the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

IMPLEMENTATION OF GOVERNMENT'S NATIONAL INDUSTRIAL POLICY FRAMEWORK:

INDUSTRIAL POLICY ACTION PLAN

August 2007

1. INTRODUCTION

1.1 South Africa has implemented a number of industrial policy initiatives since 1994. However, it has not until now produced a comprehensive statement of government's approach to industrialisation and industrial policy. Cabinet adopted the National Industrial Policy Framework (NIPF) in January 2007. The NIPF sets out government's broad approach to industrialisation in the context of the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) and its targets of halving unemployment and poverty by 2014 through accelerated growth of at least 6 per cent from 2010.

1.2 The Cabinet Lekgotla of July 2007 endorsed the Industrial Policy Action Plan (IPAP) that sets out in detail key actions and timeframes for the implementation of our initial round of industrial policy.

1.3 South Africa has achieved stable economic growth since 1994, with acceleration to 5 per cent in 2005 and 2006.

1.4. The major weakness identified in South Africa's long term industrialisation process has been that the decline in the share of employment in our traditional tradable sectors – notably mining and agriculture – has not been adequately offset by a sufficiently large increase in the share of relatively labour-intensive employment in non-traditional tradable goods and services – particularly in manufacturing. Therefore the main objectives of the NIPF are:

- To facilitate diversification beyond our current reliance on traditional commodities and non-tradable services. This requires the promotion of increased value-addition characterised particularly by movement into non-traditional tradable goods and services that compete in export markets as well as against imports.

- The long-term intensification of South Africa's industrialisation process and movement towards a knowledge economy.
- The promotion of a more labour-absorbing industrialisation path with a particular emphasis on tradable labour-absorbing goods and services and economic linkages that catalyse employment creation.
- The promotion of a broader-based industrialisation path characterised by increased participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy.
- Contributing to industrial development on the African continent with a strong emphasis on building its productive capabilities.

1.4 South Africa's key industrialisation challenge is therefore to grow and diversify manufacturing exports and tradable services (such as Business Process Outsourcing and Offshoring and Tourism). There is also unexplored high-value potential in agriculture and mining.

1.5 South Africa's industrialisation process faces a number of constraints that have resulted in low manufacturing profitability. This in turn has lead to low investment, low output, and poor export and employment performance particularly in low-and-medium skill manufacturing industries. These constraints include:

- The level and volatility of the exchange rate.
- Relatively small market size coupled with relatively costly and unreliable infrastructure and high logistics systems, particularly freight and commuter transport.
- The monopolistic pricing of key intermediate inputs into the manufacturing sector.
- Challenges with respect to skills development and training.
- An intensely competitive global environment.
- Inadequate state support for investment, upgrading, innovation and technology.

1.5. This has resulted in low manufacturing profitability which in turn led to low investment, low output and poor export and employment performance, particularly in low-and medium-skill industries.

2. OUR INDUSTRIAL POLICY APPROACH

2.1 South Africa has a relatively diversified and complex economic base that needs ongoing consolidation and renewal. This implies that government will always have to engage across substantial parts of the manufacturing, services and primary sectors of the economy. Ongoing self-discovery processes with the private sector and other stakeholders will assist in identifying opportunities to grow and diversify manufacturing and services, and associated constraints.

2.2 Three of the four manufacturing and tradable services sectors which government has actively supported since 1994 have become leading sectors:

- The Automotives sector has become our leading manufacturing sector predominantly through the Motor Industry Development Programme.
- A range of resource-processing industries including carbon and stainless steel; chemicals and aluminium sectors have restructured for global competitiveness supported substantially by various tax instruments and highly beneficial restructuring arrangements, in addition to prior state support. However, this support was insufficiently linked to the pricing behaviour of these industries in the domestic economy.
- The Tourism sector has massively expanded foreign arrivals on the back of major international marketing efforts through institutions such as South Africa Tourism.
- The Clothing and textiles sector, as in most developed and developing countries, has been under severe strain from intense global competition. The Duty Credit Certificate Scheme has been partially successful but the industry requires a different support environment for long-term sustainability.

2.3 Notwithstanding these important industrial policy successes, the manufacturing sector in particular has not reached its full potential. Therefore, government will single out sectors for particular focus, based on substantial:

- growth and employment potential;
- potential for the diversification and growth of exports; and
- research and self-discovery processes having been completed.

2.4 Once such sectors have been identified, active use of a range of appropriate policy instruments to upscale these industries to their full potential will be of critical importance, particularly:

- Supporting investment to update ageing machinery and equipment stock through appropriate targeting and scale;
- Industrial upgrading to deepen manufacturing capabilities;
- Support for industry and Economic Cluster specific infrastructure; and

- Addressing monopoly pricing.

3. INDUSTRIAL POLICY ACTIONS FOR IMMEDIATE IMPLEMENTATION

3.1 The Industrial Policy Action Plan reflects work that has recently been undertaken by **the dti** and other government departments and is mostly ready for implementation. It has three main components.

3.2 A range of **sectoral actions**, including:

- Fast-track implementation of the four lead sectors that have emerged from research and intensive interactions with stakeholders:
  - Capital/Transport equipment and Metals;
  - Automotives and Components;
  - Chemicals, Plastic fabrication and Pharmaceuticals;
  - Forestry, Pulp and paper, and Furniture.
- Maintaining momentum on implementation of ASGI-SA sector priorities: Business Process Outsourcing & Offshoring (BPO&O), Tourism and Biofuels,
- Implementation of other substantive sector projects in: Diamond beneficiation and jewellery; Agro-processing; Film and Crafts.
- Further strategy work needs to be developed in a range of other sectors including: Mining and mineral beneficiation; Agriculture/Agro-processing; ICT (services and products) and Creative Industries and White Goods.

3.3 A set of **cross-cutting actions** of particular importance for industrial policy.

- The design and implementation of an Industrial Upgrading Programme to deepen manufacturing capabilities.
- A revised suite of Industrial financing instruments to support the industrial policy.
- Reducing input costs through competition policy and the review of import duties on a range of intermediate inputs into manufacturing.

In addition a range of industrial policy related cross-cutting imperatives are being implemented as set out in Government's Programme of Action.

3.4 Measures to improve government's **organisation and capacity** to implement industrial policy.

3.5 SECTOR INTERVENTIONS

3.5.1 Lead Sectors

The following are the four lead sectors that currently form the central focus for the implementation of the NIPF.

Capital/Transport equipment and Metals

This presents a major opportunity to stimulate manufacturing through reducing import leakage of the public Capex programme and capitalising on the current mining and mineral-processing boom. It also offers a platform to position these sectors as major future exporters into the rest of the continent and beyond.

Automotive assembly and Components

This is South Africa's leading manufacturing sector, generating strong backward linkages from other sectors, particularly metals, leather, textiles and plastics. There is a major opportunity to double current vehicle production to 1.2 million units by 2020 with a corresponding deepening of local content.

Chemicals, Plastic fabrication and Pharmaceuticals

Major opportunities to increase local beneficiation of polymers, particularly for automotive and packaging applications and leverage state procurement for local production of pharmaceuticals exist.

Forestry, Pulp and paper, and Furniture

The sector has the potential to bring jobs and income to poor rural communities. Increasing plantations in EC and KZN in the next 10 years will contribute to the provinces' growth and employment and stimulate processing activities, such as sawmilling and furniture.

Capital / Transport Equipment and Metal Fabrication

The South African capital equipment, metal fabrication and transport equipment sectors accounted for 11 per cent of manufacturing value added (MVA) and contribute 18 per cent of manufacturing jobs, 216,263 jobs in 2005. Additional value addition and jobs are contributed through services associated with a range of capital goods sub-sectors. The cluster contributes about 2 per cent to GDP.

These sectors have developed important capabilities based on South Africa's fairly diversified industrial base and long history of industrialisation. Technological leadership has been achieved in a range of niche areas related to capital equipment for the mining sector, such as valves and pumps. However, in general these sectors have underperformed for a variety of reasons. These included low levels of expenditure on public infrastructure over the last three decades, uncompetitive pricing of raw material inputs and lower than optimal mining investment.

