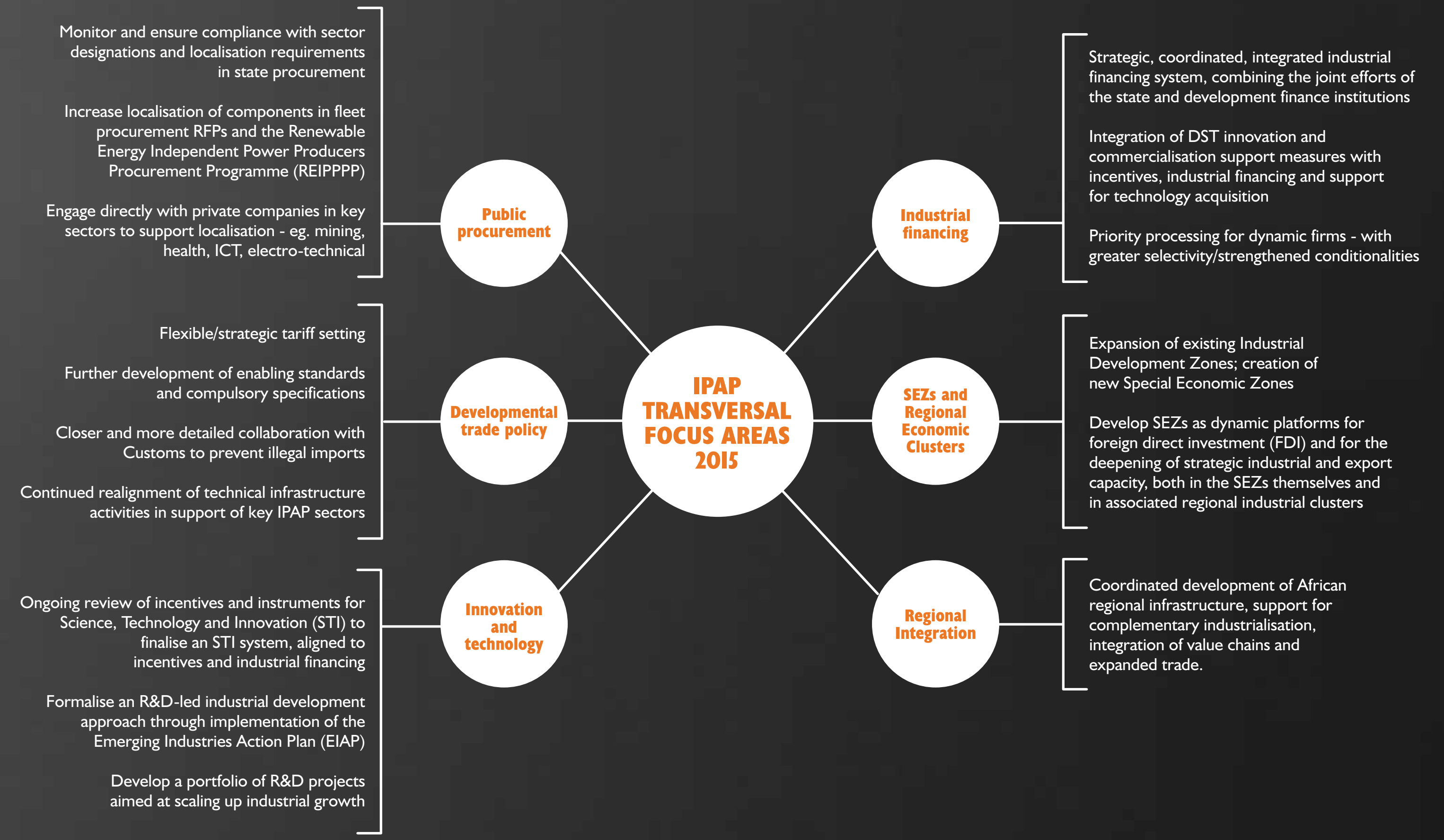
Beneficiation can take a wide range of different forms - e.g. the use of platinum in catalytic converters and fuel-cell technology; various agro-processing applications (high-grade mohair, cotton and lint products); forestry (mining timber, construction poles, particle boards for furniture manufacturing, specialised cellulose products for export); leveraging plant biodiversity into products for the cosmetics sector; other labour-intensive processes such as metal fabrication, craft jewellery, and ceramic pottery.

Each successive level of processing permits the product to be sold at a higher price than the previous intermediate product or original raw material - and adds value at each stage. Beneficiation has been defined by government as ‘a principal driver of our mineral resources regime and industrialisation’.

INSTRUMENTS TO DRIVE STRUCTURAL CHANGE

TRANSVERSAL (CROSS-CUTTING) FOCUS AREAS – 2015 AND BEYOND

FOCUS AREAS 1-3 (left-hand side of the mind map) seek to to leverage localisation in state and private sector procurement to stimulate growth in the productive sectors of the economy, whilst at the same time driving innovation, improving regulatory standards, combatting abuse of market dominance and eliminating import-export fraud. **FOCUS AREAS 4-6** (right-hand side of the mind map) are focused on developing an integrated industrial financing system, providing sustained support for Industrial Development Zones and Special Economic Zones and building a strong platform for African regional integration - based on enhanced trade, infrastructure development and shared, complementary industrialisation.



