Industrial Policy
Action Plan (IPAP)
August 2007
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</table>
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. The major weakness identified in South Africa’s long term industrialisation process has been 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.
- Contributing to industrial development on the African continent with a strong emphasis on building its productive capabilities.
- Providing a policy framework for improving the competitiveness of South Africa’s commodity exports to secure a higher share of value-added in the global economy.

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 an unprecedented 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.
- Relativley 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.

1.6 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 coal 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;
  - Automotive 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 for positioning 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

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<th>Project KPIs</th>
<th>Outcomes</th>
<th>Processes to achieve outputs</th>
<th>Stakeholder departments</th>
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<tbody>
<tr>
<td>Waste to energy generation</td>
<td>Waste Characterisation</td>
<td>Consultation with DPE, ID and RIDS</td>
<td>DPE, GOO, DTIE, OSF, SN</td>
<td>December 2007</td>
</tr>
<tr>
<td>Reducing CO2 emissions</td>
<td>Development of the carbon capture and storage technology</td>
<td>Consultation with DPE and SN</td>
<td>DPE, GOO, DTIE, SN</td>
<td>December 2007</td>
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<tr>
<td>Increasing renewable energy generation</td>
<td>Development of the renewable energy technology</td>
<td>Consultation with DPE and SN</td>
<td>DPE, GOO, DTIE, SN</td>
<td>December 2007</td>
</tr>
<tr>
<td>Improving energy efficiency</td>
<td>Development of the energy efficiency technology</td>
<td>Consultation with DPE and SN</td>
<td>DPE, GOO, DTIE, SN</td>
<td>December 2007</td>
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</tbody>
</table>
### 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.

#### Benchmarks

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Outcome</th>
<th>Project/KAPs</th>
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</thead>
<tbody>
<tr>
<td>Increased local content</td>
<td>Increased local content</td>
<td>Supplier Development Programmes</td>
</tr>
<tr>
<td>Increased productivity</td>
<td>Increased productivity</td>
<td>Supplier Development Programmes</td>
</tr>
<tr>
<td>Increased local content in procurement</td>
<td>Increased local content in procurement</td>
<td>Supplier Development Programmes</td>
</tr>
<tr>
<td>Increased productivity in public transport</td>
<td>Increased productivity in public transport</td>
<td>Supplier Development Programmes</td>
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#### Processes to achieve outcomes

<table>
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<tr>
<th>的过程 to achieve outcomes</th>
<th>Stakeholders/Departments</th>
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<tbody>
<tr>
<td>Develop Supply Development Programmes</td>
<td>DPE, DOT, DST, Transnet, Eskom, DOT, IDC, Presidency, DST, CSIR</td>
</tr>
<tr>
<td>Finalise Supplier Development Plans to reduce import leakage for Eskom and Transnet CAPEX programme from 40 per-cent to 30 per-cent</td>
<td>DST, CSR</td>
</tr>
<tr>
<td>Finalise a Supplier Development Strategy with respect to public transport strategy, especially locomotives for commuter transport</td>
<td>DOT, IDC, DPE</td>
</tr>
<tr>
<td>Import duties on machinery and equipment tariff headings</td>
<td>ITAC, Presidency, NT</td>
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<tr>
<td>Agreement on the roll-out of the National Foundry Technology Network</td>
<td>DST, CSR</td>
</tr>
<tr>
<td>Agreement on the roll-out of the National Tooling Initiative (NTI)</td>
<td>DST, CSR</td>
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#### Timeframes

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<th>Timeframes</th>
<th>(for achieving output)</th>
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<tbody>
<tr>
<td>February 2008</td>
<td>DPE, DOT, DST, Transnet, Eskom, DOT, IDC, Presidency, DST, CSIR</td>
</tr>
<tr>
<td>December 2007</td>
<td>ITAC, Presidency, NT</td>
</tr>
<tr>
<td>March 2008</td>
<td>DOT, IDC, DPE</td>
</tr>
<tr>
<td>March 2008 (have pilot projects in place)</td>
<td>DST, CSR</td>
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<tr>
<td>Ongoing</td>
<td>DOT, IDC, DPE</td>
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#### Stakeholder departments

