Implementation of The Industrial Policy Action Plan: Challenges And Opportunities

Business input to
TIC strategic session

2 November 2015
Challenges

- Implementation of the Industrial Policy Action Plans is challenging at a macro and micro economic level. At a macroeconomic level a number of key issues have a significant impact on the successful implementation of the plan.
- Whatever plans we make to improve the economy, we have to be financially prudent as a country to avoid a downgrade. The private sector has to be the major engine of sustainable growth.
- Private sector investment, both local and foreign, is critical if we are to grow.
- The challenge for both Government and the private sector is to engage more frequently on the interventions that can support investment as has already been achieved in some manufacturing sectors, through partnerships with the private sector.
Challenges(2)

• Global economic weaknesses present major challenges to a South African economy where some 70% of our Gross National Product crosses international borders.
• Above inflation increases in administered prices, and particularly in the prices of both water and electricity directly undermine both the domestic and export competitiveness of the South African economy.
• The on-going lack of a reliable electricity supply remains challenging.
• Inclusive reconstruction and development of South Africa requires a mutually re-enforcing relationship between the private and public sectors and in particular the crafting of a balance between the public and private sectors in rolling out the economic transformation agenda.
Challenges (3)

• Government policy documents stress the necessity of a new economic growth trajectory based on industrial development, strongly linking the production sectors of the economy, with a special emphasis on higher value-added manufacturing and exports.
• The manufacturing sector is critical to sustainable growth, as set out in all previous iterations of IPAP.
• The undeniable, repeatedly demonstrated facts are that manufacturing has the highest growth and employment multipliers of all the economic sectors; that it has strong positive spill-over effects on the primary and services sectors; that it is a key driver of technological innovation and skills development; and that it has a strong positive impact on the balance of trade.
• The question remains how to unlock this potential, which we are not currently doing.
Opportunities

What stronger partnerships could be forged between government and the private sector to enhance implementation of IPAP? Some examples of where private sector could make a contribution:

- Government infrastructure program
- Special economic zones
- Electricity supply
- Curbing illegal imports
- Promoting SMME development
Public infrastructure program

There are two broad areas where the private sector is already working directly with government and where partnerships could be strengthened. The first is private sector investment in public infrastructure and the second is localisation in the public infrastructure program.

Private sector investment in public infrastructure

A much more open approach to private sector direct investment is required. The Independent Power Producer (IPP) programme provides a sound model for successful private sector involvement in infrastructure provision. There are a number of lessons to be learnt from the success of this program that could be extended to other sectors.

Through the various funds of the private long-term saving industry (essentially pension funds, excluding the Public Investment Corporation (PIC)). Collectively the industry has a R1.2 trillion exposure to government, State Owned Companies (SOCs) and local authorities bonds, the bulk of which would be invested into infrastructure. Whilst these funds are not direct investments in infrastructure projects, it demonstrates the industry’s confidence in these institutions.
Public infrastructure program (2)

The key success factors which secured the current level of private sector participation in public infrastructure are:

- Clear political mandate and support for the procuring department.
- Clear institutional arrangements regarding the procurement process. Much of the success of the REIPP was based on the credibility of the procurement process.
- The announcement of and committing to a portfolio of projects coming to market – the “project pipeline”. This allowed all transaction participants to resource their teams in order to respond to the opportunities.
- Government commitment to a detailed pipeline of infrastructure projects would provide potential investors with project certainty and assist all stakeholders with their planning and resource build-up. It is possible that this approach could be extended to other utility infrastructure.
Localisation

- Slow progress in implementation of designation commitments on the one hand and failure of many organs of state to apply preferential procurement to designated products have resulted in less investment in localised production than originally contemplated.

- There is perhaps a need to review the operation of this policy with a view to accelerating implementation. The latest example of the impact of the delays in finalising designation is pending retrenchments in the transformer manufacturing industry in the absence of preferential procurement of locally manufactured goods in this subsector, as originally contemplated.

- The private sector is working in partnership with managers of various SIPs to strengthen the localisation of public procurement. From the private sector side this includes assisting with the identification of products that could be meaningfully designated in the procurement process.
Special economic zones

- International experience has shown that the most successful Special Economic Zones are run in partnership with the private sector.
- Implementation of the newly launched Special Economic Zones, should therefore take into account how the private sector could contribute to their success.
- Implementation requires a clear link to the infrastructure requirements of the particular area. This is particularly relevant in municipalities which are already unable to provide the required water, wastewater and electricity supply services to their existing industrial base. This presents another opportunity for the private sector to contribute to the success of specific zones.
- In a recent engagement with the Nedlac EXCO, the Minister of Co-operative Governance and Traditional Affairs identified roll out of SEZs as one of the areas Nedlac constituencies would work together. Partnerships in implementing the Back to Basics program is an area where the private sector is already working with the Municipal Infrastructure Support Agency in this regard.
- Principles which should underpin establishment of Agri-Parks are presented below.
Guiding principles for agri-park establishment