IPAP SECTORAL INTERVENTIONS: 1

IPAP identifies a number of key manufacturing and service sectors for special attention and support in order to leverage higher levels of innovation, productivity, export competitiveness, integrated rural development and job creation. These include: a) sectors with strong growth multipliers (automotives; metal fabrication, capital and rail transport equipment; plastics, pharmaceuticals and chemicals); b) sectors with particularly strong employment multipliers (agro-processing; forestry, timber, paper, pulp and furniture; c) stressed sectors (like clothing, textiles, leather and footwear) which have significant import substitution and export potential; and d) sectors offering paths to skills upgrading (business process services and crafts - with expanded and deepened support for SMMEs and producer co-operatives).

SECTORAL CLUSTER 1: TRADITIONAL SECTORS AND SERVICES – 2015 AND BEYOND

IPAP SECTORAL FOCUS AREAS 1

Automotive

APDP: Continuous support for OEMs and local component suppliers through the Automotive Production and Development Programme (APDP)
OEMs: Stronger bi-lateral work with individual original equipment manufacturers
NEW SEGMENT STRATEGIES: motor-cycle and electric vehicle manufacturing and localisation
AFRICA: Stepped up work on African integration across the full auto sector value chain

Metal fabrication, capital & rail transport equipment

LOCAL CONTENT: Meet state localisation targets across all government procurement tenders
COMPETITIVENESS: Deploy competitiveness enhancement and training programmes at company level
FINANCE: Roll-out tailored industrial financing packages

Clothing, textiles, leather & footwear

CTCP: Continuous support for the sector through the Clothing and Textiles Competitiveness Programme (CTCP)
VALUE-ADD: Extended beneficiation of local raw materials: mohair fibre, flax fibre 'cottonisation', exotic leather, cotton lint; communal hides commercialisation pilot projects

Plastics, Pharmaceuticals & Chemicals

PLASTICS: Develop a Plastic Production and Innovation Cluster - focus on testing, R&D and skills
DESIGNATIONS: For selected pharmaceutical and medical devices tenders
COSMETICS: Develop a comprehensive Strategy for local firms, including integrating their production with SA retailers' expansion into sub-Saharan Africa

Forestry, timber, paper, pulp & furniture

FORESTRY: Forestry beneficiation, production parks and technology upgrading
SAWMILLING: Technology upgrading and development of a sawmilling hub
PULP AND PAPER: Specialised cellulose applications
FURNITURE: Develop a Furniture Production Hub

Agro-processing

Food and Beverage Sector Investment Programme
New product and trade promotion
Regional Development Programme and Municipal Agro-hub Programme
Agro value chain development and linkages
Food Innovation Programme with focus on incubator food technology stations
Develop agro-chemicals sector

Business process services

Ongoing implementation of the BPS incentive programme, with proactive development of Acton Plans for emerging sub-sectors

IPAP SECTORAL INTERVENTIONS: 2

IPAP also pays careful attention to sectors that are a) crucial for long-term resource sustainability (oil, gas, renewable energy, green transport); b) have the potential to leverage key domestic comparative advantages (South Africa's massive mineral resource endowment); or c) keep the country 'in the game' internationally in crucial areas of high-tech, ICT, advanced materials and niche manufacturing.

SECTORAL CLUSTER 2: RESOURCES, ENERGY AND HIGH-TECH – 2015 AND BEYOND

IPAP SECTORAL FOCUS AREAS 2

Leveraging SA's mineral endowment

DEVELOP THE MINING/MANUFACTURING INTERFACE to galvanise resource-based industrialisation
KEY VALUE CHAINS: Focus on policy and project levers for beneficiation of iron ore/steel, titanium, platinum group metals (PGMs), polymers and mining capital equipment

PGMS

CATALYTIC CONVERTERS: Support for expansion of SA producers
FUEL CELLS: Jump-start development of fuel cell manufacturing industry
INDUSTRIAL FINANCE: Develop financing scheme for local PGM fabricators

IRON / STEEL

Explore opportunities to process SA's vast magnetite iron-ore resources

POLYMERS

Cluster development to address training, skills and testing
Evaluate downstream opportunities presented by shale gas resources
Leverage state procurement of plastic products (pipes etc.)

Oil and gas

RESEARCH: Step up research scoping capabilities for opportunities and constraints in both upstream localisation and downstream energy generation and beneficiation
INTERNATIONAL: Intensify work with oil majors and domestic and international suppliers - including development of a local content roadmap for offshore and onshore conventional and unconventional exploration and production
GAS: A dti-led national effort to develop a road map for gas-based industrialisation

Green industries

GREEN TRANSPORT: Develop policy for production of compressed natural gas (CNG), bio-methane and electric vehicles
REIPPPP: (Renewable Energy Independent Power Producers Procurement Programme): leverage designation and procurement of solar photovoltaic
ENERGY EFFICIENCY: Scale up Industrial Energy Efficiency Programme
GREEN SKILLS: Launch Programme to stimulate demand and supply of critical and scarce Green Skills
CARBON: Develop a calibrated approach to carbon mitigation and implementation of carbon tax targets

