TRADE & INDUSTRIAL POLICY STRATEGIES

POLICY BRIEF: 3/2017

Making the Industrial Parks Revitalisation Programme work for employment and firm growth

OVERVIEW

This policy brief provides an overview of South Africa's Department of Trade and Industry's industrial park revitalisation programme (IPRP). It then highlights some key success factors for implementing successful spatially-targeted industrial development interventions such as industrial parks. Although infrastructure provision is a crucial (and necessary) investment facilitator, other key factors are essential to ensure that such industrial parks fulfil the employment and firm expansion requirements for inclusive growth. These include ensuring that the right implementation partners are selected, ensuring that local and national government play their roles in investment facilitation, and identifying (and supporting) sector-focused growth opportunities.

Trade & Industrial Policy Strategies (TIPS) is a research organisation that facilitates policy development and dialogue across three focus areas: trade and industrial policy, inequality and economic inclusion, and sustainable growth

info@tips.org.za
+27 12 433 9340
www.tips.org.za

Policy Brief by Mbofholowo Tsedu TIPS Senior Researcher

INTRODUCTION

South Africa's Department of Trade and Industry (**the dti**) has launched an Industrial Parks Revitalisation Programme (IPRP) aimed at resuscitating and reviving South Africa's old industrial parks, and equipping them to drive job creation in the manufacturing sector and remove barriers related to market infrastructure for firms.

These industrial parks have often fallen into a state of dysfunction due to neglect, rising crime and vacancies – hence the strong initial focus of the programme on installing and upgrading the security and basic infrastructure.

Across the world, governments have managed to successfully transform their economies towards a path of greater industrial development through massive investment in industrial clusters and parks. In South Africa this is particularly important given the concentration of industrial activity in four urbanised manufacturing regions, namely the Gauteng City Region (which incorporates the metropolitan cities of Johannesburg, Tshwane and Ekurhuleni), the Durban-Pinetown-Pietermaritzburg region of Kwa-Zulu Natal, the south-western Cape region (around Cape Town) and the Port Elizabeth-Uitenhage region in the Eastern Cape. This is mainly a result of apartheid spatial planning, which has continued to contribute to migration from other cities and rural areas.

WHAT ARE THESE INDUSTRIAL PARKS?

The IPRP is a structured programme to revitalise industrial parks located in the old industrial areas across the country, particularly around former homelands, smaller (secondary) towns, townships, distressed mining towns, labour-sending areas and rural areas.

The programme has identified the first 10 state-owned industrial parks[1] to be revitalised through a focus on both the physical infrastructure and other support requirements. The prioritised parks are in Seshego (just outside Polokwane, Limpopo), the Eastern Cape (in Queenstown and Mthatha), the Free State in Botshabelo (about 40kms from the provincial capital Bloemfontein), Babelegi (in Hammanskraal), in North West Province, and one in KwaZulu -Natal (just North of Durban). The revitalisation programme has three phases:

Phase 1: Security infrastructure upgrade, fencing, street lighting, top structures and critical electricity requirements.

Phase 2: Engineering designs and the construction of new roads and the repair of existing roads, bulk water supply and sewage treatment plants or industrial effluent control.

[1] The latest Industrial Policy Action Plan (IPAP), however, cautions that the size of the parks in these regions may be too small to make any rapid and large-scale industrial development impact on targeted regions.

March 2017

Phase 3: Upgrading electricity infrastructure, and building new top structures in line with the expansion programme of the parks.

Phase 4: Developing sustainable industrial clusters in the parks.

As can be seen in Table 1, just under R190 million has been collectively allocated to the various prioritised industrial parks as part of Phase 1[2], benefitting local construction and other service providers. Some of these parks are already operational, such as the Seshego Industrial Park which employs about 1 600 people, hence the focus is on providing a business-friendly environment to enable an efficient way of doing business for existing firms and attracting industrial activity on a larger scale from new firms.

Phase 4 of the IPRP is centred on **the dti's** Cluster Development Programme (CDP), which aims to facilitate and support industrial clusters. The CDP is focused on growing existing firms as industry clusters are usually groups of similar and related firms in a defined geographic area that share common markets, technologies, worker skill needs, and which are often linked by some buyer-seller relationships. IPAP 2016/18 (the dti, 2016b) highlights key intended outcomes of the CDP as including increased inter-firm collaboration, enhanced productivity and increased capacity and capability among cluster firms. The CDP will need to overcome constraints such as mistrust between companies; apprehension from companies about working with government; and limited use of technology.

Complementing the cluster-based approach, sector focus is a key component in determining whether and where industrial clusters can locate or develop. Without an identified sector focus, the CDP risks misallocating resources to the wrong infrastructure, highlighting the importance of collaborating and incorporating private sector involvement and input.

A number of other factors determine the location of industry – key among them being what is produced in the area. These other factors include[3]:

Physical Factors: Heavy industry, for example, needs to be near raw materials such as coal, iron ore and electricity and also needs mass transport such as railways and water transport.