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<th>Stakeholder departments</th>
<th>Stakeholders/Departments</th>
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<tbody>
<tr>
<td>DOT, IDC, DPE</td>
<td>DOT, IDC, DPE</td>
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<tr>
<td>DST, CSIR</td>
<td>DST, CSIR</td>
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<tr>
<td>DST, CSIR</td>
<td>DST, CSIR</td>
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<tr>
<td>DST, CSR</td>
<td>DST, CSR</td>
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<tr>
<td>DOT, IDC, DPE</td>
<td>DOT, IDC, DPE</td>
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<tr>
<td>DST, CSR</td>
<td>DST, CSR</td>
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#### Increased growth and employment through coordination of SOE investment plans with domestic suppliers capabilities

Leverage other public expenditure and domestic capabilities to industrialise the South African economy.

Review of import duties on machinery and equipment not produced and not likely to be produced in South Africa.

Supplier Development Programmes

National Foundry Technology Network

National Tooling Initiative

Projects/KAPs

<table>
<thead>
<tr>
<th>Projects/KAPs</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Supplier Development Programmes</td>
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<tr>
<td>Outcome</td>
<td>Outcome</td>
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<tr>
<td>Processes to achieve outcomes</td>
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**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% 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.
## Industrial Policy Action Plan

### Review of the import duty on upstream chemical products

- **Establishment of a project focusing on increasing polypropylene value-added products used in automotive and packaging industries**

### Fluoro-chemicals Expansion Initiative

- **Designation of the production of ARV pharmaceuticals as a strategic industry**

### Projects/KAPs

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<tr>
<th>Stakeholder Requirments</th>
<th>Output</th>
<th>Processes to achieve Outputs</th>
<th>Benchmarks</th>
<th>Timeframes</th>
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</thead>
<tbody>
<tr>
<td>ITAC, President/DAT</td>
<td></td>
<td>With ITAC, identify unnecessary import duties and remove them</td>
<td></td>
<td>March 2008</td>
</tr>
<tr>
<td>DST</td>
<td></td>
<td>Finalise FRIDGE study to identify products and market opportunities</td>
<td></td>
<td>February 2008</td>
</tr>
<tr>
<td>DME, DST, DC/MSCA</td>
<td></td>
<td>Environmental impact assessment and feasibility studies completed</td>
<td></td>
<td>Commence EIA and feasibility study in August 2007</td>
</tr>
<tr>
<td>DGN, President/DST</td>
<td></td>
<td>Task Team actively involved and look at increased localisation of ARV tender</td>
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<td>March 2008</td>
</tr>
</tbody>
</table>

### Forestry, Pulp and Paper, and Furniture

The forestry sector has an annual turnover of R32 billion with a value adding contribution to the South African economy of some R14 billion in 2006. It is estimated that the sector employs 170,000 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 KwaZulu 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.

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.

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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.
3.5.2 MAINTAINING MOMENTUM 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