Aerospace and defence

PROCUREMENT & EXPORTS: Programme to scope existing industry capabilities, supply chains, opportunities for localisation and support for exports through the Export Council
CAV: Ramp up cluster development and investment in Centurion Aerospace Village

Advanced materials

Localisation of composite product development for aerospace, automotives, municipal infrastructure projects - e.g. glass reinforced composite poles, fibre glass, carbon fibre, epoxy resin

ICT

LOCALISATION: Personal computers and tablets; composite infrastructure products

Broadband

ROLL-OUT: Create support mechanisms for the roll-out of the Department of Communication's broadband policy

White goods & electro-technical

Work closely with and support local manufacturers to raise competitiveness and exports

Ship/ boat-building

Increase local manufacturing capability
Establish a long-term procurement programme for investment preparedness and industrial financing
Skills development programme and strategic marketing campaign
Infrastructure investment led by Transnet National Ports Authority

HOW IS IPAP IMPLEMENTED?

Delivering on the IPAP involves coordinating efforts across a wide range of government departments, public entities and supporting agencies.

Its actions depend on, but are not limited to:

- Core resource allocations as reflected in **the dti**'s budget. In particular:
  - The suite of competitiveness incentives offered by the Incentive Development and Administration Division (IDAD);
  - Investment and export promotion – administered by Trade & Investment South Africa (TISA).
- Industrial financing – provided by the Industrial Development Corporation (IDC).
- Support for B-BBEE, as provided by the National Empowerment Fund (NEF), which focuses on preferential procurement and widening the spread of equity ownership.
- The strategic deployment of tariffs – administered by the International Trade Administration Commission (ITAC) – to support manufacturing.
- In-depth cooperation with Customs, the Competition Commission, the CSIR and **the dti**'s technical infrastructure partner institutions: SABS, SANAS, NMISA and the NRCS.[2]

MONITORING AND EVALUATION

The implementation of IPAP is subject to rigorous monitoring and evaluation. To this effect, a matrix with Key Action Plans (KAPs) is used as a tool to track implementation.

The monitoring and evaluation matrix mechanism allows for early detection of problems as they emerge, so that corrective action can be taken within the shortest possible time-span. It also facilitates regularly updated progress-reporting to Cabinet, the Economic Sectors and Employment Cluster, the Parliamentary Portfolio Committee and NEDLAC.

[2] ***SABS**: South African Bureau of Standards*

***SANAS**: South African National Accreditation System*

***NMISA**: National Metrology Institute of South Africa*

***NRCS**: National Regulator for Compulsory Specifications*

***CSIR**: Council for Scientific and Industrial Research*

***NEDLAC**: National Economic Development and Labour Council*

PUTTING RESOURCES TO WORK: A FEW HIGHLIGHTS

Infrastructure

- Over the past five years, R1 trillion has been spent on infrastructure investment, with steadily increasing localisation. Over the coming three years, government will spend a further R840 billion to develop the country's infrastructure in support of deepening industrialisation.

Industrial financing

- The Industrial Development Corporation – see also next page – has over the past 20 years approved total project funding of more than R128 billion (R204 billion in 2013 prices). These financial commitments supported the creation of 360,000 direct jobs and saved an additional 43,000 jobs.

Manufacturing competitiveness

- From the start of the financial year to date 236 enterprises were approved for funding under the MCEP, with a total grant value of R1 billion. The investment leveraged as a result is R3.7 billion in support of 28,093 jobs.

The automotive sector

- Concentrated IPAP support for the auto industry has helped it to retain its position as the leading manufacturing sector in the domestic economy, employing more than 100,000 people.
- During the year under review the Automotive Investment Scheme (AIS) and the People-carrier Automotive Investment Scheme (P-AIS) together approved 40 projects with total incentives of R515 million and an estimated investment value of R2 billion.
- Vehicle and component exports increased by 8.2%, from R94.9 billion in 2012 to R102.7 billion in 2013.
- Development plans include a projected capital expenditure of R7.9 billion for 2014-15, implementation of the revised Automotive Production Development Programme (APDP) and expansion of the successful Automotive Supply Chain Competitiveness Initiative.

Rail fleet procurement

In 2014, two major awards for rail fleet procurement were announced:

- a R51 billion contract between the Passenger Rail Agency of South Africa (PRASA) and Gibela Rail Consortium for the supply of 600 commuter trains (3,600 coaches) over the next ten years; and
- a R50 billion award by Transnet Freight Rail, split between four successful bidders, for the supply of 1,064 locomotives: 599 electric locomotives to be built by China South Rail Zhuzhou Electric Locomotive and Bombardier Transportation SA; and 465 diesel locomotives to be built by General Electric South Africa Technologies and China North Rail Rolling Stock South Africa.

All of the awards incorporate strong localisation requirements under the Competitive Supplier Development Programme (CSDP).

Green industries

- Between 2011 and 2014, the REIPPPP Programme awarded 4,944 MW to 64 projects – mostly solar photovoltaic and wind energy technologies.
- The renewable energy sector has committed investments totalling R120 billion, with R39 billion commited to local content.