There is a major opportunity to grow these industries on the back of the public expenditure programme in energy and transport as well as the current mining and mineral processing boom. This requires a coordinated effort to match public investment and operational expenditure requirements to the upgrading of domestic suppliers. As much as possible of this opportunity will be leveraged while ensuring without compromising the cost or quality of public investments. Mining and mineral processing investments and replacement expenditure also represent a major opportunity to grow these industries. Here the focus must be on building and strengthening capabilities for technological leadership. The long-term trajectory for these industries is to further strengthen their export capabilities on the back of domestic and regional investments.

These sectors face a number of constraints that need to be addressed. Input prices of raw material inputs such as steel, aluminium and scrap are often far from being suitably competitive. In addition, shortages may be emerging with respects to certain grades of steel. Due to low levels of demand in a number of areas, production capabilities have been eroded. Firms therefore need to upgrade aged capital equipment in certain important segments. Firms generally need to adopt more efficient production systems. A systematic drive to develop both the scale and depth of skills across these sectors is required. Important supportive technological infrastructure such as tooling and casting facilities are needed. Systems to support longer term product development, innovation and research and development must be strengthened. Stronger coordination is required in order to match production capabilities to major planned investments, particularly in infrastructure and mining.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Measures to stimulate more competitive input pricing	Reduce the costs of inputs to downstream industries to internationally competitive levels	Completion of competition policy and law review and strengthening of Competition Act	Legislative process in consultation with Competition Authorities	Competition Authorities, DPE, SOEs Presidency, NT, SARS	December 2007
		Develop a State Owned Enterprise (SOE) Pricing and Procurement Framework	Consultation with DPE and SOEs		December 2007
		Review the role of merchants in the steel value chain	Detailed investigation of steel traders role and relevant action to be taken		February 2008
		Measures related to the exportation of scrap	Alignment of scrap proposals to SACU and WTO requirements		October 2007
		Finalise the feasibility study into the viability of establishing a new carbon steel plant in SA	A Steel Task Team between has already been formulated to assess the viability of different locations and technologies for the establishment of a new carbon steel plant in South Africa	DME, DPE, IDC, Mintek	March 2008
Review of import duties of key industrial inputs into manufacturing	Reduce inputs costs into selected manufacturing industries through reviewing undue trade protection	Import duties on upstream aluminium products reviewed	Initiate investigations with ITAC	ITAC, NT	March 2008

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Supplier Development Programmes	Increased growth and employment through coordination of SOE investment plans with domestic suppliers capabilities	Agreement between relevant departments on increasing local content in the CAPEX (particularly electricity and transport) projects Finalise the Supplier Development Plans to reduce the import leakage for Eskom and Transnet CAPEX programme from 40% to 30%	Determine which equipment and components can be produced locally Co-develop supplier development programmes with DPE	DPE, Transnet and Eskom, DOT, IDC, Presidency, DST, NT	February 2008
Leverage other public expenditure	Increased local content in the procurement tenders thereby promoting the participation of local manufacturing industries with supplier capabilities	Finalise a Supplier Development Strategy with respect to public transport strategy, especially locomotives for commuter transport	A task team is already convened to coordinate the inputs from key stakeholders	DOT, IDC, DPE	December 2007
Review of import duties on machinery and equipment not produced and not likely to be produced in SA	Reduce the costs of the inputs to feed into the public CAPEX projects	Import duties on machinery and equipment tariff headings reviewed	The review is currently underway with ITAC	ITAC, Presidency, NT	March 2008
National Foundry Technology Network	Strengthened foundry industry capabilities	Agreement on the roll-out of the National Foundry Technology Network (NFTN)	Agree NFTN with stakeholders	DST, CSIR	March 2008 (have pilot projects in place)
National Tooling Initiative	Strengthened industry tooling capabilities	Agreement on the roll-out of the National Tooling Initiative (NTI)	Agree NTI with stakeholders	DST, CSIR	Ongoing

Automotives and Components

Contributing 7.4 per cent to GDP during 2005, the automotive industry is South Africa's leading manufacturing sector and the largest attractor of foreign direct investment in manufacturing.. Annual FDI between 2000 and 2005 more than doubled from R1.5 billion to R3.6 billion. The industry directly employed 107,981 people in 2005 in vehicle and component manufacturing with further employment stimulated in related manufacturing sectors as well as in the retail automotive market. Our vision for 2020 is to double production levels to 1.2 million units with much stronger development of the local component manufacturing.

Driven by the Motor Industry Development Programme (MIDP), the sector has restructured, rationalised and almost doubled in growth between 1995 and 2006 from 388,000 to around 580,000 units. It has moved from a negligible competitive position in terms of the global automotive industry in 1995 to a ranking of 19th in the world (0.7 per cent of global market share) in 2005. Over this period exports grew exponentially from 16,000 to 180,000 units.

Due to its synergies with several sectors such as metals, leather, textiles and plastics, the automotive sector has a strong linkage effect with the broader manufacturing sector. There has been significant growth in important component sectors such as leather seat covers, silencers, exhausts and catalytic converters.

While the industry has achieved substantial rationalisation and productivity growth it faces a number of challenges. Higher productivity growth needs to be achieved to match the growth rates of some of our key competitors. There is currently insufficient local content particularly at the component end of the value chain. High levels of import penetration imply that the industry needs to shift to greater growth based on both domestic and export markets. While the basic architecture and level of support should continue, adjustments need to be made with respect to increasing local content, raising levels of productivity and making the programme consistent with international trade obligations. All of these factors imply important changes to the nature of a future development programme for the industry aimed at raising levels of productivity, local content and supply for the domestic, regional and broader export markets. In addition an appropriate Black Economic Empowerment plan for the sector must be developed by the industry.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Finalise the sector strategy and the associated KAPs that will seek to build on recent successes and ensure the industry's sustainability	Improved policy environment and certainty	Approved sector strategy	Engagements with stakeholders to finalise sector strategy	NT, DST, DOL	August 2007
Finalise the second phase of the MIDP review: development of a replacement scheme to the MIDP to ensure the industry's long term sustainability	Improved policy environment, certainty and appropriate support leading to doubling of industry's production to 1.2 million units by 2020	Agreement on revisions to MIDP to make it more supportive of local production	High-level announcement on the broad thrust of the review and timetable for finalisation of replacement scheme Finalise agreement with key stakeholders Amended motor industry support programme in line with agreement	NT	August 2007 December 2007
Re-launch a three-year supplier development programme, which is aimed at improving manufacturing processes along the value chain	Raise local content from 30 to 40 per cent by 2010 and set further round of targets	Supplier development programme to improve component manufacturing capacity and expertise	Finalise agreement with key stakeholders	NT, DOL, DST	September 2007
Formulate an empowerment plan to fast-track transformation in the sector	Viable and sustainable Black Economic Empowerment in the automotive sector	Automotive empowerment plan	Finalise agreement with key stakeholders		March 2008

Chemicals, Plastic Fabrication and Pharmaceuticals

The South African chemical sector is diverse and complex. On the one hand it comprises a well-developed upstream industry – Basic Chemicals and Other Chemicals – with the former being highly capital intensive. On the other is the more labour-intensive downstream Plastics industry. Collectively all three industries combined contributed R28 billion or 2.8 per cent of GDP in 2006. Basic and Other Chemicals employ 64,285 people, plastic fabricators employ 39,893 while the pharmaceuticals industry employs about 10,000.

The chemicals sector is the fourth-largest employer in manufacturing, behind food products, motor vehicles, parts and accessories, and metal products (based on 2005 figures). It invests around R2 billion annually in upgrades, with less than 1 per cent of sales being spent on R&D. Products of the chemicals and metals sectors are the basis for almost every manufacturing activity. It is thus a crucial industry from the perspective of South Africa's ongoing growth path for advancing socio-economic development objectives.