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<th>Processes to achieve outputs</th>
<th>Stakeholder departments</th>
<th>Outcomes</th>
<th>Timeframes</th>
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<tbody>
<tr>
<td>Implement a developmental telecommunications pricing model</td>
<td>Relate market studies with take-up trends</td>
<td>DOC, Presidency</td>
<td>Industry through the dti</td>
<td>Knowledge &amp; data through effective consultation</td>
<td>August 2007</td>
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<tr>
<td>Roll-out of existing incentives scheme</td>
<td>Administer of applications through the dti</td>
<td>DOO</td>
<td>Industry through the dti</td>
<td>Increase investments and job creation</td>
<td>March 2007</td>
</tr>
<tr>
<td>Implement the talent development programme: the Monyetla Work Readiness Programme</td>
<td>Sponsoring &amp; consultation with investors</td>
<td>Business Trust, Industry association</td>
<td>National Tourism Strategy Implementation</td>
<td>Create jobs and stimulate economic activity in depressed towns</td>
<td>August 2007</td>
</tr>
<tr>
<td>Strategic and targeted marketing to ensure the attraction of key investors to South Africa</td>
<td>Continuous engagements between stakeholders and investors</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise provincial BPO strategies</td>
<td>August 2007</td>
</tr>
<tr>
<td>Formulate new support measures aimed at the development of SMEs and contact centres in less developed designated areas</td>
<td>Finalise negotiations with Telkom Marketing of SA BPO &amp;O sector and support measures of the dti</td>
<td>DOC, Presidency</td>
<td>Transformation through the dti</td>
<td>An agreement with Telkom on a developmental pricing model for the sector</td>
<td>March 2008</td>
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<tr>
<td>Develop quality standards for the sector</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Policy on infrastructure and training to be used</td>
<td>March 2008</td>
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<tr>
<td>Establish call centres in designated less developed areas</td>
<td>Finalise agreement with DoL on 2007/8 training programme and funding mechanisms</td>
<td>DOC, Presidency, National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
<tr>
<td>Increase investments and job creation in the BPO &amp;O sector, through attracting potential investors</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
<tr>
<td>Increase skills development and training for the sector</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
<tr>
<td>Increase investments and job creation in the BPO sector, through increased support for SMEs and increased economic activity in designated areas</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
<tr>
<td>Promote best practice, by adopting standards that are in line with the global BPO &amp;O sector</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
<tr>
<td>Create jobs and stimulate economic activity in depressed towns</td>
<td>Administration of applications through the dti</td>
<td>National Tourism Strategy Implementation</td>
<td>International marketing</td>
<td>Finalise new programme guidelines by March 2008</td>
<td>March 2008</td>
</tr>
</tbody>
</table>