1. One Agri-Park per District (44)
2. Agri-parks must be farmer controlled.
3. Agri-parks must be the catalyst around which rural industrialization will take place.
4. Agri-parks must be supported by government (10 years) to ensure economic sustainability.
5. Strengthen partnership between government and private sector stakeholders to ensure increased access to services (water, energy, transport) and production on the one hand, while developing existing and create new markets to strengthen and expand value-chains on the other.
Guiding principles for agri-park establishment

6. Maximise benefit to existing state land with agricultural potential in the provinces, where possible.

7. Maximise access to markets to all farmers, with a bias to emerging farmers and rural communities.

8. Maximise the use of high value agricultural land (high production capability).

9. Maximise use of existing agro-processing, bulk and logistics infrastructure, including having availability of water, energy and roads.

10. Support growing-towns and revitalisation of rural towns, in terms of high economic growth, high population growth over past 10 years and promote rural urban linkages.
Electricity supply

- The recognition in the IPAP, that load-shedding carries with it highly negative consequences for manufacturing in general; and has a critical impact on energy-intensive and energy reliant industrial sectors such as foundries and plastics, is welcomed.

- Business is engaging with the war room on a regular basis and the elimination of load shedding for the last few months is a welcome respite. However it is important not to fall into the same trap as in 2008/9 where the medium term measures that had been agreed in Nedlac to support a sustainable solution to the challenge of electricity supply were not implemented.

- The demand side management program that was an integral part of those measures was not implemented and its inclusion in the five point plan of the war room has not resulted in any more vigorous implementation. The private sector has recently concluded a successful industrial energy efficiency programme and could be a useful partner to government in this regard.

- Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is now facing significant challenges due to the liquidity problems being experienced by Eskom which has now advised IPPs that they will not be providing the required commitment to grid access until 2018.
Electricity supply (2)

- After many years of assurances the first request for proposals for cogeneration electricity supply projects published earlier this year has resulted in a meagre 100 MW of supply largely due to the weak technical specification and the failure to adequately clarify the specification when requested to do so by prospective bidders.
- An update of the Integrated Resource Plan for electricity remains under development with no input from the private sector. The recognition in the IPAP that urgently renewed attention needs to be given to electricity supply and pricing issues at the local government level – addressing
  - a) the levying of high municipal premiums on top of Eskom base charges; and
  - b) widespread maintenance and billing inefficiencies

has been a challenge for some time without any sign of relief. It is proposed that this become an action item for the Trade and Industry Chamber’s work plan next year.
Curbing illegal imports

- Intention in the IPAP to “clamp down on customs fraud and illegal imports is welcomed.

- Notwithstanding the efforts that have been made in some sectors, the economy continues to face increasing growth of illicit trade and illegal imports which have a negative impact as they erode the country’s manufacturing capacity and revenue.

- It is hoped that the more stringent penalties included in the new customs legislation will have a positive impact on this form of crime. However notwithstanding requests to be engaged on the regulations to give effect to the new legislation, there has been no engagement in the Chamber on the implementation of this important new approach.

- The Clothing and textile forum with SARS on customs, while welcomed as an intervention that provides the opportunity for private and public sector to work together is not working optimally.
Curbing illegal imports (2)

- SARS Customs operates in silos - one silo dealing with inspections, another with enforcement, the other with legal etc. etc. To get them to meet jointly is very difficult and the constant changes at leadership level leave the organisation very fragmented and uncertain.
- Sound law is not enforced and as result the intended outcome of reducing customs fraud is not achieved.
- The low number of prosecutions pursued by the NPA on dockets handed to them by SARS needs to be investigated.
- The Reference Price project for this sector is going well and adding value and consideration should be given to extending it to other sectors.
Promoting SMMEs

- Business is currently developing a policy position and strategy on boosting SME development and transitioning informal enterprises to formal enterprises.
- The fact finding phase of the work is almost complete and revealed some interesting results:
  - 79% of firms interviewed found it harder to do business in 2015 than 2014.
  - Top three impediments to growth were identified as:
    - Lack of skilled staff
    - Burdensome regulations
    - Local economic conditions
  - Top three shocks experienced by firms:
    - Rise in input prices
    - Contraction in market
    - Increased competition
Actions for TIC work plan
2016/17

- Review long term electricity price trajectory
- Engagement on framework for private sector funding in public infrastructure
- Review progress with localisation and designation with a view to enhancements
- Engagement on review of Preferential Procurement legislation
- Engagement on private sector support in rolling out SEZ’s
- Engagement on electricity supply policy coherence
- Engagement on increased prosecution success on illegal import allegations
Thank you