The development of the chemicals sector has two major elements: firstly, to promote beneficiation of minerals into primary products for exports and also to provide feedstock into higher value-adding manufacturing activities; and secondly, to promote downstream fabrication of polymers, thereby creating more jobs and adding significant value. Primary beneficiation faces constraints such as the risks and coordination problems associated with large capital-intensive projects. Downstream plastics fabrications requires far more competitive pricing of polymer inputs, skills development, support for firm and industry level technical capabilities such as R&D, tooling and stronger matching of final product demand patterns to intermediate plastic inputs. The pharmaceuticals industry is threatened by high-levels of import penetration. The industry faces coordination and regulatory challenges with regards to state procurement demand, medicine licensing procedures, and price administration.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Review of the import duty on upstream chemical products	Reduce the costs of inputs into downstream activities	Removal of the import duties where it is necessary	With ITAC, identify unnecessary import duties and remove them	ITAC, Presidency, NT	March 2008
Establishment of project focussing on increasing polypropylene value-added products used in automotives and packaging industries	Increased consumption of polypropylene in downstream activities where there is high job creation potential	Business Case to identify potential investment	Finalise FRIDGE study to identify products and market opportunities	DST	February 2008
Fluoro-chemicals Expansion Initiative	Increased fluoro-chemical industry in SA by building a world-class, high value added fluorine-based industry with associated downstream fine chemical synthesis operations	Environmental impact assessment and feasibility studies completed	Completion of EIA and feasibility study and identification of appropriate land for project	DME, DST, IDC, NECSA	Commence EIA and feasibility study in August 2007
Designation of the production of ARV pharmaceuticals as a strategic industry	Increased domestic production through leveraging the ARV tender	Leverage ARV tender to expand local capabilities	Task Team already formulated to look at increased localisation of ARV tender	DOH, Presidency, DST	March 2008

Forestry, Pulp and Paper, and Furniture

The forestry sector has an annual turnover of R32 billion with a value adding contribution to the SA economy of some R14 billion in 2006. It is estimated that the sector employs 170,000[1] people (based on 2003 figures). Because forestry and the primary processing activities take place largely in rural areas, it has the potential to increase jobs and income in poor rural communities.

The following specific challenges also need to be addressed. Currently, the small players in the forestry value chain do not participate in value-added activities. If the regional economies are to grow, efforts must be made to encourage processing and attract investment in the areas closer to plantations. The forestry sector strategy provides for the afforestation of 100,000 hectare net increase in planted area over the next ten years in the Eastern Cape (EC) and 40,000 hectare in Kwa - Zulu Natal (KZN). This represents an investment in forestry in excess of R1,5 billion, with further substantial investments in downstream processing enterprises. It is estimated that the new afforestation has the potential to contribute R215 million to GDP and create 26,000 jobs in plantation level and 1,700 at primary processing level in EC; while the areas in KZN will contribute R500 million to GDP and create 15,000 jobs in plantation level and 429 at primary processing level[2].

In order to realise growth in this sector, government has committed itself to expediting the afforestation licensing process, the confirmation of land rights for land holding communities, technical and financial support to emerging small growers and improvements to transport infrastructure.

[1] This estimate covers plantations, pulp and paper mills, woodchip exports, sawmilling, timberboard, mining timber, treated poles and charcoal

[2] It is recognised that most of the increase in new plantations in KZN or those areas of EC closer to KZN could supply the existing pulp mills in KZN but those in the EC further from KZN should stimulate the development of more processing activities in the area.

Key actions to be led by the dti and DWAF

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Fast-track the issuing of water licenses for producers	Improved and fast-tracked procedures for the issuing of the licenses	Agreements on fast-tracking water licensing for smallholder forestry production	DWAF to develop and implement proposals on fast-tracking water licensing for producers with relevant departments	**the dti**, Presidency, EC and KZN provincial government, NT	Ongoing
Develop a programme for skills transfer and to upgrade the technological equipment for small saw millers (begin with a pilot project in Chris Hani District municipality)	Improved capacity of small saw millers to enable greater participate in the value chain	A completed feasibility study, business and implementation plan	Mapping of geographic positions, skills and technology requirements of small millers	Presidency, EC provincial government, NT	March 2008
Expansion of furniture industry	Competitive furniture industry developed in SA	Establishment of additional furniture incubator in EC Explore the potential of furniture sector outside the EC and KZN	Secure of funding for the incubator project	OR Ntinga Development Agency, ECDC, EC provincial government	March 2008

3.5.2 MAINTAING MOMETUM ON ASGI-SA SECTOR PRIORITIES

In the context of ASGI-SA priorities, three sectors were identified for immediate and special attention: Business Process Outsourcing and Offshoring (BPO&O); Tourism; and Biofuels. What these industries have in common is that they are relatively labour-intensive, rapidly growing sectors worldwide, suited to South African circumstances, and open to opportunities for Broad-Based Black Economic Empowerment (B-BBEE) and small business development.

Business Process Outsourcing and Offshoring (BPO&O)

The global BPO&O industry is forecast to grow at 50 per cent per annum (equivalent to growth of between $90bn and $100bn) over the next 4-5 years. A window of opportunity exists for South Africa to become a significant global player in the industry through an appropriate value-proposition based on a high-quality yet cost-effective offering. It is estimated that the sector has the potential to contribute up to R7.9bn in gross domestic product (GDP) by 2009 and create up to 100,000 new jobs in South Africa (25,000 direct and 75,000 indirect) by 2014.

To capture this opportunity, South Africa must move quickly to overcome constraints including high telecommunication costs relative to other BPO destinations, an inadequate skills base, and it must also increase its profile and reputation amongst potential global investors.

What has been achieved?

- A five-year strategy approved by Cabinet in December 2006, identified the main constraints to the establishment of a significant BPO&O sector in South Africa as high telecommunications costs, the need for skills development, and competition for foreign investment on the basis of initial incentives.
- In late 2006, Telkom agreed to benchmark its prices against South Africa’s relevant main competitors. The introduction of a developmental telecommunications pricing model, to give effect to this commitment, must be finalised urgently.
- National Treasury has allocated funds for an initial incentive for investors in BPO&O in the 2006/7 Medium Term Expenditure Framework (MTEF).
- The Department of Labour (DoL) has allocated R17.1 million to fund the pilot skills development programme to be rolled-out in 2007.
- A national business association, the South African Contact Centre Community (SACCOM), has been established.
- A Rural Call Centre Support Programme has been developed with partial funding, and 13 sites have been identified.

key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Implement a developmental telecommunications pricing model	Encourage FDI through prices that are demonstrably competitive with relevant countries	An agreement with Telkom on a developmental pricing model for the sector	Finalise negotiations with Telkom	DOC, Presidency	August 2007
Roll-out of existing incentive scheme	Increase investments and job creation in the BPO&O sector, through attracting potential investors	Roll-out of incentive scheme	Marketing of SA BPO&O sector and support measures of **the dti** and private sector Administration of applications through **the dti**	NT	March 2008
Implement the talent development programme: the Monyetla Work Readiness Programme	Increase skills development and training for the sector	Training programme for 2007/8 developed 1,000 learners trained in the Monyetla pilot project Agreement on programmes for subsequent years	Finalise agreement with DoL on 2007/8 training programme and funding mechanisms Appoint accredited training providers, who will also develop training manuals for 2007/8 and subsequent years	DOL	Appoint training providers by June 2007 1000 learners trained by March 2008
Strategic and targeted marketing to ensure the attraction of key investors to SA	Increase investments and job creation in the BPO&O	Implementation of existing marketing strategy	Exhibition, trade missions and one-on-one consultation with investors	Business Trust, industry association	On-going
Formulate new support measures aimed at the development of SMEs and contact centres in less developed designated areas	Increase investments and job creation in the BPO sector, through increased support for SMEs and increased economic activity in designated areas	New support measures approved by Cabinet	Engage with NT and other stakeholders on the formulation of programme guidelines	NT, Business Trust	Finalise new programme guidelines by March 2008

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Develop quality standards for the sector	Promote best practice, by adopting standards that are in line with the global BPO&O sector	Publication of standards	Continuous engagements between SABS and industry	SABS	March 2008
Establish call centres in designated less developed areas	Create jobs and stimulate economic activity in depressed towns	First Call Centre to go live in August 2007	Finalise provincial BPO strategies Finalise agreements with municipalities and DOE to provide the necessary infrastructure	Provincial departments, municipalities, DOE, DOC, DPLG	August 2007

Tourism

Tourism is one of the largest sectors in the world accounting for 842 million international arrivals in 2006 – a 4,5 per cent growth on 2005. Total annual arrivals to South Africa in 2006 increased by 13,9 per cent to 8,395,833. The sector is also a major contributor to the South African economy at an estimated 8,8 per cent of GDP and 8 per cent of total employment in 2005. Investment levels in the tourism industry are expected to continue to rise, boosted by South Africa's hosting of the 2010 FIFA Soccer World Cup. Government has the target of increasing foreign tourist arrivals to 10 million per annum, thereby creating an additional 400,000 direct and indirect jobs by 2014.