### 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 air 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

<table>
<thead>
<tr>
<th>Projects/ KAPs</th>
<th>Outcome</th>
<th>Output</th>
<th>Processes to achieve outputs</th>
<th>Stakeholder departments</th>
<th>Timeframes (for achieving outputs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise and finalise the Tourism Sector Skills Plan</td>
<td>Training and skills development programmes based on scarce and critical skills</td>
<td>Implementation of the revised Sector Skills Plan and the Mogale City Declaration on tourism skills</td>
<td>Develop an information generation and sharing system to identify gaps in current tourism curriculum and current accreditation system</td>
<td>DoT, DoE, Provinces</td>
<td>March 2008</td>
</tr>
<tr>
<td>Design a tailored incentive for the sector</td>
<td>Increase investments and job creation in rural and peri-urban areas</td>
<td>A designed and budgeted for customised incentive in place</td>
<td>Achieve buy-in with stakeholders Design incentive protocols Engage NT on the budgetary implications</td>
<td>NT</td>
<td>March 2008</td>
</tr>
<tr>
<td>Implement National Tourism Safety and Awareness Strategy</td>
<td>Increased safety and security for tourists in provinces</td>
<td>Discussions with the dti, SAPS, DSS, provincial departments, SAPS</td>
<td>Integration of the strategy into the broader law enforcement agency interventions as well as South Africa’s marketing and branding initiatives Community awareness creation activities</td>
<td>2009 and 2014</td>
<td></td>
</tr>
<tr>
<td>Improve tourism research and statistics</td>
<td>Improve tourism data and statistics through the development of the Tourism Satellite Account (TSA) by 2009</td>
<td>7 of 10 tables of TSA in draft form, which would include indicators such as GDP, production, and in and outbound statistics</td>
<td>Quarterly Tourism Research Advisory committee meetings with external stakeholders Monitor the implementation of the 3-year TSA development plan</td>
<td>STATSSA, DHA, SAT, provinces</td>
<td>March 2008</td>
</tr>
<tr>
<td>Facilitate the acceleration of grading of tourism establishments</td>
<td>Quality assured tourism products</td>
<td>2,500 SMME accommodation establishments graded</td>
<td>Audits of SMME tourism products to assess gaps Development of a Quality Assurance Toolkit and Training Programme Development of a communication strategy on grading</td>
<td>Provinces</td>
<td>March 2008</td>
</tr>
<tr>
<td>Develop strategy to fast track implementation of B-BBEE in the sector and capacitate provincial and local government structures to deliver on the ground</td>
<td>Broad based transformation of the tourism sector in line with the 2009 and 2014 targets</td>
<td>20,000 business or more formally committed to implementation of the Tourism BEE Charter and Scorecard</td>
<td>The development of systems capacity to handle large volumes of enquiries and applications</td>
<td>All government departments</td>
<td>2009 and 2014</td>
</tr>
<tr>
<td>Implementation of the Airlift Strategy</td>
<td>Increase number of tourists in South Africa from tourism portfolio markets per renegotiated bilateral air service agreements</td>
<td>Conclude airlift plan Convene Strategic Planning Committee to develop strategies to attract markets Hold bilateral meetings with relevant markets</td>
<td>DoT, DFA, ACSA</td>
<td>March 2008</td>
<td></td>
</tr>
<tr>
<td>Address constraints to small business participation in the tourism sector through the Tourism Enterprise Programme</td>
<td>Sustainable tourism SMMEs</td>
<td>550 business linkages created 2,600 SMMEs trained 50 SMMEs developed 300 SMMEs sent to local and international exhibitions</td>
<td>Conclude bilateral air service agreements to identify local points in all provinces Facilitate the creation of linkages between SMMEs and big business Accelerate the rollout of SMME training and support initiatives</td>
<td>DAC, DoT</td>
<td>March 2008</td>
</tr>
</tbody>
</table>
**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.

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<table>
<thead>
<tr>
<th>Year</th>
<th>Key Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Development of a biofuels industry as a source of renewable fuel.</td>
</tr>
<tr>
<td>2007-2013</td>
<td>Development of a biofuels industry as a source of renewable fuel.</td>
</tr>
<tr>
<td>2013</td>
<td>Development of a biofuels industry as a source of renewable fuel.</td>
</tr>
</tbody>
</table>

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**Key actions to be led by DME**

1. Development of a regulatory framework and appropriate incentives to support the production and use of biofuels.
2. Establishment of a biofuels strategy to ensure increased production of inputs, particularly by smallholders.
3. Finalisation of a research, development and technology demonstration support programme.
4. Finalisation of standards and regulations for biofuels.
3.5.3 SUPPORT FOR THE CLOTHING AND TEXTILES SECTOR TO PRESERVE CAPABILITIES ANDRETAIN EMPLOYMENT

Clothing and textiles are amongst the most labour-intensive industries in South Africa employing approximately127,000 people (11 per-cent of total manufacturing employment). The sector contributes around 0.6 per cent toGDP. The clothing and textiles sector has been under intense pressure since the mid 1990s, negativelyimpacted by periods of currency strength and fierce import competition, particularly from China. Notwithstandingthese pressures, the sector cannot be left to wither away due both to its contribution to employment as wellastо 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 tobecome fully sustainable. This will require an adaptation of current support measures – particularly the DutyCredit Certificate Scheme (DCCS) – by government but also a very strong commitment by business and labourtomake the necessary adjustments. An added level of complexity that needs to be taken into consideration inrevising 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; lowlevels of investment in upgrading of skills and production processes to become more competitive; associatedlow 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 measuresneed to be taken to place the industry on a more competitive and sustainable footing which essentially requiresmovement up the value chain. Key measures to be undertaken during the 2007/8 financial year include: aredesigned support scheme for the sector aimed at recapturing domestic market share, a review of input costsinto the clothing sector, full implementation of country of origin labelling and support for productivity upgradingand skills development.