Clothing, textiles, leather and footwear

- Since inception of the Clothing and Textiles Competitiveness Programme (CTCP) programme, approvals worth R 2.7 billion have been facilitated under the Production Incentive Programme (PIP), with disbursements of R2.1 billion. Approvals under the Cluster programme stand at R712 million, with disbursements to the value of R310 million.

Business Process Services

- **The dti** launched the revised Business Process Services (BPS) incentive at South Africa House in London. The revised incentive scheme will build upon the success of the previous scheme, which led to the creation of 9,077 jobs on the back of financial disbursements of R587 million.

Support for the film industry

- Between April and December 2014, **the dti** supported 94 projects to a total value of R654 million.

A SPECIAL NOTE ON THE ROLE OF THE IDC

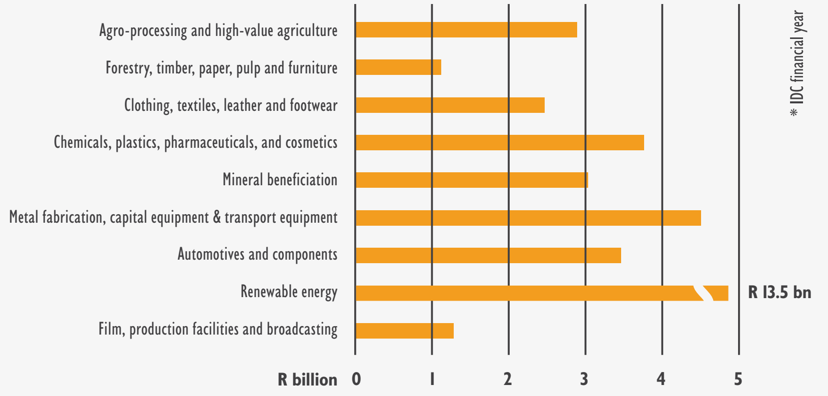
The IDC is the largest Development Finance Institution (DFI) in South Africa, providing funding aimed at increasing industrial capacity. The release of the National Industrial Policy Framework in 2007 and the subsequent development of the Industrial Policy Action Plan signalled a change for the IDC and its role in South Africa's industrial development. The IDC responded by reviewing its strategy with an increasing focus on productive sectors of the economy and reduced its activities in some services industries.

Over the past six years, the IDC has approved funding of close to R36 billion to businesses operating in the IPAP priority sectors as illustrated in the accompanying graph. The largest portion of this funding went to the renewable energy industry, where the IDC played a catalytic role in the establishment of the industry through its project development and funding activities during rounds 1 to 3 of the REIPPPP. The IDC also provided funding for manufacturers setting up local production facilities to manufacture components for the renewable energy programme.

The fabricated metals and machinery industries saw the IDC approving approximately R4.5 billion since financial year 2008/09. This included funding for businesses supplying Eskom and Transnet's respective capital expenditure programmes. The automotive industry, one of the major drivers of South Africa's manufacturing sector, received R3.5 billion in funding. A large portion of this was linked to reduced liquidity and unavailability of credit during the global economic crisis. The IDC is also assisting component manufacturers to set up factories in an effort to boost local manufacturing of components for motor vehicles.

The IDC supported agro-processing and projects to a total amount of R2.9 billion. These have reverse linkages to high-value agriculture, with its important positive spin-offs for rural development. In addition, the IDC continued support for the labour-intensive clothing and textiles industries, working closely with **the dti** to support companies to improve their competitiveness and assist in stemming job losses. This successful partnership was extended to the Manufacturing Competitiveness Enhancement Programme (MCEP), parts of which the IDC manages on behalf of **the dti**.

IDC FUNDING APPROVED TO IPAP PRIORITY INDUSTRIES 2008/09 TO 2013/14*



BUT VERY SIGNIFICANT PROBLEMS REMAIN TO BE OVERCOME.

The mind map presented below illustrates how some of the key structural fault-lines in the economy play themselves out in the form of under-investment, administered price pressures, institutional bottlenecks and both energy-supply and operational constraints.

KEY CONSTRAINTS FACED BY SOUTH AFRICA'S PRODUCTIVE SECTORS

"Supporting exporters through Export Councils, market intelligence, insurance credit etc."

OVERCOMING CONTRAINTS - PUTTING LEARNING TO GOOD USE

Coordination, bottleneck-busting, solution-finding

- Tackling both the external and the domestic constraints to the deepening of South Africa's industrialisation strategy will require a careful, purposeful, coordinated and sustained effort by government. This will involve government implementing a practical solutions-based approach to the critical constraints, working in close collaboration with all its key social partners.

- Driving this process is the Presidential Business Working Group, made up of five joint task teams focusing on education and skills, infrastructure, the regulatory environment, the labour relations environment and inclusive growth.

Loosening the regulatory burden on business

- A number of initiatives to cut red tape and make doing business simpler are in the immediate pipeline: e.g. 'One Stop Investment Centres'; the co-location of SMME support agencies; and speedy resolution of Strategic Environmental Assessments.