In order to ensure that this growth and job creation is realised, certain key constraints need to be addressed. These include: enhancing the marketing of South African destinations, improving tourist transportation (both airlift and ground transport), improving collection of statistical information for decision-making, improving skills development and training, ensuring tourist safety and security, increasing investment and business development and transformation of the tourism industry.

What has been achieved?

- Progress has been made in developing a communication strategy to reassure tourists of their safety and security. In addition Tourism Safety and Security Forums have been established in KwaZulu-Natal, the Western Cape, Gauteng and Mpumalanga. However, provinces need to allocate more personnel to develop and implement safety and security strategies for tourists.
- DEAT and the Business Trust have provided additional funds to the Tourism Enterprise Programme. The programme focuses on training to ensure small and medium tourism enterprises benefit from 2010. To date over 250 enterprises have been assisted.
- The number of inbound aircraft seats, mostly from Mozambique, France, Oman and the UAE, has increased by 700,000. However, the Airports Company of South Africa (ACSA) still lacks adequate systems to track traffic on different routes, making it difficult to respond to changing demand.
- A Tourism BEE Charter has been signed and a charter council to drive implementation has been established.
- In response to the Deputy President's call for partnerships in developing foreign language capacity for the tourism sector, several foreign embassies have offered language training. Some tour guides have already been trained in Chinese languages.

Key actions to be led by DEAT and the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Revise and finalise the Tourism Sector Skills Plan	Training and skills development programmes based on scarce and critical skills	Implementation of the revised Sector Skills Plan and the Mogale City Declaration on tourism skills	Revise the Tourism Sector Skills Plan Develop an information generation and sharing system Identify gaps in current tourism curriculum and current accreditation system	DoL, DoE, Provinces	March 2008
Design customised incentive for the sector	Increase investments and job creation in rural and peri-urban areas	A designed and budgeted for customised incentive in place	Achieve buy-in with stakeholders Design incentive protocols Engage NT on the budgetary implications	NT	March 2008
Implement National Tourism Safety and Awareness Strategy	Increased safety and security for tourists in provinces	Provincial Safety and Awareness Plans Finalised	Discussions with the dti , SAPS Integration of the strategy into the broader law enforcement agency interventions as well as SA's marketing and branding initiatives Community awareness creation activities	DSS, provincial departments, SAPS	March 2008
Improve tourism research and statistics	Improve tourism data and statistics through the development of the Tourism Satellite Account (TSA) by 2009	7 of 10 tables of TSA in draft form, which would include indicators such as GDP, production, and in and outbound statistics	Quarterly Tourism Research Advisory committee meetings with external stakeholders Monitor the implementation of the 3-year TSA development plan	STATSSA, DHA, SAT, provinces	March 2008

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Facilitate the acceleration of grading of tourism establishments	Quality assured tourism products	2,500 SMME accommodation establishments graded	Audits of SMME tourism products to assess gaps Development of a Quality Assurance Toolkit and Training Programme Development of a communication strategy on grading	Provinces	March 2008
Develop strategies to fast track implementation of B-BBEE in the sector and capacitate provincial and local government structures to deliver on the ground	Broad based transformation of the tourism sector in line with the 2009 and 2014 targets	20,000 businesses formally committed to implementation of the Tourism BEE Charter and Scorecard	The development of systems capacity to handle large volumes of enquiries and applications	All government departments	2009 and 2014
Implementation of the Airlift Strategy	Increase number of tourists in SA	Increase slots into SA from tourism portfolio markets per renegotiated bilateral air service agreements	Conclude airlift plan Convene Strategic Planning Committee to develop positions regarding markets Hold bilateral meetings with relevant markets Conclude bilateral air-service agreements	DoT, DFA, ACSA	March 2008
Address constraints to small business participation in the tourism sector through the Tourism Enterprise Programme	Sustainable tourism SMMEs	550 business linkages created 2,600 SMMEs trained 5 toolkits developed 300 SMMEs sent to local and international exhibitions	Identify focal points in all provinces Facilitate the creation of linkages between SMMEs and big business Accelerate the rollout of SMME training and support initiatives	DAC, DoT	March 2008

Biofuels

The biofuels industry in South Africa is in its infancy. However it has substantial potential to assist in addressing important economic and social challenges. Internationally the biofuels industry is growing rapidly, due chiefly to a combination of: higher oil prices; mounting concerns with respect to the environment; and government policies, regulations and incentives that support this indigenous renewable fuel source over fossil fuels.

The Biofuels Draft Strategy – approved for public consultation by Cabinet in December 2006 – aims to achieve an average biofuels market penetration of 4.5 per cent in liquid road transport fuels (petrol and diesel) by 2013. The development of a biofuels industry will have enormous economic benefit. It will stimulate small-scale and cooperative farming practices in rural areas, creating up to 55,000 jobs opportunities. It will generate macroeconomic benefits as increased use of biofuels will reduce our dependence on oil imports. It is estimated that about R2 billion per annum will be added to GDP. Biofuels being a renewable energy source will also contribute 75 per cent towards our 2013 Renewable Energy targets of 10,000GWh.

Key actions to be led by DME

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Develop a regulatory framework and appropriate support mechanisms for the creation of a viable biofuels industry in SA	Development of biofuels industry as a source of renewable energy, without raising agricultural prices	Biofuels strategy approved by Cabinet Establishment of regulatory framework and incentives to support production and use of biofuels Strategy to ensure increased production of inputs, particularly by smallholders Research, development and technology demonstration support programme finalised	Discussions with stakeholders on finalising the strategy Finalisation of proposals on incentives and regulations Finalise measures for smallholders Finalisation of standards	**the dti** DOA, Presidency, DST, DEAT, SABS	August 2007 December 2007

3.5.3 SUPPORT FOR THE CLOTHING AND TEXTILES SECTOR TO PRESERVE CAPABILITIES AND RETAIN EMPLOYMENT

Clothing and textiles are amongst the most labour-intensive industries in South Africa employing approximately 127,000 people (11 per cent of total manufacturing employment). The sector contributes around 0.6 per cent to GDP. The clothing and textiles sector has been under intense pressure since the mid 1990s, negatively impacted by periods of currency strength and fierce import competition, particularly from China. Notwithstanding these pressures, the sector cannot be left to wither away due both to its contribution to employment as well as to retain core capabilities that have been built in the sector.

Recent government efforts around the sector have been aimed at arresting its decline. However, the medium-long term challenge for the industry is to undertake the upgrading and restructuring that the industry needs to become fully sustainable. This will require an adaptation of current support measures – particularly the Duty Credit Certificate Scheme (DCCS) – by government but also a very strong commitment by business and labour to make the necessary adjustments. An added level of complexity that needs to be taken into consideration in revising the DCCS is that it is an instrument that applies across the entire Southern African Customs Union (SACU) and not simply to the South African economy.

The sector faces a range of challenges. These include: difficulty in competing against low-cost imports; low levels of investment in upgrading of skills and production processes to become more competitive; associated low levels of product design and innovation; and a marked decline in exporting.

