

Master Plans and industrial policy

OVERVIEW

The relaunch of industrial policy from early 2019 included proposals for Master Plans for priority industries. The Master Plan approach sets a framework for constructive engagement and implementation that can respond to changing circumstances and evidence. This policy brief draws on experience with the development of Master Plans for various sectors as well as the experience of sector strategies in the auto industry to propose a standard methodology for the process.

BACKGROUND AND AIMS

In South Africa, the Master Plan is characterised by three elements:

1. The dual aims of:

- Generating a very short list of key strategic interventions to achieve common aims, including but not limited to growth in production, and
- Establishing a platform for future high-level engagements to address problems in the industry as they arise.

2. A strong evidence base focused on analysis of economic and technological trends in the industry in South Africa and abroad, generating new insights into blockages to growth in the industry as well as options for addressing them.

3. Extensive engagement between government and dominant companies in the industry to reach agreement on the final proposals, using the evidence to help resolve disputes about current trends and potential solutions.

The Master Plan approach sets a framework for constructive engagement and implementation that can respond to changing circumstances and evidence. It should not pressure the partners into unrealistic commitments, but rather establish a common direction and strategic guidelines, with a platform for on-going collaboration, review of progress, and course correction as new information and economic developments indicate.

In this context, experience points to the importance of the following:

- Willingness by both government and the dominant companies to ensure high-level sponsorship and supervision of the project, combined with allocation of sufficient funding, capacity and time to secure both in-depth analyses and genuine agreement on proposals.
- Clarity on the part of government about reasonable objectives for the industry, with unambiguous and efficient mandating processes. The desired outcomes for the Master Plan will vary depending among others on the labour intensity of the industry and its prospects for growth and exports.
- In-depth, objective analysis of the core blockages to growth in the industry, which typically include some combination of trends in foreign and domestic demand; access to competitive technology and industrial finance as well as major inputs; the quality and cost of infrastructure and skills; openness to innovation; and the regulatory framework.
- An understanding of international trends in demand and technology, with case studies of foreign competitors.

MASTER PLAN OBJECTIVES

The core objective of the Master Plan is to ensure that the industry grows rapidly while upgrading its technological base and competitiveness. The plan should also support socio-economic aims when viable and reasonable. These aims centre on:

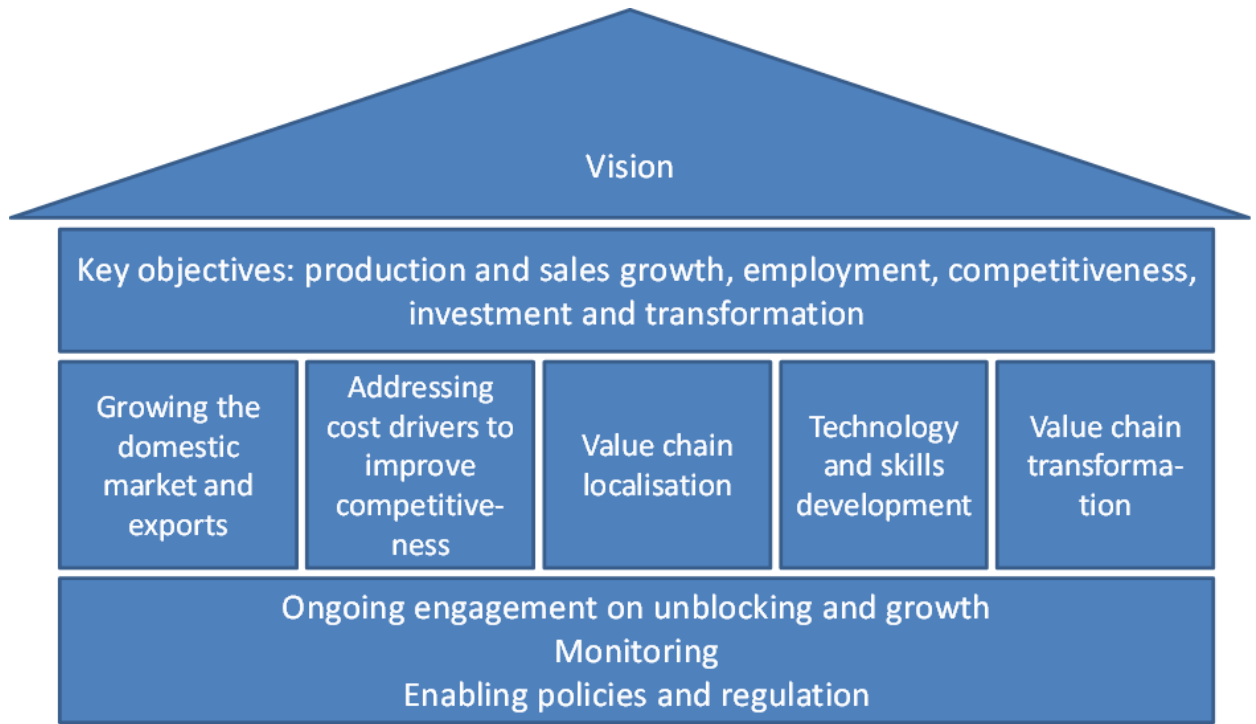
- Job creation;
- Support for small business in the value chain as producers, downstream enterprises and suppliers;

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Figure 1. Elements of the Master Plan



- Increased black ownership, including by workers and communities;
- Increased equality in remuneration and skills as well as improved career mobility for workers;
- Reducing the cost of staple foods and other basic products; and
- Growing the green economy and addressing climate change.