Monetary policy

- Especially in the light of limited fiscal space, it is important that monetary policy/exchange rate management supports growth and maintains the competitiveness of the Rand.

Industrial policy and procurement

- Industrial Policy will focus on more sharply defined conditional incentives and a tightened framework for the public sector procurement process: ensuring stricter compliance with localisation targets and supportive capacity-building across all state procuring entities and SOCs. It will also encourage large private companies to come to the procurement table through local supplier development and strategic sourcing initiatives.

Trade policy

- High priority will be given to a ramped-up, targeted export promotion strategy aimed at both old and new markets; but with a strong focus on BRICS and Africa. (See graphic: *"The Road Ahead"*, page 21).

- This will include re-orientating the ports infrastructure towards a pricing model that more vigorously supports the export of value-added manufactured goods; and will be underpinned by strongly intensified joint actions to eliminate the scourge of illegal imports and customs fraud.

Tackling electricity supply constraints

- A four-point strategy with the following elements:
  - A government 'war-room' to mitigate short-term supply constraints and speed up delivery of new base load capacity;
  - A demand-side power-usage management programme;
  - Faster roll-out of the Integrated Energy Plan and further stepping up the momentum of the REIPPPP;
  - Urgently renewed attention to electricity supply and pricing issues at the local government level.

SUMMING UP: KEY PRIORITIES 2015 ONWARDS

Economy-wide pursuit of a stronger articulation of macro- and micro-economic policies

- Greater coherence and integrated, stronger implementation.
- Stronger alignment of industrial policies and programmes with investment and export promotion programmes, including support for Export Councils, Special Economic Zones and clusters/hubs.

Deepening the process of ongoing monitoring and evaluation

- Improved monitoring and evaluation of key support programmes, twinned with supportive efforts to modify and strengthen sector strategies and support instruments.

Infrastructure-driven industrialisation

- This means sustaining and expanding the public infrastructure programme, with stronger support for local manufacturing and economic infrastructure.

Resource-driven industrialisation

- This focuses on the leveraging of mineral and other key (non-mineral) resources to achieve higher levels of downstream beneficiation and value addition.
- It is aimed at systematically building up both the demand and the competitive advantages South Africa enjoys in the upstream mining, transport and capital goods sectors.
- Finally, it also includes important ongoing work to develop a roadmap for gas-based industrialisation.

Advanced manufacturing-driven industrialisation

- This involves a sustained focus on key spillover economic sectors. It comprises both the design of stronger conditionalities for state support to these sectors and a strong commitment to close stakeholder engagement with private companies – particularly global OEMs.

Industrial financing

- Ongoing work, not yet completed, to build an integrated system of industrial financing, incentives and export support, with a special focus on lead and dynamic companies that can compete effectively in global export markets; and
- Stepped-up work to support emerging black industrial entrepreneurs.

African regional integration

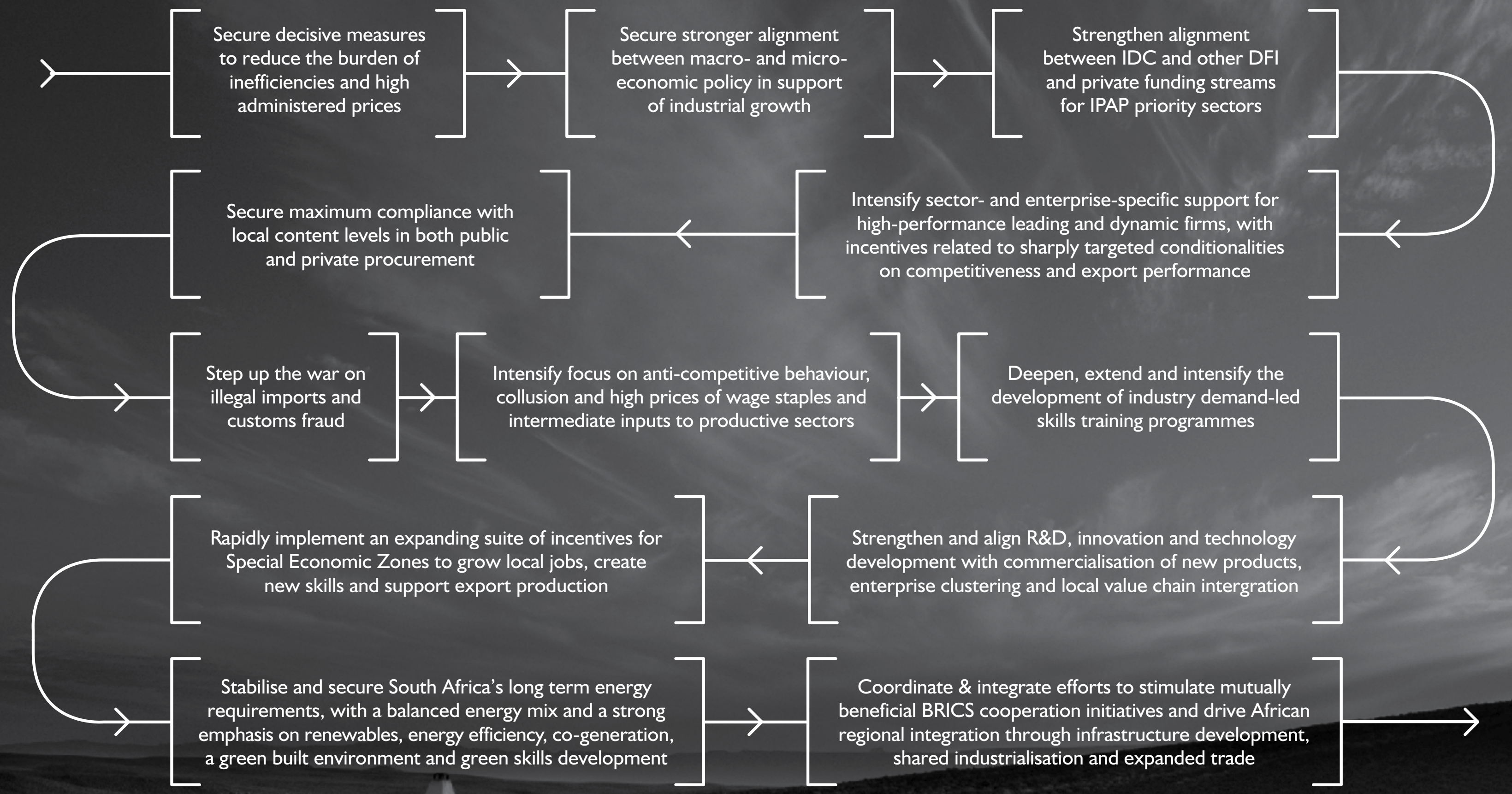
- The obvious attractions of a concerted 'turn to Africa' are high growth and increasingly strong consumer demand across many areas of the continent; together with the huge opportunities that exist for resource exploitation and infrastructure development.
- Taking these opportunities forward will require developing joint programmes of action across key value chains – particularly in the mining, agro-processing, pharmaceuticals and chemicals sectors – and higher levels of value-addition in the downstream minerals processing and beneficiation sector.