These challenges need to be fully confronted in agreeing how the industry goes forward. A number of measures need to be taken to place the industry on a more competitive and sustainable footing which essentially requires movement up the value chain. Key measures to be undertaken during the 2007/8 financial year include: a redesigned support scheme for the sector aimed at recapturing domestic market share, a review of input costs into the clothing sector, full implementation of country of origin labelling and support for productivity upgrading and skills development.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Implement measures to recapture and stabilise the domestic market	Arrest of decline of domestic market share	Implement the country of origin labelling regulations Monitor the implementation of quotas against Chinese imports	Implementation and monitoring by CCRD division of **the dti** Ongoing liaison with industry, SARS, ITED and ITAC on implementation and monitoring	SARS, ITED, ITAC	Application of the regulations: July 2007 Quotas timeline: December 2008
Review of import duties of key inputs into the clothing sector	Reduce the costs of inputs into the clothing sector and thereby improve cost competitiveness	Import duties on selected textiles and fibre reviewed	Initiate an investigation on the downward adjustments on selected textiles and fibre Interaction with clothing and textiles stakeholders and ITAC	ITAC, NT	March 2008
Fast-track the development of an alternative support mechanism to the Duty Credit Certificate Scheme (DCCS)	Stabilise industry and ultimately set the basis for growth across SACU based on higher productivity of capital and labour	Initiate a process to develop a SACU-wide strategy	Consultations with industry and SACU partners	SACU, NT	Consultant to be appointed in December 2007 SACU agreed project plan to be finalised in March 2008
Design customised industrial upgrading programme for the sector	Increases investments and job creation/retention in the domestic market	A well-designed and budgeted customised programme in place	Achieve buy-in with stakeholders Design incentive protocols Engage NT on the budgetary implications	NT	March 2008
Creation of a textiles engineering Centre of Excellence	Tertiary textile engineering qualifications in the industry	Centre of excellence developed at CSIR in Port Elizabeth	**the dti** to assess and approve business plan	CSIR, DST	August 2007

3.5.4 IMPLEMENTATION OF OTHER KEY SECTORAL PROJECTS

Diamond beneficiation and jewellery

The world market for uncut stones is valued at US$13.4 billion a year. By comparison, retail diamond jewellery sales in 2005 were valued at US$70 billion. Diamond-producing countries in southern Africa are therefore looking to bridge that gap by promoting local beneficiation to ensure a bigger share of the downstream profit (cutting and polishing adds approximately 50 per cent to the value of rough stones), as well as much needed employment creation.

South Africa is the third-largest diamond producer in the world, with an annual output of 14.5 million carats, worth approximately US$1.2 billion. The industry currently employs approximately 14,300 people, 11,000 of whom are employed in mining, 2,400 in manufacturing and 900 in sorting and valuing. The country's diamond trade activity is valued at around US$2.5 billion, almost half comprising rough exports. Despite being a major producer, South Africa only beneficiates 3 per cent of its total diamond production.

In February 2006, Cabinet passed the Diamonds Amendment Act, aimed at promoting local value addition and eliminating loopholes in the law that had enabled companies to export rough diamonds duty free. The Act makes provision for the local supply of rough diamonds through the establishment of the State Diamond Trader (SDT) with the power to purchase 10 per cent of mine production in order to improve access to rough diamonds for local beneficiators. Further legislative amendments include the introduction of beneficiation licenses for control purposes and a reduction of the export duty to 5 per cent. The key thrust of this policy is to increase local beneficiated diamond production from 3 per cent to at least 10 per cent of rough diamond production.

Key challenges facing the industry include: shortages of skilled labour, access to capital, and costs of cutting and polishing. A major challenge is therefore to grow and advance South Africa's cutting and polishing capacity in order to position South Africa as a globally competitive diamond-producing country. Development strategies in the sector are therefore aiming to create a more enabling business environment through the creation of diamond and jewellery hubs, addressing access to capital, and the provision of incentives to attract manufacturing investment, as well as training and skills development initiatives.

Key actions to be led by DME

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Implementation of Diamond Beneficiation Legislation	Increase in supply of rough diamonds for cutting and polishing	Focused implementation of the beneficiation drive in the country (licensed cutters, dealers and beneficiators to access diamonds)	Finalise the listing of the State Diamond Trader and appoint the Board	**the dti** , NT, The Presidency	Commencing August 2007
Establishment and expansion of diamond cutting and polishing centres	Value addition to precious metals and increased exports of SA jewellery	Jewellery Manufacturing Centre in IDZ at Oliver Thambo International Airport Kimberley diamond beneficiation hub	Agreement of location of IDZ with ACSA. Approval of IDZ status Appointment of centre developer Construction of jewellery manufacturing centre	DPE, DOT, SARS	March 2008

Agro-processing

The agro-processing sector contributes around 10 per cent annually to the GDP and in 2005, it employed 183,000 people. The sector can generate relatively low-skilled job opportunities and can contribute to more geographically balanced economic development. It has strong backward linkages with the primary agricultural sector, which employs 10 per cent of the country's labour force for which a large number are women particularly in rural areas. The sector is endowed with some of the world's sought-after delicacies such as rooibos, ostrich and honey bush products.

Despite its contribution to the South African economy and its demonstrated potential, the sector is faced with a number of challenges that need to be addressed. It has been affected by changes in the general tariff dispensation that ignores the global sensitivities of the agricultural sector. Local producers have to compete against heavily subsidised producers and manufactures from developed countries. Furthermore, entry into developed countries' markets is constrained by both tariff and non-tariff barriers to trade. Local producers have also come under immense pressure in the last few years, resulting from an increase in imports of cheap products. Other important constraints relate to saturation in existing exports markets, insufficient spending on R&D – particularly on product development to enable an upper movement along the value chain; increasing input costs; and insufficient infrastructure.

A number of key measures have been identified to be undertaken during the 2007/8 financial year: facilitating the establishment of a National Food Control Agency (NFCA) to ensure compliance of South African food products to international food quality standards; review of the tariff policy for agricultural products to address the distortions in trade; and increase exports of beneficiated Rooibos and Honeybush teas. Concurrent to the roll-out of these projects, more comprehensive work will be done on this sector. A process is currently underway to develop a comprehensive perspective on the entire agriculture sector.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Establishment of a National Food Control Agency	Increase exports through improved compliance to international quality standards	MOU with stakeholders Legislative framework for the establishment of the agency	Obtain buy-in and support from key government stakeholders	DOH, DOA, SABS	2009
Review the tariff policy on agricultural products	Increased investments, job creation and increased exports of high value beneficiated products	Tariff guidelines to be used by ITAC in the review of agricultural and agro processing tariffs	**the dti** to develop position paper	DoA, ITAC and DEAT	March 2008
Promote exports of beneficiated rooibos and honeybush products	Double the current exports of finished Rooibos and Honeybush products by 2011	Comprehensive marketing strategy developed	Consultative workshops with stakeholders	DOA, Wesgro, WC provincial departments, National Agricultural Marketing Council	March 2008
Implement the business plan formulated to increase the competitiveness and the profitability of SA fruit canning	To create a sustainable platform for the long-term growth and competitiveness of the industry through improved market access; cost reductions; and developments of new markets and products	Full economic analysis of the sector to improve market access, reduce input costs, develop new products and markets Phasing out the 5% canned fruit tariff in the EU and retention of the 45 00mt quota	Consultative workshops with stakeholders to plan, report on progress and agree on the implementation process SA industry to negotiate with EU industries to face out the tariffs and retain the quota levels	WC provincial departments	Economic analysis: March 2008 Negotiation with EU: March 2009
Makhathini Sugar Processing Facility Project	Increased investments in the infrastructure thereby creating 4,200 direct job opportunities	Feasibility study completed	Commission feasibility study and develop a business plan begin work on the Environmental Impact Assessment	KZN DOA, IDC, DBSA and Tongaat Hewlett	March 2008

Film and Television

ASGI-SA prioritises cultural industries because of their potential contribution to nation-building and South Africa’s international image and because they can support employment creation in tourism as well as in production of cultural goods and services. **the dti** has developed KAPs for film and television production, which is presented in this section, with KAPs for the crafts industry presented below. **the dti** will also develop proposals for other elements of the cultural industries, notably music and drama.