### Key actions to be led by the dti

<table>
<thead>
<tr>
<th>Projects / KAPs</th>
<th>Outcomes</th>
<th>Benchmarks</th>
<th>Stakeholder departments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement measures to recapture and stabilise the domestic market share</td>
<td>Reduce the costs of inputs into the clothing sector and thereby improve cost competitiveness</td>
<td>After implementation of origin labelling</td>
<td>SACU, IEC, ITOC</td>
</tr>
<tr>
<td>Review of import duties of key inputs into the clothing sector</td>
<td>Stabilise industry and ultimately set the basis for growth across SACU based on higher productivity of capital and labour</td>
<td>Review of implementation of origin labelling to SACU</td>
<td>SACU, IEC, ITOC</td>
</tr>
<tr>
<td>Initiate a process to develop a SACU-wide strategy</td>
<td>Increases investments and job creation/retention in the domestic market</td>
<td>Engage stakeholders for on the budgetary implications</td>
<td>NT</td>
</tr>
<tr>
<td>Centre of excellence developed at CSIR in Port Elizabeth</td>
<td>A well-designed and budgeted customised programme in place</td>
<td>SACU, IEC, ITOC</td>
<td></td>
</tr>
</tbody>
</table>

### Stakeholder departments

- SACU
- IEC
- ITOC
- NT
- CSIR
- DST
- SARS
- ITED
- ITAC

### Timeframes (for achieving outputs)

- Application for registration: July 2007
- Quotas timeline: December 2008
- March 2008
- March 2008
- August 2007
- CSIR, DST
- SACU, NT
- NT
- CSIR, DST

### Projecst / KAPs

- Implement measures to recapture and stabilise the domestic market share
- Review of import duties of key inputs into the clothing sector
- Initiate a process to develop a SACU-wide strategy
- Centre of excellence developed at CSIR in Port Elizabeth

### Outcome

- Benchmarks
- Processes to achieve outcomes
- Stakeholder departments
- Timeframes (for achieving outputs)

### Implement measures to recapture and stabilise the domestic market share

- Reduce the costs of inputs into the clothing sector and thereby improve cost competitiveness
- Stabilise industry and ultimately set the basis for growth across SACU based on higher productivity of capital and labour
- Increases investments and job creation/retention in the domestic market
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.
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.
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 SA since 1994, which 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

<table>
<thead>
<tr>
<th>Projects/KAPs</th>
<th>Outcome</th>
<th>Project/KAPs to be developed</th>
<th>Baseline</th>
<th>Timelines</th>
<th>Pondra (for achieving milestone)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Improved and increased local content generation</td>
<td>Development of an Enterprise Development Programme to assist with building the capacity of emerging production companies</td>
<td>DAC, DoC</td>
<td>December 2007</td>
<td>December 2008</td>
</tr>
<tr>
<td></td>
<td>Improved competitiveness and transformation of production companies</td>
<td>Establishment of a framework of service delivery</td>
<td>DAC, DoC</td>
<td>December 2008</td>
<td>2009 first quarter</td>
</tr>
<tr>
<td></td>
<td>Improved competitiveness of production companies</td>
<td>Research the distribution and content alternatives</td>
<td>DAC, DoC</td>
<td>December 2008</td>
<td>2009 first quarter</td>
</tr>
<tr>
<td></td>
<td>Improved competitiveness of production companies</td>
<td>Establish a PPP to invest in the distribution and content alternatives</td>
<td>DAC, DoC</td>
<td>December 2008</td>
<td>2009 first quarter</td>
</tr>
<tr>
<td></td>
<td>Improved competitiveness of production companies</td>
<td>Establish a PPP to invest in the distribution and content alternatives</td>
<td>DAC, DoC</td>
<td>December 2008</td>
<td>2009 first quarter</td>
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</table>

Revised rebate scheme to be launched in the third quarter | Integrated programme on financial and non-financial support services | Five pilot programmes established | DAC, DoC | December 2008 | 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.

