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THE DEPARTMENT  
OF TRADE AND INDUSTRY  
SOUTH AFRICA



The National Industrial  
Participation Programme

# Fitting South Africa into the Future



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Alec

## Foreword

South Africa is a society and economy in transition. The amazing political transition that has been achieved has to be underpinned by an equally challenging economic transition process. Our objective in this latter process is to become a competitive manufacturing economy in order to provide sustainable employment and income generating activities for our people. We have emerged from a painful period of isolation and stagnation and now need to embark on a rapid restructuring to build on our strengths and overcome our weaknesses.

The role of South Africa's Industrial Participation Programme is to fast-track investment, exports and technology development by utilising the instrument of government procurement to leverage such initiatives. The Programme is a component of industrial strategy that seeks to work in partnership with the private sector.

In designing the Programme we have sought to ensure that there has been clarity of purpose and a workable and accessible administrative procedure. This brochure is a quick introduction to the Programme.

The government has worked in a steady and determined manner to make South Africa an investment-friendly economy. The Industrial Participation Programme is designed to create a win-win situation by encouraging foreign suppliers of major government contracts to seriously evaluate the South African market as a possible investment or business location.

Our IP Secretariat is there to help you and I hope that you find your interaction with them to be both challenging and profitable.

A handwritten signature in black ink, appearing to be 'Alec Erwin', written in a cursive style.

The Honourable Minister of Trade and Industry  
Alec Erwin MP

## Introduction

Industrial Participation (IP) became obligatory on 1 September 1996. Cabinet fully endorsed the IP Policy and its operating guidelines on 30 April 1997.

In effect, this means that all government and parastatal purchases or lease contracts (goods, equipment or services) with an **imported content equal to or exceeding US\$10 million (or the equivalent thereof)** are subject to an Industrial Participation Obligation.

The seller/supplier who incurs an Industrial Participation Obligation will be required to participate in the South African economy as suggested by these guidelines and evaluation criteria. All Industrial Participation Projects/Business Proposals must be based on the principles of mutual benefits and business sense.

## Mission and Objective

### Mission

The mission of the Programme is to leverage economic benefits and support the development of South African industry by effectively utilising the instrument of Government Procurement.

### Objectives

- Sustainable economic growth
- Establishment of new trading partners
- Foreign investment into South Africa
- Exports of South African “value added” goods and services
- R&D collaboration in South Africa
- Job creation
- Human resource development
- Technology transfer
- Economic advantages of previously disadvantaged communities.

## Characteristics

### Obligatory

#### Value Threshold – Imported Content

Any single contract exceeding US\$10 million

or

Multiple contracts for the same products or services each exceeding US\$3 million awarded to one seller over a 2 year period which in total exceeds US\$10 million

or

A contract with a renewable option clause, where should the option be exercised the total value will exceed US\$10 million.

#### 30% Obligation

The sum total of all commercial/industrial activity (subject to our crediting criteria) must equal or exceed 30% of the imported content.

#### Mainly Performance Based Evaluation

**Fulfilment Period** = 7 years from the effective date of the IP Agreement

#### Banking

Excess credits can be banked for a period of 4 years after the obligation is discharged. Only 50% of a new obligation can be fulfilled by banked credits.

#### 5% Acceptable Performance Guarantee

**Example** – a parastatal purchases goods to the value of US\$100 million. The imported content of these goods amount to US\$80 million.

The seller of such goods would therefore incur an Industrial Participation Obligation to the value of US\$24 million (30%). The seller would be obliged to submit and implement business projects which would generate IP credits equalling or exceeding the Industrial Participation Obligation of US\$24 million.

An acceptable performance guarantee to the value of US\$1,2 million (5%) would be required prior to the contract being awarded.

The seller would have seven years to discharge the obligation from the effective date of the IP Agreement.

## Principles

### **No increase in price**

The Industrial Participation Obligation must not result in an increase in the price of the purchase.

### **Mutual benefit**

Industrial Participation Proposals must be both profitable for the seller and in accordance with national economic objectives.