The content industry is a key growth area in the world economy and was valued at US$1.2 trillion in 2003. In 2003, global filmed entertainment was growing at a rate of 9.4 per cent and television at the rate of 6.3 per cent , both in excess of global entertainment industry growth of 4.2 per cent . Yet South African participation in this global growth is minimal and estimates are that the country’s share is only a fraction of one percent (less than 0.5 per cent). It is estimated that the sector employs around 20,000 people directly in broadcasting, film, commercials and other media related companies.

Although the South African film industry has a long history, the industry had until 1994 largely been characterised by an inward-looking and culturally exclusive production structure. The opening up of the political, economic and cultural systems availed new challenges and opportunities for the industry. An increasing number of feature film, television and documentary productions and commercials have been produced in South Africa since 1994, which had had a positive impact in the local industry.

Some of the key constraints holding back the development of the sector include: limited access to financing; limited access to distribution and exhibition facilities; insufficient audience development; few training opportunities for people entering the industry as well as producers, directors and scriptwriters currently working in the industry; few opportunities to export South African film and television products; and inadequate co-ordination and an absence of standards in training provision.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Launch the revised rebate for foreign and local production to increase local production	Improved and increased local content generation	Revised rebate scheme to be launched in the third quarter	The review will include introduction of a second rebate scheme targeted at the local filmmakers	DAC, DOC	December 2007
Development of an Enterprise Development Programme to assist with building the capacity of emerging production companies, including the development of scarce skills such as writers and editors.	Improved competitiveness and transformation of production companies	Integrated programme on financial and non-financial support services	Audit existing business programmes and service delivery Identification of centres of excellence Establishment of a framework of service delivery	DAC, DoC	December 2008
Establishment of five pilot programmes in different locations to address distribution infrastructure, local content and audience expansion	An increase in returns on domestic productions	Five pilot programmes established	Research the distribution and content alternatives Establish a PPP to invest in the distribution and content alternatives	DAC, DoC	2009 first quarter

Crafts

The craft sector contributes approximately R2 billion to GDP in retail sales of which approximately R150m is in export sales. The sector comprises approximately 7,028 enterprises across the entire value chain (from raw material suppliers to retailers). These production enterprises derive annual income in the order of R1,145 million, which supports an estimated 380,062 people, many of whom are in the most marginalised populations in the rural and peri-urban areas of South Africa.

Over the last 5 years, the number of production enterprises has increased by an estimated average of 40 per cent. This growth can largely be attributed to the growth in tourism visitor numbers that grew by 82 per cent over the last 10 years. The production of crafts in South Africa is, however, compounded by a number of factors, which are overlaid with social and economic issues arising from the legacy of apartheid. Some of these include: diversity of units of production, media and product ranges; low skills levels; inadequate working capital; lack of standard and quality assurance across the value chain; and poor information flow.

To create maximum benefit and greater enhancement of the sector, the craft sector strategy proposes integrated metropolitan hubs with rural satellites. The hubs will perform the role of: enterprise development; R&D; market access; and trade support. The hubs will be set up in partnership with provincial and local authorities and will receive joint funding.

Key actions to be led by the dti

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Establishment of provincial integrated craft hubs including prioritisation of provinces	Increased volume of craft sales nationally and internationally and number of jobs created	Stakeholder agreement on proposals for the establishment of viable provincial hubs as centres of excellence implementing best practice Draft blue-print for a best practice model along a franchising concept 2 hubs established in EC and WC	Audit of current hub initiatives Development of a blue-print for a best practice model along a franchising concept Prioritisation of provinces	DAC, EC and WC provincial departments	March 2008

3.5.5 SECTORS FOR WHICH SUBSTANTIAL SECTOR STRATEGY DEVELOPMENT AND PERSPECTIVES IS FURTHER REQUIRED

There are a number of sectors in the economy that have the potential to contribute to the competitiveness of the tradable activities and also diversify the non-traditional tradable activities. However no coherent sectoral approach and strategies have been developed to take economic advantages presented in these sectors. Although there are projects that are already being rolled-out in some of these sectors, there is however the need to develop an overarching strategy for each of these sectors as a basis for prioritising interventions.

During 2007/8 more comprehensive sector strategies and interventions will be developed, including in the following sectors:

- Mining and mineral beneficiation
- Agriculture /Agro-processing
- ICT (services and products)
- Creative Industries

Develop perspectives on:

- White goods
- Retail
- Community/Social services

The 2007/8 IPAP commits to a process for sector strategy development as a KAP for this financial year. The process should provide the basis for developing and prioritising sector-specific KAPs, which would be incorporated into 2008/9 IPAP and POA implementation plans. The table below sets out the process to be followed for each of the above-mentioned sectors:

Area of Priority	Projects/ KAPs	Benchmarks			Lead/ reporting department	Stakeholder departments	Timeframes (for achieving outputs)
		Outcome	Output	Processes to achieve outputs			
Capital Goods	Finalise the sector strategy	Broad agreement in government and with stakeholders on the current state and future of the industry, including its linkages to the infrastructure CAPEX, and leveraging existing capabilities for exports	Document detailing overall perspective on the status of the industry and constraints both overall and at subsector level	Process underway to develop a CSP	the dti	Presidency, DPE, NT	Draft document: November 2007 Submission to January Lekgotla
Mining and Mineral Beneficiation	Development of strategies that will attract investment into the mining and beneficiation industry of South Africa	Broad agreement in government and with stakeholders on the future of the industry (including issues on upstream and downstream linkages, and impact on exports and fiscus)	Document outlining possible strategic interventions for the mining sector	Convene a mining investment strategy workshop with stakeholders	DME	the dti , Presidency, DEAT, DWAF, DPE, NT, DST	Workshop to take place in June 2007 Submission of a draft report to Cluster by November
Agriculture/ Agro-Processing	Undertake research on the current status of primary agriculture activities and finalise measure to promote greater value addition	Broad agreement in government and with stakeholders on interventions to ensure value chain contributes optimally to ASGI-SA targets around shared growth, especially in terms of employment creation and household food security	Document detailing the value chain's ability to contribute to shared growth in future, and constraints at subsector level	Task team convened by the dti to develop perspective on value chain	the dti , DOA	Presidency, DWAF, DEAT, DPLG, NT, DST	Complete draft in November 2007 Submission to January Lekgotla
ICT	Develop a cluster industrial policy response to support ICT services and electro-technical products	Broad agreement on government interventions to support content development within ICT services and electro-technical products (linked to the implementation of the digital migration strategy and expansion of broadband access).	Document indicating potential benefits of expanding ICT products and services and implications for policy and stakeholders	Undertake research to identify opportunities within ICT services to support local content development.	DOC	the dti , DST, Presidency	Discussion on draft document at ISFG in June Submission to July Lekgotla

Area of Priority	Projects/ KAPs	Benchmarks			Lead/ reporting department	Stakeholder departments	Timeframes (for achieving outputs)
		Outcome	Output	Processes to achieve outputs			
Pharmaceuticals	Develop government position on the promotion of sustained local production of pharmaceuticals	Broad agreement on whether and how government should support local production of pharmaceuticals	Pharmaceuticals development strategy to respond to the domestic demand for drugs including ARVs	Process underway at NEDLAC to analyse the potential and constraints of the industry	the dti	Presidency, DST, DoH, NT	NEDLAC process to deliver a final report in June Strategy to be completed in March 2008
White Goods	Development of a sectoral perspective	Broad agreement on the role of the industry in achieving ASGI-SA targets, especially for employment creation	Document indicating current role of the industry in the economy, potential for achieving ASGI-SA targets, and whether government interventions are desirable or necessary	ISFG to develop brief document based on existing research	the dti	Presidency	Submission of a draft report to Cluster by November Document to January Lekgotla
Retail	Development of a sectoral perspective	Broad agreement on the role of the industry in achieving ASGI-SA targets, especially for employment creation	Document indicating current role of the industry in the economy, potential for achieving ASGI-SA targets, and whether government interventions are desirable or necessary	ISFG to develop brief document based on existing research	the dti	Presidency	Submission of a draft report to Cluster by November Document to January Lekgotla

3.6 CROSS-CUTTING PRIORITIES

There are a number of cross-cutting interventions necessary to underpin a successful industrial policy. In particular, the efficiency of the basic rail and port infrastructure; the availability and cost of broadband telecommunications infrastructure; and the availability of appropriate skills have emerged as major cross-cutting constraints. Regulatory effectiveness of government is also an important factor that impacts on firms. For small and medium size firms the ‘regulatory burden’ may be too onerous. However, large projects may also be held up due to regulatory delays. Therefore the cross-cutting priorities for implementation in this current cycle of IPAP are designed to deal with these challenges. As should be expected, some of the cross-cutting priorities are informed by the sectoral interventions hence the similarity in the KAPs.