Economic Factors: Certain industries need to be near their markets, e.g. service industries.

Social Factors: Each manufacturing activity requires different amounts of labour, both in terms of quantity and skill levels.

Political Factors: The government may decide where to establish industries (as is the case with the IPRP and other special economic zones – SEZs).

All of these have to be taken into account when considering or implementing spatially-targeted industrial development programmes, but there are some key success factors that can be drawn on to ensure successful implementation that will support firm and employment growth.

[2] *A further R213 million has been set aside for the other parks in Phase 1, covering revitalisation of the Nkowankowa, Ekandustria, Bodirelo, Phuthaditjhaba and Garankuwa Industrial Park.*

[3] *http://learn.mindset.co.za/sites/files/LXL2014/LXL_Gr12Geography_24_Economic%20Geography%20(Secondary%20and%20Tertiary%20Sectors%20)_14Aug2014.pdf*

Table 1: Budget allocation per prioritised industrial park

PROVINCE	INDUSTRIAL PARK	TOTAL APPROVED BUDGET	APPROVED BUDGET 2015/16	APPROVED BUDGET 2016/17
Eastern Cape	**Vulindlela, Mthatha** Eastern Cape Development Corporation	**R 22 723 571**	**R 9 170 000**	**R 11 424 213**
Eastern Cape	**Queenindustria, Queenstown** Chris Hani Development Agency	**R22 500 000**	**R22 500 000**	**R0**
KwaZulu-Natal	**Isithebe** Ithala Bank	**R 49 580 020**	**R 20 000 000**	**R 29 580 020**
Free State	**Botshabelo** Free State Development Corporation (FDC)	**R 24 462 780**	**R 24 462 780**	**R0**
North West	**Babelegi** North West Development Agency (NWDA)	**R 49 341 028**	**R 20 000 000**	**R 29 341 028**
Limpopo	**Seshego** Limpopo Development Agency (LEDA)	**R 21 069 308**	**R 21 069 308**	**R0**

Source: the dti, 2016a

CRUCIAL PROGRAMME SUCCESS FACTORS FOR CONSIDERATION

Some (of the many) mechanisms to achieve industrial development have been identified (See Lin and Monga, 2010 for more on the growth identification and facilitation framework) as focusing on growth opportunities and removing binding constraints to facilitate private firms' entry into growth industries. In taking this approach, government policies should then aim to provide information, compensate for externalities, and coordinate improvements in infrastructure that are required for the private sector to grow. These mechanisms would form part of a broader suite of measures adopted by the state to support the development of industrial capacity.

INFRASTRUCTURE DEVELOPMENT

The National Industrial Policy Framework (NIPF) (see Tsedu, 2015) has a core objective of shifting the focus of economic activity towards historically disadvantaged people and regions, and emphasised the importance of addressing spatial patterns through a focus on delivering industrial infrastructure (especially in underdeveloped areas with latent economic potential). However, as economic development is a dynamic process that requires industrial upgrading and corresponding improvements in infrastructure for firms, the government should play an active role in facilitating such industrial upgrading and infrastructure investments – a key focus area for the IPRP and CDP.

Besides crucial physical infrastructure and incentives, such as cheaper, cleaner energy and low rental fees, greater emphasis has to be placed on other more essential economic infrastructure such as roads and rail linkages and storage facilities if exports are to be targeted.

FIRM GROWTH DETERMINANTS

The determinants of firm growth are usually classified in three dimensions: individual, organisational, and environmental. Individual determinants matter, as entrepreneurs with growth motivation and technical knowledge are more likely to grow their firms (see Zhou and De Wit, 2009). However, organisational determinants also have a profound influence on firm growth, with older firms less likely to grow, and with available financial capital crucial fo firm growth. Given the high failure rates of new entrants in South Africa, there is case to be made for ensuring that the IPRP/CDP takes account of the need to integrate SMEs along with support services into the operation of these parks. Providing incubation and business development support such as technical and managerial skills, business registration, quality assurance, finance and business and market linkage facilitation would allow the parks to attract, support and sustain new firms.

INCENTIVE AND SUPPORT PACKAGES

South African government departments offer an array of incentive schemes to stimulate and facilitate the development of sustainable, competitive enterprises by providing accessible incentives that support national priorities. A variety of incentive schemes seek to support the development or growth of commercially viable and sustainable enterprises through providing either funding or tax relief, thereby ensuring the creation of new and sustainable jobs. Most of the incentives are housed within **the dti**, with a few others in other government departments and agencies such as the Small Enterprise Finance Agency and the Industrial Development Corporation providing financial support. The most important government programmes and incentives supporting industrialisation of the economy are outlined in Table 2.