### **Additionality**

The principle of additionality means that all industrial participation proposals must reflect incremental or new business. One of the following must be present in order for a proposal to qualify for credits:

- Investment must be in a new facility or for the expansion of the existing facility. Investment in an existing facility must demonstrate beyond doubt the added benefit accruing from such investment besides the mere increase in output.
- Export proposals must be for the new products or new markets (new country or new customers).

### **Sustainability**

Industrial Participation Projects must be economically and operationally sustainable, even after the discharge period.

### **Causality**

Causality means that the IP proposals must result directly from the purchase contract. The IP proposal would not have been initiated had it not been a condition of the purchase contract and a possible component in the adjudication process. The exception is the Strategic Partnership Agreement (SPA).

Furthermore, causality means that each IP project submitted was caused by the Seller as a result of an IP obligation or the Seller's direct involvement therein; or that the involvement of the Seller in the IP project had influenced such project to eventuate within a shorter time period than would have been the case.

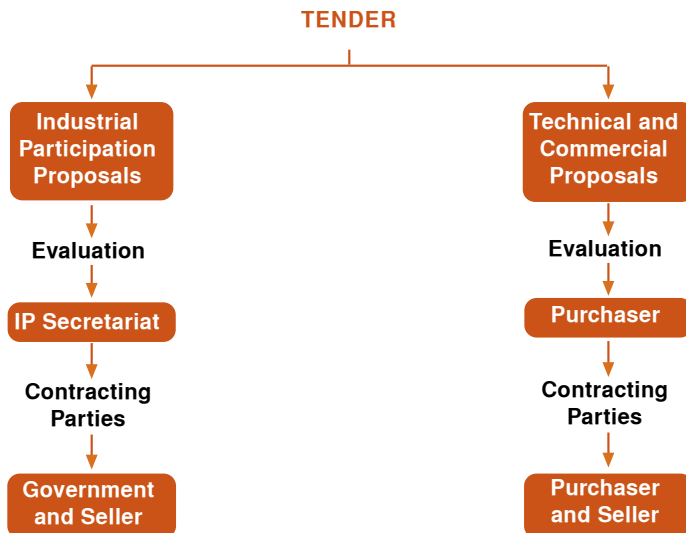
### **Responsibility**

The fulfilment of any Industrial Participation Obligation lies solely with the Seller.

## Industrial Participation Arrangements

- Investments
- Joint Ventures
- Sub-Contracting Works
- Licensee Production
- R&D Collaboration
- Export Promotion
- Supply Partnerships with South African Industry.

## Role Definition of Purchaser and IP Secretariat



\* IP is a precondition but not a factor in the adjudication, unless all bids are relatively close

## Procedure

### REQUEST FOR PROPOSAL

This shall include the terms and conditions stipulated  
in the relevant IP guidelines

↓  
IP business proposals by seller

↓  
Evaluation of business proposals

↓  
Approval by IP control committee

↓  
Notification to purchaser that IP obligation has  
been contractually concluded

↓  
Awarding of tender

↓  
Performance and reporting by seller

↓  
Monitoring of performance

↓  
Discharge of IP obligation

### The procedure can be summarised as follows:

- Liaison between IP Secretariat and purchaser regarding IP and the Request for Proposals (RFP)
- Tender invitation to include IP guidelines
- Conclusion of Memorandum of Understanding (MOU)/Confidentiality Agreement
- Seller submits Business Concepts to IP Secretariat
- Seller submits Business Plans to IP Secretariat
- Discussions with IP Secretariat regarding Business Concepts



- Evaluation of Business Plans by IP Secretariat
- IP Secretariat recommendation to Control Committee
- Decision by IP Control Committee (further discussions if Control Committee disapproves Business Proposals)
- Conditional IP Agreements between IP Secretariat (**dti**) and seller will be concluded
- Notification to the purchaser that the prospective seller has complied with it's IP Obligation. Purchaser would now be in a position to award the contract
- IP Obligation becomes effective when the purchase contract is concluded
- Bi-annual progress reports are required from the seller
- Department of Trade and Industry will initiate audits if and when required
- Independent Audit Reports are required from the seller annually
- IP Credits will be allocated upon performance
- The decision regarding IP Credits will be communicated to the seller together with a report on the status of the seller's IP Obligation
- Upon fulfilment of the IP Obligation, the seller will be notified in writing and in so doing, be discharged of the Obligation.