3.6.1 Improving the design and administration of industrial financing

Industrial financing is one of the important pillars available to successfully implement the NIPF. There is a well-developed infrastructure for providing industrial finance in South Africa, notably through The Enterprise Organisation (TEO) division of **the dti**, and the Industrial Development Corporation (IDC). The suitability of current financing mechanisms – most of which were designed in the immediate post-1994 period – are being re-evaluated, taking into account evidence about their effectiveness, changed conditions and global best practice.

There are also specific areas of weakness in the current industrial financing that need to be addressed. They include the need for greater scale and more prioritisation, higher levels of reciprocity, greater emphasis on more labour-intensive and value-adding activities and a focus on stimulating new or quantitatively higher levels of economic activity. In addition to these issues of the design, the quantum of industrial financing also needs to be re-visited. Firstly, industrial financing will play a critical role in leveraging the levels of private sector investment necessary to meet the ASGI-SA target of raising gross fixed capital formation to 25 per cent of GDP by 2014. Secondly, as the evolution of the global trading system generates diminishing space to use tariffs as an instrument of industrial policy, the role of industrial financing becomes correspondingly more important. Thirdly, in the context of a volatile and often overvalued currency, industrial financing becomes critical.

KAPs (to be led by the dti and Treasury) are:

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Fast-track process with National Treasury to finalise improved suite of incentives	Ensure that industrial financing dispersion leads to the desired structural changes in the economy improve the monitoring and evaluation of support measures, including monitoring the quality of the administrative processes	Agreed methodology with NT on financing incentives Reintroduction of targeted and up-scaled of tax incentives Revised SMEDP Up-scaling of Critical Infrastructure Fund Development of Industrial Upgrading Programme	Interactions with NT	DST, Presidency	March 2008
Up-scaling of the IDZ programme	Expansive programme to facilitate and increase FDI and employment across a range of sectors	Expand the number of IDZs Finalise governance and financing mechanisms for IDZs	Cabinet approval of the regional industrial development strategy and the new policy framework around the IDZs Stakeholder consultations, particularly with provinces	Provinces, local government, NT, DPE, DHA, SARS, NPA, IDZ operators	March 2008
Modalities with the Industrial Development Corporation (IDC)	Ensure greater alignment between IDC financing and the national industrial policy priorities	Agreed modalities with the IDC	Engagements and consultations with relevant stakeholders	DST	On-going

3.6.2 Leveraging public procurement

Large-scale plans are being implemented to both upgrade and install new infrastructure (electricity, rail, and ports) as well as broader expenditure plans in areas such as ICT, health, housing, 2010 FIFA World Cup, and the taxi re-capitalisation programme. This public expenditure will provide a massive investment injection into the economy over the coming decade.

On the back of this investment arises a major opportunity to leverage the public expenditure, by ensuring that domestic firms are sufficiently competitive to capture significant portions of it; without compromising price and quality. However, substantial coordination will be required in order to maximise the linkages from the public expenditure programme. Industries and firms that previously supplied the parastatals have lost substantial capabilities with some no longer active due to low levels of investment over the last two decades. As a result, a range of coordination activities need to take place: between public procurement managers and potential suppliers; amongst firms that can potentially form supply consortia; and between government departments particularly linking **the dti**'s Customised Strategy Programmes (CSPs), DPE's expenditure plans and DOL's training plans.

2007/8 KAPs are:

- Development of supplier development strategies for each major government stream spending. For this year, the priorities will be focused mainly on the development of supplier development strategies for the following stream of expenditure programmes: energy, rail and ports, public transport, and ICT– linked to the implementation of the digital migration strategy, local manufacturing of Set Top Boxes (refer to KAP under capital goods, metal fabrications and transport equipment and also under ICT services and electro-technical products). The work would require clear definition of supplier development targets and associated conditions.
- In order to ensure that public spending results in maximum benefits for the economy, state procurement must be aligned to industrial policy imperatives. This would require that all government departments include domestic production perspective in their procurement plans and develop mechanisms for monitoring and evaluating the roll-out thereof.

3.6.3 Reducing intermediate input costs

The cost of intermediate inputs has been identified as a key constraint retarding the growth and employment potential in a number of sectors due to, *inter alia*, lack of competition in a number of key intermediate industries. The effectiveness and the enforcement of the competition policy and law, therefore, assume importance given the uniquely concentrated nature of the South African economy.

The KAPs from the above sector-specific activities include measures to be undertaken in this financial year to address this issue of input costs. These mainly encompass: the finalisation of the competition policy and law review, which is aimed at strengthening the Competition Act; and the review of import duties on a number of upstream products. Tariffs on upstream input industries may be reduced or removed, in the interests of lowering input costs into downstream manufacturing, taking into account issues such as domestic production capabilities and the levels of global distortions in these products. Tariffs on downstream industries, particularly those that are strategic from an employment or value-addition perspective, will be retained in a manner that ensures long-term sustainability and global competitiveness. Such tariff determinations will be conducted on a case-by-case basis, taking into account the specific circumstances of the sector involved.

KAPs (to be led by the dti) are:

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Finalise the competition policy and law review	Shift the mandate of the competition authorities to a stronger policy advocacy informed by the NIPF and strengthen it to deal more with anti-competitive practices and outcomes in the economy.	Competition Policy Document to be approved by Cabinet Draft amendments to strengthen Competition Act approved by Cabinet.	Consultation between stakeholders on the policy and draft amendments	competition authorities, Presidency, DPE	July 2007 for Competition Policy Doc December 2007 for Draft amendments
Review of import duties of key industrial inputs into manufacturing (including upstream chemicals, aluminium and textiles)	Reduce costs inputs into selected manufacturing industries through reviewing undue trade protection	Import duties on selected upstream chemicals, aluminium and textiles reviewed	Initiate investigations with ITAC	ITAC, NT	March 2008
Review of import duties on machinery and equipment not produced and not likely to be produced in SA	Reduce the costs of the inputs to feed into the public and private investment programmes	Import duties on machinery and equipment not produced and not likely to be produced in SA reviewed	Initiate an investigation with ITAC	ITAC, Presidency, NT	March 2008

3.6.4 Improving support mechanisms for innovation, technology and R&D support

Greater support for innovation and technology is necessary in order to contribute to the national target of increasing and sustaining R&D expenditure to 1 per cent of GDP. South Africa has pockets of technologies and capabilities that can be leveraged in order to narrow the gap with a range of technologically sophisticated developed and developing countries. Although it is difficult, risky and costly, there is a long-term need to develop domestic technologies and bring them to market. In this regard, substantial work has been done with respect to tracking global technology trends and relating them to areas where South Africa could lead with respect to proprietary technologies or where it should focus on technology transfer, adoption and adaptation. The National Research and Development Strategy, from DST, provides the overarching framework for technological interventions, particularly on the research side of R&D.

The focus from the NIPF is, therefore, weighted heavily towards the development side of R&D. This requires that technology financing be expanded in order to meet our national R&D targets, which in turn implies increased support measures for process and product innovation, and commercialisation of technologies. There is, therefore, a need for greater coherence and collaboration between **the dti** and DST in developing such support measures. There is also a broader policy need to strengthen systems to protect and develop South Africa's intellectual property (IP) and to encourage its commercialisation domestically in favour of licensing abroad. This is particularly with respect to IP that is developed through the public purse, such as the Science Councils.