Rolling-out the intra-governmental *Operation Phakisa* Plan for the marine economy

- *Operation Phakisa* is aimed at driving development in marine manufacturing and in the upstream oil and gas and ship/boatbuilding sectors. It will include the strengthening of public investment in the ports infrastructure and further development of appropriate models for crowding in private sector investment.

WE ARE BUSY LAYING THE FOUNDATION for major advances; but it is very important that we maintain and intensify the momentum that has been achieved to date. This means giving urgent priority to practical and effective working partnerships that successfully draw together government, business, labour, civil society and communities. If this is done this with creativity, imagination and a genuine commitment to give-and-take, there is every chance of kick-starting a virtuous new cycle of dynamic and balanced industrial development that buffers the economy against global shocks, supports social inclusion and environmental sustainability and offers a much more stable and secure future for all South Africans.

THE ROAD AHEAD: PULLING IT ALL TOGETHER



MAKING CONTACT - GETTING HELP A GUIDE TO IPAP-RELATED INCENTIVES AND SUPPORT

AVAILABLE INCENTIVE SCHEMES

A. INCENTIVE DEVELOPMENT AND ADMINISTRATION DIVISION (IDAD)

IDAD's aim is to stimulate and facilitate the development of sustainable, competitive enterprises, through the efficient provision of effective and accessible incentive measures that support national priorities.

IDAD Sub-programmes:

- Broadening Participation provides incentive programmes that promote the broader participation in the mainstream economy of businesses owned by individuals from historically disadvantaged communities and marginalised regions. The Black Business Supplier Development Programme (BBSDP), Co-operatives Incentives Scheme (CIS) and Incubation Support Programme (ISP) form part of this sub-programme.

- Manufacturing Investment Incentives promote additional investment in the manufacturing sector. Incentive programmes include: the Automotive Investment Scheme (AIS); the People-Carrier Automotive Investment Scheme (PAIS); Aquaculture Development and Enhancement Programme (ADEP); and the 12i Tax Allowance Incentive.

- Services investment Incentives provide incentives that promote increased investment and growth in the services sectors. Incentive programmes include: the Business Process Services (BPS), previously known as the Business Process Outsourcing (BPO) programme; and the Film and Television Production Incentive.

- Infrastructure Development Support leverages investments to the South African economy by providing infrastructure critical to industrial development, thus increasing exports of value-added commodities and creating employment opportunities. Incentive programmes include: the Critical Infrastructure Programme (CIP); the IDZ programme; and the SEZs.

- Product and Systems Development aims to develop, review, monitor and evaluate incentive programmes to support the National Industrial Policy Framework (NIPF) and its action plan as well as sector strategies to address identified failures.

- Business Development and After-Care facilitates access to targeted enterprises by reviewing incentive schemes for their impact and the lessons learned to improve old schemes and develop new ones.

Contact: http://www.dti.gov.za/about_dti/teo.jsp.