## The Role and Responsibilities of the IP Secretariat and IP Control Committee

### **IP Secretariat responsibilities**

#### **The responsibilities of the Secretariat are the following:**

Keeping track of all relevant transactions in South Africa which have IP potential

- Assist, guide and advise sellers in the fulfilment of their IP obligations
- Negotiate and evaluate IP Proposals
- Make recommendations regarding IP to the Industrial Participation Control Committee (IPCC) for its approval
- Conclude IP Contracts
- Administer and audit the performance of all IP Projects

- Prepare status/performance reports for the IPCC that support or do not support the allocation of credits or penalties
- Submit an annual report containing information concerning all the activities of the Secretariat and progress with all IP Obligations/Agreements to the IPCC
- Assist the IPCC with its functions and where possible disseminate all decisions of the latter to all relevant parties.

### **IP Control Committee responsibilities**

The IP Control Committee has as its quorum the Departments of Finance, Trade and Industry, Foreign Affairs, Defence and the purchaser.

### **The responsibilities of the IP Control Committee are the following:**

- Provide strategic guidance and approve guidelines for the National Industrial Participation Programme
- Ensure, with the assistance of the Industrial Participation Secretariat, that all relevant government offices and parastatals are aware and enforce their obligations related to the National Industrial Participation Programme
- Review, comment and decide on recommendations made by the IPS regarding IP Proposals at prospective sellers
- Evaluate the performance reports, as supplied by the IP Secretariat and award credits or penalties where justified
- Ensure that all relevant IP Agreements are monitored and audited by the IP Secretariat on a regular basis
- The PIC will meet as often as circumstances require, but at least every two months.

## IP Contractual Agreements

### Confidentiality Agreement/MOU

Commitment to participating within the parameters of the IP Programme and to respect the confidentiality of the discussions and negotiations that transpires between parties.

### IP Casual Agreement

- Conditional upon winning the tender
- Linked to a single tender
- Surplus credits can be banked for discharging a future obligation as follows:
  - Valid for four years after discharge date
  - Only 50% of the new obligation can be satisfied with banked credits
- Performance Guarantee (5%).

### Strategic Partnership Agreements (SPA)

- Long-term agreement between government and supplier
- Not linked to a single tender – can accommodate multiple tenders over a ten year period
- IP Obligation can be offset by SPA providing the SPA's proposed projects exceed the IP Obligation
- SPA must be export biased – at least 60% of revenue/turnover must be from export business
- Banked credits can be used to discharge future obligations without restrictions
- All other conditions remain the same.

## Evaluation/Crediting methodology

Business plans/proposals will be evaluated and possible credits will be indicated. Credits will only be awarded upon successful performance. The following are the methods used to award credits:

### Investment, JV, Sub-Contracting Works, Licensee Production

Objective	Methodology	Factor
Sustainable Economic Growth	Revenue accumulated over the fulfilment period	1 Unit = 1 Credit
Export Promotion	Export Revenues = Additional Credits	1 Unit = 1 + LC*
Job Creation	Salaries & Wages costs accumulated over the fulfilment period	1 Unit = 1 Credit
Training & Development	Training & Development costs accumulated over the fulfilment period	1 Unit = 1 Credit
SMME promotion	Outsourcing to SMME's	1 Unit = 1 Credit
Historically Disadvantaged Individuals (HDI)	Outsourcing to HDI SMME's	1 Unit = 2 Credits
Investment	Capital outlay or capital injections	1 Unit = 2 Credits
R&D Expenses	All costs	1 Unit = 2 Credits
Technology Transfer	On a case by case basis linked to revenues	1 Unit = 1 Credit

