



IPAP 2018/19 – 2020/21

Economic Sectors, Employment & Infrastructure Development Cluster

NEDLAC TIC STRATEGIC SESSION

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Department:  
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# Introduction

- Government policy identifies industrial development as one of the key pillars required to catalyse inclusive growth with an emphasis, on value-addition, labour intensive sectors and exports
- The IPAP 2018/19-2020/21 is in its 10th iteration and is informed by the vision set by the National Development Plan and is aligned the Medium Term Strategic Framework (MTSF) and the Medium Term Expenditure Framework, (MTEF).
- It is a product of the Economic Sector and Employment Cluster of Government and its iterative annual format has served as a useful tool to strengthen intra-governmental integration and co-ordination

# Policy context

- IPAP 2018 provides an opportunity to reflect on the successes of IPAP and the constraints to its optimal implementation, in order to chart a way forward towards a higher impact industrial strategy
- It is designed to address the decline in our industrial and manufacturing capacity, contribute to job creation and increase the economy's ability to produce more complex and higher value-added products with greater efficiency
- The core to South Africa's industrial policy is the objective of transforming the racially skewed ownership, management and employment profile of the economy

# Policy context – Economic environment

- IPAP is being implemented in difficult and uncertain global and domestic economic conditions
- The IMF has already lowered its global economic forecasts for 2018/19 from 3.9% to 3.7%. Growth in the US for 2019 has also been lowered due to their recent tariffs measures, most notably against China
- Monetary policy normalisation impacted financial markets where countries with high twin deficits and high levels of external debt like Turkey and Argentina have experienced sharp currency depreciation and large capital outflows
- Emerging markets are facing serious trouble. Argentina has gone to the IMF for funding and similar to Venezuela, are experiencing very high inflation rates.
- Pakistan and Sri Lanka are struggling to repay their debt, and Turkey had to increase interest rates overnight in trying to protect its currency from depreciation
- The Turkish Lira has depreciated by 38% this year and Argentina's currency has depreciated by more than 50% and its interest rates rose to 60%

# Policy context – Economic environment

- Domestically the economy is in a technical recession with two consecutive quarters of negative growth in 2018, primarily due to contractions in the productive sectors of the economy.
- For 2018, GDP growth has been revised down from 1.5% to 0.7%. Factors such as low levels of demand and relative weak business confidence are influencing the lower growth

# Bottlenecks and key constraints

- Adherence to procurement prescripts – compliance with designation across government and SOCs not yet institutionalised. Resulting in further erosion of industrial capacity and capability
- Lack of policy coherence and programme alignment – this has been a long-standing constraint to get government policies to support industrial policy from a transversal and sectoral perspective
- Concentration of ownership and control – domestic economy is very much concentrated across a few sectors with a few dominant players. This stifles structural transformation and change in ownership and control
- High private sector input costs – high price of key intermediate inputs in the steel, plastics and chemicals value chains work against downstream beneficiation

# Bottlenecks and key constraints

- Cost of electricity – high cost of electricity price increases combined with double digit price increases by municipalities are impacting energy intensive industries and SMME's negatively
- Cost of other Logistics – such as water supply and availability, port tariffs and transport and logistics. Severe and prolonged draught had a big impact on agricultural production. The high cost of other logistical services makes the economy uncompetitive
- Customs fraud - together with illegal imports hampers domestic production, future investments and fiscal revenue collected by government



## High level achievements over the last 10 years

- At the back of the strengthened Preferential Procurement Policy Framework Act (PPPFA) regulations, **23 sectors/products** have been designated with almost **R63.33 billion** “locked into” the country.
- **14 226** enterprises supported with incentives **worth R61 billion**, leveraging investments to the tune of R326 billion whilst **creating 670 994 new jobs**. The Industrial Development Corporation (IDC) approved funds worth R91.7 billion across a range of sectors.
- Since inception, the Black Industrialist Programme has supported **78 projects** to the value of **R1.9 billion and leveraged R7.2 billion** in private investment.
- The eight (8) designated SEZs have **leveraged R9 bn creating 13,561** direct jobs over time.
- The auto’s sector **attracted R45 billion in investments** by global vehicle manufacturers like Mercedes-Benz, BMW, Toyota, Volkswagen, Ford, BAIC, Beijing Auto Works and Isuzu Motors.