B. INDUSTRIAL DEVELOPMENT FINANCIAL ASSISTANCE (INCENTIVES)

Aquaculture Development and Enhancement Programme (ADEP)
The Aquaculture Development and Enhancement Programme (ADEP) is an incentive programme available to South African registered entities engaged in primary, secondary and ancillary aquaculture activities in both marine and freshwater classified under SIC 132 (fish hatcheries and fish farms) and SIC 301 and 3012 (production, processing and preserving of aquaculture fish). The grant is provided directly to approved applications for new, upgrading or expansion projects.

Business Process Services (BPS)
The dti implemented the Business Process Services (BPS) incentive programme from January 2011 with the objectives of attracting investment and creating employment opportunities in South Africa through offshoring activities. Since the programme's inception, the incentive has resulted in the creation of about 9,077 new jobs with an average growth rate of 26% per annum during the period 2011-2014.

As part of Government's commitment to deepen the country's profile as a preferred location for the outsourcing of BPS, the incentive was revised with a recommendation to continue it beyond its current three-year duration. This has resulted in the new BPS incentive programme which was launched on 14 October 2014 by the Minister of Trade and Industry.

Capital Projects Feasibility Programme (CPFP)
The Capital Projects Feasibility Programme (CPFP) is a cost-sharing grant that contributes to the cost of feasibility studies likely to lead to projects that will increase local exports and stimulate the market for South African capital goods and services.

Clothing and Textile Competitiveness Improvement Programme (CTCIP)
The Clothing and Textile Competitiveness Improvement Programme (CTCIP) aims to build capacity

among manufacturers and in other areas of the apparel value chain in South Africa, to enable them to effectively supply their customers and compete on a global scale. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate.

Critical Infrastructure Programme (CIP)
The Critical Infrastructure Programme (CIP) is a cost sharing grant for projects designed to improve critical infrastructure in South Africa. The grant covers qualifying development costs from a minimum of 10% to a maximum of 30% towards the total development costs of qualifying infrastructure. It is made available to approved eligible enterprise upon the completion of the infrastructure project concerned.

Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS)
The dti has initiated the Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS), a sub-component of the Automotive Investment Scheme (AIS), an incentive designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

People-carrier Automotive Investment Scheme (P-AIS)
The People-carrier Automotive Incentive Scheme (P-AIS) is a sub-component of the Automotive Incentive Scheme (AIS) and provides a non-taxable cash grant of between 20% and 35% of the value of qualifying investment in productive assets approved by **the dti**.

Production Incentive (PI)
The Production Incentive (PI) forms part of the overall Clothing and Textile Competitiveness Programme (CTCP) and flows from the implementation, by the Department of Trade and Industry (**the dti**), of customised sector programmes (CSPs) for the clothing, textiles, footwear, leather and leather goods industries. The PI Guidelines seek to enable companies to present their business cases to the CTCP Desk of the Industrial Development Corporation (IDC). They also provide a framework for the CTCP Desk to evaluate such cases.

Sector Specific Assistance Scheme (SSAS)
The Sector Specific Assistance Scheme (SSAS) is a reimbursable 80:20 cost-sharing grant offering financial support to export councils, joint action groups and industry associations.

Seda Technology Programme (STP)
Seda Technology Programme (STP) is a division of Seda (Small Enterprise Development Agency) focusing on technology business incubation, quality & standards and technology transfer services & support to small enterprises.

Support Programme for Industrial Innovation (SPII)
The Support Programme for Industrial Innovation (SPII) is designed to promote technology development in South Africa's industry, through the provision of financial assistance for the development of innovative products and/or processes. SPII is focussed specifically on the development phase, which begins at the conclusion of basic research and ends at the point when a pre-production prototype has been produced.

Technology and Human Resources for Industry Programme (THRIP)
THRIP is one of three industry support instruments of **the dti** designed to enhance industry competitiveness and production capacity through the application of new technologies. The other two instruments are the Manufacturing Competitiveness Enhancement Programme and the Support Programme for Industrial Innovation. In recognition of the fact that Technology is embedded in people, the programme has as a core part of its design the training and production of Science, Engineering and Technology graduates, as well as the facilitation of flow of these graduates and of personnel between the collaborating research institutions and industry partners. While the programme has some overlaps with other instruments that provide support along the innovation value chain, it is sufficiently unique in certain aspects and complimentary to be seen as occupying a niche.

The Manufacturing Competitiveness Enhancement Programme (MCEP)
The Manufacturing Competitiveness Enhancement Programme (MCEP) which is one of the key action programmes of the Industrial Policy Action Plan (IPAP) 2012/13 – 2014/15 and will provide enhanced manufacturing support aimed at encouraging manufacturers to upgrade their production facilities in a manner that sustains employment and maximises value-addition in the short to medium term.

Contact: http://www.thedti.gov.za/financial_assistance/financial_incentives.jsp?subthemeid=25
Phone: 012 394 1534

C. EXPORT SUPPORT AND PROMOTION

Trade and Investment South Africa (TISA)
Trade and Investment South Africa (TISA) aims to increase export capacity and support direct investment flows via the implementation of strategies directed at targeted markets.