<table>
<thead>
<tr>
<th>Projects/KAPs</th>
<th>Stakeholder departments</th>
<th>Timeframes (for achieving outputs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of provincial integrated craft hubs including prioritisation of provinces</td>
<td>DAC, EC and WC provincial departments</td>
<td>March 2008</td>
</tr>
<tr>
<td>Audit of current hub initiatives</td>
<td>DAC, EC and WC provincial departments</td>
<td>Draft blue-print for a best practice model along a franchising concept</td>
</tr>
<tr>
<td>Prioritisation of provinces</td>
<td>DAC, EC and WC provincial departments</td>
<td>2 hubs established in EC and WC</td>
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</tbody>
</table>

- Stakeholder agreement on proposals for the establishment of viable provincial hubs as centres of excellence implementing best practice
- Draft blueprint for a best practice model along a franchising concept
- 2 hubs established in EC and WC
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:
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.
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 Africa 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.
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 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.
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).
3.6.6 Linking skills development to sector strategies

Skills development and training has emerged as one of the key constraints 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 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

Access the deficits of the existing institutional skills generation systems

Address the deficits of the existing occupational skills generation systems

Access the skills requirements of the economy

Review the coordination and implementation of the SETA (South Africa's Education and Training Authority) system

Establishment of forums, e.g. the Skills Focus Group (SFG) and the Industrial Strategy Focus Group (ISFG), to develop strategies to link the education and skills development policy to the National Industrial Policy Framework (NIPF)

Address capacity in General, Further and Higher Education institutions to meet the skills requirements

Address governance and operational matters pertaining to SETAs, NSF and other occupationally related skills development structures to accelerate occupational skills development

Ensure long-term provision of core and critical skills especially in priority sectors

Better alignment of economic scarce skills and immigration quota list

Ensure that the education and skills development policy are aligned to the NIPF

Interactions between key departments

Inter-departmental coordination to develop the master list and also the quota list

Formal interactions between the two Focus Groups to agree on the Forum's Terms of Reference and operationalisation

Outcomes

Benchmarks

Output

Processes to achieve outputs

Stakeholder departments

Lead/reporting department

Benchmarks

Outcome

Processes to achieve outcomes

Stakeholder departments

Lead/reporting department

Assess the effectiveness of the existing institutional skills generation systems

Assess the effectiveness of the existing occupational skills generation systems

Review targets and strengthen integration and coordination of the National Human Resource Development Strategy (including NSDS and JIPSA)

Refine and improve the implementation of the scarce skills importation framework

Establishment of forums 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

Address capacity in General, Further and Higher Education institutions to meet the skills requirements

Address governance and operational matters pertaining to SETAs, NSF and other occupationally related skills development structures to accelerate occupational skills development

Ensure long-term provision of core and critical skills especially in priority sectors

Better alignment of economic scarce skills and immigration quota list

Ensure that the education and skills development policy are aligned to the NIPF

Interactions between key departments

Inter-departmental coordination to develop the master list and also the quota list

Formal interactions between the two Focus Groups to agree on the Forum’s Terms of Reference and operationalisation

Presidency, DOL, the dti, DOC, DPE, DST, DHA

Report with clear recommendations to Cluster and then Cabinet

Monitoring and evaluation framework

Revised NHRDS and targets

Revised quota list

SFG and ISFG Forum

Timeframes

December 2007 for a draft to be discussed with key stakeholders

November 2007

December 2007

December 2007

January 2008 for Cabinet submission

November 2007

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

Fringe 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

MDP

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
Industrial Policy
Action Plan (IPAP)