Table 2: Summary of dti incentive programmes

CLUSTER	INCENTIVE SCHEME
MANUFACTURING INVESTMENT	• 12i Tax Incentive • Automotive Incentive Scheme (AIS) • Aquaculture Development Incentive Programme • Enterprise Investment Programme
COMPETITIVENESS INVESTMENT	• Manufacturing Competitiveness Enhancement Programme (MCEP) • Export Marketing and Investment Assistance (EMIA) • Sector Specific Assistance Scheme (SSAS) • Capital Projects Feasibility Programme (CPFP)
SERVICES INVESTMENT	• Film and Television Production • Business Process Services (BPS)
INDUSTRIAL INNOVATION INVESTMENT CLUSTER	• Support Programme for Industrial Innovation (SPII) • Technology and Human Resources for Industry Programme (THRIP) • Incubator Support Programme (ISP)
INFRASTRUCTURE INVESTMENT	• Critical Infrastructure Programme (CIP) • Special Economic Zones (SEZ)

Source: the dti, 2016c. Note: For more information about the various incentive programmes see https://www.thedti.gov.za/trade_investment/export_incentives.jsp?subthemeid=26 or http://www.investmentincentives.co.za/

The incentives highlighted are also geared towards manufacturing, and attracting both domestic and foreign investment in high value-added manufacturing. It is not clear whether any specific special package of the incentives will be on offer for firms in the parks. However, numerous factors sway a firm's decision to invest, with investment incentives playing a nuanced role. A targeted SME focus would also allow for a pool of capable firms with growth prospects being easily available for incentive support especially around upgrading.

CONCLUSION AND RECOMMENDATIONS

The South African government previously established the Industrial Development Zone (IDZ) programme in 2000, but weaknesses were identified which led to a policy review and the introduction of a new SEZ policy by **the dti** in 2012. The lessons learnt from the IDZ programme were that they had struggled to meet their intended objectives. In particular, they seem to have had little impact on expanding or diversifying South Africa's manufacturing sector or export performance. Moreover, most of the investments were in capital-intensive sectors and have therefore generated relatively few jobs. The IPRP and CDP should avoid some of the same pitfalls, principally by aligning with appropriate policy and implementation frameworks. This brief shows that there are multiple aspects that will need to work seamlessly together for the successful implementation of the programme.

Three key recommendations follow from this analysis:

* **The dti** (and its implementation agencies) must identify growth opportunity sectors and align these to emerging industrial clusters including small-scale manufacturing for the local area, especially where parks are far from export infrastructure. Sectoral focus areas have a significant impact on the type of activities, infrastructure and support services that should be prioritised. This will determine what sort of employment creation opportunities can be exploited and what sort of clusters emerge.

* Following on this is the issue of packaging support services in a way that attracts and assists firms interested or capable of forming and sustaining industrial clusters. The three key areas are infrastructure (specifically the type, scale, provision arrangements and financing of such infrastructure); investment facilitation (through packaging of incentives); and business development and incubation support. The right combination and packaging can ensure that firms can access comprehensive support in pursuit of growth.

* Institutional arrangements around implementation matter. The IPRP (and CDP) currently has a multitude of implementation partners including **the dti**, the Development Bank of Southern Africa, provincial agencies, municipalities and consultants in some cases. This complex arrangement will directly affect the management (and potential success) of the programme and will therefore require the involvement of well-run development and municipal agencies. Such agencies should have the necessary investment facilitation and cluster-oriented management and administration capabilities. Private sector partnerships may prove to be pivotal for ensuring cluster formation and creating linkages for new firms and entrants. With **the dti** acting as a national champion for this programme, it will be necessary to ensure local municipal buy-in and resourcing as the industrial parks will be dependent on municipal support.

REFERENCES

Department of Trade and Industry (the dti), 2016a. *Industrial Parks Revitalization Programme*. Presentation to the Portfolio Committee on Trade and Industry. 12 April 2016. Sourced from the Parliamentary Monitoring Group. Available online at http://pmg.org.za/files/160412Industrial.pptx.

the dti, 2016b. *Industrial Policy Action Plan 2016-18*. Available online at https://www.thedti.gov.za/parliament/2016/IPAP_2016-17.pdf.

the dti, 2016c. *Performance of IDAD Incentives.* Presentation to Portfolio Committee on Trade and Industry Programmes. 16 February 2016. Sourced from the Parliamentary Monitoring Group. Available online at http://pmg.org.za/files/160216IDAD.pptx.

Lin, J.Y. and Monga, C. 2010. *Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change*. The World Bank. Policy Research Working Paper 5313.

Tsedu, M., 2015. *Reflections on the National Industrial Policy Framework and industrial policy implementation in South Africa post-2007*. TIPS Policy Brief. Available online at http://www.tips.org.za/policy-briefs.

Zhou, H. and de Wit, G. 2009. Determinants and dimensions of firm growth. Available online at http://ondernemerschap.panteia.nl/pdf-ez/h200903.pdf.