KAPs (to be led by DST) are:

Projects/ KAPs	Benchmarks			Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs		
Develop mechanisms to operationalise and monitor the R&D tax incentive arrangements.	Effective arrangements in place that facilitate increase in private sector investment in SA.	Regular report on the impact of the R&D tax incentives	DST to develop the appropriate administrative systems together with the SARS, and industry	**the dti** , NT, SARS	First report – November 2007
Improve policy arrangements with regard to the treatment of IP on publicly-funded R&D	Increase levels of commercialisation from publicly-funded research	Legislation governing the treatment of IP from publicly-funded R&D Approval of draft legislation by Cabinet	DST to develop draft legislation followed by consultation with interested stakeholders after which it will be introduced into the legislative process	**the dti** , DME, DoH, DoA	Submit into the legislative process by the end of July. Process thereafter will depend on the Parliamentary calendar. Anticipation that the legislation will be in place by March 2008
Develop the institutional platforms required to support cutting-edge industries in South Africa	Increase number of knowledge-based industries, engineering firms, and industries based on high-value products	Establishment of Technological Innovation Agency (TIA) Establishment of the South Africa Space Agency (SASA) Strategy to develop an industrial base for space-related infrastructure, products and services Research, development and industrial support strategy for the development of hydrogen-economy related products (e.g. catalysts based on the Platinum-group metals – and cost-competitive hydrogen) Industrial support strategy for the development of MeerKAT	Finalisation of a detailed business case and the development of enabling legislation for the TIA. Finalisation of detailed business case and the development of enabling legislation for SASA.	**the dti** , DPE, DoC, DoE, DME	TIA business case by June 2007 and legislative process to follow SASA business case by June 2007 and legislative process to follow Strategy for space industry by March 2008 R&D strategy for the Hydrogen Economy by June 2007 Industrial support strategy for MeerKAT by December 2007

3.6.5 Improving infrastructure and logistics

There have been difficulties with both the price and quality of the infrastructure necessary for trade and development. The efficiency of the basic rail and port infrastructure, public transport, as well as the availability and cost of broadband telecommunications infrastructure, have emerged as major cross-cutting constraints. Similarly, there is a need for sufficient and cost-effective energy supply via a reliable distribution system.

The decline in annual infrastructure investment since the late 1970s has been reversed. There are large-scale plans implemented to both upgrade and install new infrastructure (ICT, roads, public transport, electricity, rail, and ports).

2007/8 KAPs are:

Projects/ KAPs	Benchmarks			Lead/ reporting departments	Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs			
Increase access to ICT infrastructure	Improve costs and accessibility of ICT technologies in the economy	Roll-out Sentech Wireless Broadband and Infraco and implementing Digital Migration Strategy Enhance access to high-speed broadband by the research community through the establishment of SANReN (South African National Research Network)		DOC	DPE, **the dti**, DST, Presidency, NT	December 2007
Develop a monitoring system for infrastructure implementation and execute impact assessment in areas including energy, water, ICT, ports, rail, air-transport, road as reflected in ASGI-SA	Continuous improvement in infrastructure	Report to Cabinet on establishment and nature of monitoring system and on impact assessments	DPE to establish monitoring system and complete impact assessments	Presidency	DPE, DWAF, DPLG, NT, DOT, DME, DOC	August 2007
Finalise ports and rail investment plan	Expand capacity for competitive ports and rail systems that also serve developmental needs	Plan submitted to Cluster and then Cabinet	Relevant departments to develop plan with stakeholders	DPE and DOT	Presidency, **the dti**, NT	July 2007
Implement the public transport action plan	Improved public transport's efficiency and affordability on a mass scale	Accelerate implementation of taxi recap programme Accelerate implementation of reformed bus subsidy system Investment plan for public transport to 2011 (for 6 metros and 6 secondary cities)		DOT	Presidency, **the dti**, NT	November 2007 June 2008 March 2008

3.6.6 Linking skills development to sector strategies

Skills development and training has emerged as one of the key constraint holding back a number of, if not all, sector development. Although the educational and skills development framework are led by the DOE and DOL respectively, and therefore the related interventions falls under the skills focus group of the Economic Cluster, there is however, a need for greater and stronger integration between industrial and skills policy and implementation, particularly with respect to sector strategies. This is critical in areas such as ensuring that sector and SETA strategies and implementation are better aligned; and that scarce skills and immigration issues are appropriately prioritised.

The projects for this year are therefore focused on improving institutional arrangements around skills policy and skill development and training for enhanced alignment to the economic needs. The work around the establishment of centres of excellence and competence to develop South Africa's skills, technology and science base will continue and as more refinements are achieved this year, critical actions emanating from this area of focus will inform IPAP in future years.

2007/8 KAPs are:

Projects/ KAPs	Benchmarks			Lead/ reporting departments	Stakeholder departments	Timeframes (for achieving outputs)
	Outcome	Output	Processes to achieve outputs			
Assess the effectiveness of the existing institutional skills generation systems	Address capacity in General, Further and Higher Education institutions to meet the skills requirements	Report with clear recommendations to Cluster and then Cabinet	Interactions between government departments, finalise implementation plan on the critical areas identified by the JIPSA	DOE	Presidency, DOL, **the dti** , DPE, DST, DHA	December 2007
Assess the effectiveness of the existing occupational skills generation system	Address governance and operational matters pertaining to SETAs, NSF and other occupationally related skills development structures to accelerate occupational skills development	Report with clear recommendations to Cluster and then Cabinet	Interactions between government departments, finalise implementation plan on the critical areas identified by the JIPSA	DOL	Presidency, DOE, **the dti** , DPE, DST, DHA, DPSA	December 2007
Review targets and strengthen integration and coordination of National Human Resource Development Strategy (including NSDS and JIPSA)	Ensure long-term provision of core and critical skills especially in priority sectors	Revised NHRDS and targets Monitoring and evaluation framework	Interactions between key departments	DOE	DOL, Presidency, **the dti** , DOC, DPE, DST, DHA, DPSA	December 2007 for a draft to be discussed with key stakeholders January 2008 for Cabinet submission
Refine and improve the implementation of the scarce skills importation framework	Better alignment of economic scarce skills and immigration quota list	Revised quota list	Inter-departmental coordination to develop the master list and also the quota list	DHA	Presidency, DOE, DOL, **the dti** , DST, DOH	November 2007
Establishment of forum between the Skills Focus Group (SFG) and the Industrial Strategy Focus Group (ISFG) to develop a strategy to link the education and skills development policy to the NIPF	Ensure that the education and skills development policy are aligned to the NIPF	SFG and ISFG Forum	Formal interactions between two Focus Groups to agree on Forum's Terms of Reference and operationalisation	**the dti**	Presidency DoL, DoE, DPE, DST, DHA, DPSA	August 2007

GLOSSARY

ASGI-SA	Accelerated and Shared Growth Initiative for South Africa
ACSA	Airports Company of South Africa
BBBEE	Broad Based Black Economic Empowerment
BPO&O	Business Process Outsourcing and Offshoring
DAC	Department of Arts and Culture
DCCS	Duty Credit Certificate Scheme
DEAT	Department of Environmental Affairs and Tourism
DHA	Department of Home Affairs
DME	Department of Minerals and Energy
DoA	Department of Agriculture
DoC	Department of Communications
DoE	Department of Education
DoL	Department of Labour
DoT	Department of Transport
DPE	Department of Public Enterprises
DSS	Department of Social Services
DST	Department of Science and Technology
the dti	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
FRIDGE	Fund for Research into Industrial Development, Growth and Equity
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
ISFG	Industrial Strategy Focus Group
IPAP	Industrial Policy Action Plan
KAP	Key Action Plan
MIDP	Motor Industry Development Programme
NIPF	National Industrial Policy Framework
NT	National Treasury
POA	Programme of Action
SABS	South African Bureau of Standards
SACU	Southern African Customs Union
SAT	South Africa Tourism
SOE	State Owned Enterprise
STATSSA	Statistics South Africa