## High level achievements over the last 10 years

- The Clothing and Textile Competitiveness Improvement Programme has disbursed **R4.7 billion supporting 95 000 jobs**. In the leather sector **22 factories** have been opened, supporting 2 200 jobs.
- The agro-processing sector has attracted over **R4.6 billion worth of investments** from major players such as Nestle, Unilever, PG Bison, Dursots-All Joy etc.
- The Monyetla Work Readiness Programme under the Business Process Service sector has provided training to over **16 000 youth with a work placement rate of over 70%** since inception.
- The efforts to **rebuild SA's rail industrial capabilities have met with some success** notwithstanding non-compliance with policy. **Factories launched** include Morgan Advanced Materials; ABB Modderfontein; Electro-Inductive Industries/Siemens; Lucchini; Timken; PRASA's Dunnotar Park facility (train manufacturing) etc.
- Fuel cell initiatives launched to date include: **Isondo Precious Metals (sale of licensed fuel components); Chamber of Mines (demonstration of 100KW fuel cell);** Hydrogen South Africa (demonstration fuel cell forklift for Impala Platinum).

## Focus Areas for 2018/19: Transversal

- Procurement: Procurement reform and strengthening – Procurement Bill and Procurement Review by National Treasury & DPME;
- Technical Infrastructure: Full review of SABS testing capabilities as basis for restoration of suite of testing functions to support industrialization; focus on automotive, rail, agro-processing, beneficiation, water and oceans economy at SABS, NMISA.
- Incentives: Formalise an inter-governmental structure to consolidate and enhance South Africa's investment incentive offering - guided by the outcomes of the ongoing review by DPME of South Africa's business incentives
- African Integration and Industrial Development: SA Chair of SADC. Adoption of the SADC Industrial Action Plan; 10 industrial projects scoped and 5 investments secured; host summit
- SEZs: Review and sign off on one SEZ application for designation; develop a marketing plan with one investment mission per quarter

## Focus Areas for 2018/19: Sectoral

- Digital Industrial Revolution : Research programmes on preparation for the DIR requires deep-dive research into sector-specific country preparedness and pragmatic policy interventions
- Automotives: Cabinet announcement of new Automotive 2020 Masterplan, which will secure higher levels of localisation and empowerment; strengthen black ownership in suppliers
- Clothing, Textiles, Leather and Footwear: further develop the leather export cluster; implement the cotton sub-sector development strategy; enhance cotton textiles development; expedite the mohair development plan
- Metals Fabrication, capital and rail transport equipment: scale up designation and localisation in rail and energy; emergency foundry plan to prevent further closures
- Agro-processing: Development Plan for niche sectors (clusters; packaging and export support); Halal Industry Development Plan; Mechanised Deboned Meat investment in poultry sector; Agro-processing and Fruit Export Development Plan

## Focus Areas for 2018/19: Sectoral

- Plastics, Pharmaceuticals, Chemicals and Cosmetics: Waste-to-Polymers Production Plan; Development and Manufacture of Veterinary Medicines Plan; Medical Devices Cluster; Chemical Clusters development; Natural Ingredient Export development
- Primary Minerals and Upstream Mining: Integrated steel strategy; scale-up of hydrogen economy plan, mining equipment localisation; Gas industry development
- Green Industries: A Policy Roadmap for Climate Compatible Industrial Development; Industrial Water and Industrial Energy Efficiency Projects;
- Business Process Services: Ongoing implementation of the Monyetla Work Readiness Programme and the BPS Incentive
- Marine Manufacturing and Associated Services: Component Supplier Development Programme; Skills Development Programme
- Aerospace and Defence: Commercial Aerospace Framework: Radar System Localisation Strategy; Technology Enhancement Programme; manufacturing cluster and sub-tier development park
- Electro-technical Industries: Local procurement of high voltage switch gear; Localisation of LED lighting manufacture and roll-out of the White Goods Industry Cluster

# High level achievements in 2018

## ➤ **Black Industrialist Scheme (BIS)**

- Since 1 April 2018, the BIS approved incentive grant support for **26 projects** to a total value R800 million, leveraging **R2.6 billion** in private investment

## ➤ **Automotive sector**

- Mercedes Benz to invest R10 billion into the expansion of its East London's plant

## ➤ **Pharmaceuticals**

- Aspen opened a R1 billion high containment facility in PE

## ➤ **Electro-technical**

- Yekani Manufacturing launched a R1 billion factory that produces electronic products in EL

## ➤ **SEZ programme**

- Cabinet approved the designation of Atlantis SEZ

## IPAP 2018: CONDITIONS FOR SUCCESSFUL INDUSTRIAL POLICY

Coordination and alignment:  
IPAP a policy of *all government*

Overcoming deep structural problems – esp. resource dependency & economic concentration

Economic and social inclusion at the heart of industrial policy

Basic economic service delivery by SOCs a top priority

Demand-side levers (esp. procurement) to be further tightened up and enforced

Concerted action to eliminate public & private sector corruption/collusion

Confront the challenges of a less carbon, water and resource-intensive growth path

Structural change, institutional reform, confidence building



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