\*LC = Local Content

### Example: Income and Expenditure Statement

	1998	1999	2000	2001	2002	Credits
<b>INCOME</b>						
Sales:						
Domestic	-	2000	3400	4200	4200	13800
Exports *(I+LC) 75%		3100	6000	6600	6600	39025
HDI Ownership (%xRev) 30%	-	1530	2820	3240	3240	10830
<b>EXPENDITURE</b>						
Land and Building (x2)	5000					10000
Plant and Equipment (x2)	6000	1000				14000
Tooling (x2)	3000	500				7000
Other Set-Up Costs (x2)	500					1000
Material Costs	190	1200	1690	2040	2040	
Utilities etc.	30	150	170	190	190	
Salaries & Wages (x1)	760	2520	2570	2630	2630	11110
Training and Development (x1)	50	200	300	300	300	1150
<b>SERVICES</b>						
Transportation/Shipping (x1)		70	50	160	160	540
Security (x2)	10	80	120	150	150	1020
Auditing (x2)	10	50	80	100	100	680
Technical Services (x1) etc.	10	300	480	550	550	1890
Consulting Fees (x2)	70	450	400	370	370	3320
Marketing Expenses	20	200	250	200	200	
R&D Expenses (x2)	60	150	200	220	220	1700
Sundries	10	60	60	60	60	
<b>OPERATING INCOME</b>	-15720	-1830	2930	3830	3830	
Less: Taxation	-	-	1025	1340	1340	
Interest	-	-	-	-	-	
<b>NET INCOME/LOSS</b>	-15720	-1830	1905	2490	2490	117065

\*LC = Local Content

## Export Promotion

	Year 1	Year 2	Year 3	Year 4	Year 5	Credits
Annual Exports	60	100	200	250	260	
100% Local Content	(60x100%x2)	(100x100%x2)	(200x100%x2)	(250x100%x2)	(260x100%x2)	
IP Credits Per Annum	120	200	400	500	520	
IP Credits Accumulation	120	320	720	1220	1740	1740
60% Local Content	(60x60%x2)	(100x60%x2)	(200x60%x2)	(250x60%x2)	(260x60%x2)	
IP Credits per Annum	72	120	240	300	312	
IP Credits Accumulation	72	192	432	732	1044	1044

## Sourcing Arrangements for Export Markets

	Year 1	Year 2	Year 3	Year 4
Purchases (Local content 100%)	1000	2000	4000	5000
Credits per Annum	1000 x 2 = 2000	2000 x 2 = 4000	4000 x 2 = 8000	5000 x 2 = 10000
Accumulation	2000	6000	14000	24000

## R&D Collaboration with South African Partners

A. All direct costs incurred, x 2

OR

B. All revenues generated after commercialisation, x 2

## Format of Business Concepts and Business Plans

### Business Concepts

- Brief description of products or services
- Broad marketing strategy
- Broad financial projections: sales, cost of sales, profit
- Brief description of the technology/process.

### Business Plan

- Executive Summary
- Description of Business Proposals
  - Legal structure
  - Ownership structure
  - Mission and Objectives
  - Description of products and services to be produced
  - Description of industrial sector, markets and customers
  - Processes, systems, technologies and equipment
  - Detailed employment projections; local and foreign
  - Technology transfer
  - Training
  - Exit mechanisms
- Marketing
  - Marketing research and analysis
  - Marketing strategy
  - Marketing plan
- Financial
  - Pro-forma balance sheet, income statement, cash flow statement
  - IRR, NPV and Payback Period
  - Financial details of project
- References of Recent Successes.

# Industrial Participation Secretariat

**Paul Williams**  
UK Government Advisor



**Patricia Khumalo**  
Team Assistant



**Sipho Zikode**  
Director  
Defence Portfolio



**Costas Angelides**  
Portfolio Manager:  
BAE/SAAB



**Chandrika Jogessar**  
Portfolio Manager:  
Agusta, Thales



**Teresa De Risi**  
Portfolio Manager:  
Thyssen, Ferrostaal







**Lionel October**  
Chief Director  
Industrial Participation Secretariat




**Yonela Solomon**  
Personal Assistant



**Masizake Zimela**  
Director  
Non Defence Portfolio



**William Ramutla**  
Portfolio Manager:  
State Owned Enterprises  
and Departments



**Ramona Muthan**  
Portfolio Manager:  
State Owned Enterprises



**Willem Kriek**  
Portfolio Manager:  
Provincial Governments