Strategic Goals

- In Increase the quality and quantum of foreign and domestic direct investment
- Undertake effective investment recruitment campaigns
- Provide an efficient facilitation and information service in order to retain and expand investment into South Africa and Africa, thereby serving as a one-stop shop initiative
- Develop new and existing South African exporters' capabilities, in order to grow exports globally (goods, services and capital)
- Provide appropriate information, financial support and practical assistance to sustain organic growth in traditional markets and penetrate new high growth markets
- Effectively manage and administer **the dti**'s foreign office network.

TISA comprises four business units:

- Investment Promotion and Facilitation
- Export Promotion and Marketing
- Export Development and Support
- Foreign Service Management

Investment Promotion and Facilitation
The unit is responsible for attracting foreign direct investment, as well as developing and promoting local direct investment. It provides and facilitates:

- Government support for trade- and investment-related activities
- General information on the domestic investment and domestic business climate
- Identification, packaging and marketing of potential investment opportunities in South Africa
- Identification of potential investors
- Inward/outward trade missions
- Dedicated aftercare services to investors

Export Promotion and Marketing
The unit is responsible for:

- Developing and implementing regional export promotion strategies based on market research and identification of export opportunities
- Reviewing the National Export Strategy by assimilating inputs from relevant stakeholders to ensure a targeted and focused approach.
- Providing export support services - information and advice - as well as administering an incentive scheme (EMIA) that partially compensates exporters for costs incurred in marketing their products and services in foreign markets.

Export Development and Support
The unit's mission is to help position South Africa as a reliable trade partner by expanding the country's exporter base and creating an export culture focussed on global participation. It provides exporters with capacity-building services, export market intelligence and advice on expansion and diversification by at company, product and market levels.

Foreign Service Management
The unit aims to render a full suite of corporate services to foreign economic offices to enhance the promotion of exports and investment in targeted countries.

The dti has a network of 46 foreign economic offices abroad to facilitate business on behalf of South African companies. This network is spread over 36 countries and provides a substantial footprint for South African business to access markets globally.

Contact: https://www.thedti.gov.za/about_dti/tisa.jsp
Phone: 012 394 1032

TECHNICAL SUPPORT INSTITUTIONS

NATIONAL METROLOGY INSTITUTE OF SOUTH AFRICA (NMISA)
Overseas and controls use of the measurements units of the International System of Units to maintain primary scientific standards of physical quantities in South Africa.
Dr Wynand Louw
Director Research and Technology Development
Tel: +27 12 841 4227
Email: wlouw@nmisa.org
Web: www.nmisa.org

THE NATIONAL REGULATOR FOR COMPULSORY SPECIFICATIONS (NRCS)
Protects human health & safety and the environment: develops, administers and enforces compulsory minimum specifications for the safety and performance of products and services; supports fair trade practices.
Dr Zen Fourie
Tel: +27 12 482 8734
Email: zen.fourie@nrcs.org.za
Web: www.nrcs.org.za

THE SOUTH AFRICAN BUREAU OF STANDARDS (SABS)
Develops, promotes and maintains SA National Standards of quality in commodities, products and services; provides conformity assessment services (testing and certifications).
Dr Sadhvir Bissoon
Executive Standards Division
Tel: +27 12 428 6130
Email: sadhvir.bissoon@sabs.co.za
Web: www.sabs.co.za

SOUTH AFRICAN NATIONAL ACCREDITATION SYSTEM (SANAS)
Provides formal recognition of the competency of Laboratories, Certification & Inspection Bodies, Proficiency Testing Scheme Providers and Good Laboratory Practice (GLP) Test Facilities.
Dr Elsabe Steyn
Senior Manager: Strategy and Development
Tel: +27 12 394 5024
Email: elsabes@sanas.co.za
Web: home.sanas.co.za

KEY PARTNER INSTITUTIONS

INDUSTRIAL DEVELOPMENT CORPORATION
The IDC is a national development finance institution. Its core function is to provide industrial financing support, much of which flows to key IPAP/NGP sectors.
Head Office: +27 11 269 3000
Call Centre: +27 860 693 888
Web: www.idc.co.za

COMPETITION COMMISSION SOUTH AFRICA
Investigates, controls and evaluates restrictive business practices, abuse of dominant positions and mergers.
Head Office: + 27 12 394 3200/3320
Web: www.compcom.co.za

NATIONAL EMPOWERMENT FUND
The NEF's role is to support BBBEE. It focusses on preferential procurement, broadening the reach of equity ownership, transformation of staffing and management and prevents the dilution of black shareholding.
Head Office: +27 11 305 8000
Web: www.nefcorp.co.za

EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA
Provides insurance cover on risks associated with investments and loan finance for capital goods and services projects in foreign countries.
Head Office: + 27 12 471 3800
Web: www.ecic.co.za

COUNCIL FOR SCIENTIFIC & INDUSTRIAL RESEARCH
Undertakes and supports research across diverse areas of science and technological innovation to enhance industrial and scientific development.
Head Office: + 27 12 841 2911
Web: www.csir.co.za

INTERNATIONAL TRADE ADMINISTRATION COMMISSION
Works with **the dti** to create an enabling environment for fair trade through sound technical advice and effective administration of its trade instruments.
Head Office: + 27 12 394 3688
Web: www.itac.org.za

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the dti

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Trade and Industry
REPUBLIC OF SOUTH AFRICA