The ability of industries to meet developmental objectives is shaped in part by their technologies and the nature of their products. Objectives for the Master Plan need to be realistic about the potential of the industry to achieve national aims, rather than seeking the same outcomes from every sector. Capital-intensive industries such as refineries, for instance, are important for promoting exports, providing low-cost inputs for downstream producers, and generating tax revenues, but cannot directly provide many jobs. In contrast, light industries such as plastic products can generate substantial employment and provide opportunities for smaller businesses.

At the same time, it is important that the Master Plans promote inclusive industrialisation. Otherwise the project will not be able to mobilise broad support from voters, which in turn will undermine its long-term sustainability.

To date Master Plan development processes have involved significant financial and time contributions from both the public and private sector. Private-sector participation has occurred principally at chief executive level, managed through industry associations.

The diagram above shows the core elements of each Master Plan. The basis for implementation is a high-level task team that brings together government and major businesses to address blockages and constraints on the value chain as they emerge, and to ensure that the benefits of growth are shared in an increasingly equitable and sustainable way.

CAPACITY REQUIREMENTS AND GOVERNANCE

To be effective, with committed implementation by both government and business, the Master Plan process requires high-level buy-in and support, as well as on-going engagements. There is a strong element of evidence-based decision-making through economic analysis, international benchmarking, case studies and stakeholder engagement. These requirements in turn raise the importance of establishing an engagement platform to manage the process as efficiently and collaboratively.

Typically, the process starts with engagement between leadership in government and leading businesses in an industry on the methodology and terms of reference for contracted research. The aim is to secure a clear understanding of the process and commitment to it. Importantly, both sides should provide resources in terms of both high-level leadership and financing. They need to establish a joint working committee at the highest level to facilitate engagement on findings and proposals as they emerge.

Virtually all Master Plans have drawn on considerable outside expertise and research by institutions or

companies with considerable experience in economic analysis for industrial policy. In this context, it would be useful to establish a panel of companies, organisations and individuals with the relevant expertise and experience. The panel should include some relatively junior people, including officials, who can participate in the process under supervision in order to expand the pool of skills for industrial policy development.

MASTER PLAN OUTPUTS

The completed Master Plan is a concise, focused strategy document that briefly itemises key interventions and actions that constitute priorities for unlocking growth and achieving other national aims for the industry. It builds on the following analyses, which aim to identify key blockages; suggest and test innovative options to address them; and generally assist engagements by providing evidence to help resolve disputes over the realities of the industry.

Status quo analysis reports

Two reports on the domestic and global industry provide the main economic analysis to underpin the Master Plan. They draw both on interviews with informants in the industry and on the available data and research. Their crucial role is to evaluate key assumptions made by policymakers and business about core growth trends in the industry as well as about blockages and opportunities.

1. The **domestic analysis** maps the value chain, indicating the scope of the Master Plan; analyses trends in the main outcomes (production, employment, exports, investment, scope for small business); indicates core constraints on both the demand and supply side; and provides a SWOT for the value chain. It builds on the available data and on engagement with industry executives and other stakeholders. It should effectively test common beliefs and experiences in the industry against the evidence, and provide a basis both for designing effective interventions and for testing proposals as they arise in the engagement process.

2. The **global analysis** indicates international trends in demand, production, trade, the cost of key inputs and labour, and technology. The analysis should prove benchmarks for key indicators from other countries, as well as in-depth case studies of competing industries. The case studies should outline trends in production and exports; the factors driving growth in the industry; and the nature of government support. The global analysis should generate new ideas for the South African industry as well as helping to understand its position in international markets.

Development of scenarios and the Master Plan

The development of scenarios and the Master Plan take place together and build on the status quo analysis and on stakeholder engagements. The scenarios are developed to project the impact on the targeted outcomes, especially growth and job creation, in three circumstances: (a) without a Master Plan, (b) with a Master Plan but with slow overall growth in South Africa, and (c) with a Master Plan and at least moderate economic growth.

The scenario analysis should help identify key performance indicators for each value chain. These should assist in monitoring progress and uncovering blockages to support achievement of the core outcomes of the Master Plan. They could relate, for instance, to overall growth in production and exports; the number of small producers; and employment. They should not, however, incorporate detailed and inflexible goals and commitments, which experience shows often leads to conflict and blame rather than a constructive, learning process of implementation.

Developing the Master Plan itself means identifying key objectives and agreement on levers and the engagement platform to achieve them. As a rule, the Master Plan should address each of the pillars in Figure 1, namely:

- Increasing domestic and export sales;
- Addressing the main cost drivers, which vary between value chains but may include for instance infrastructure, technology, skills, finance, raw materials and intermediate inputs;
- Localising production in key phases of the value chain as far as possible, and building on linkages to stimulate investment, growth and job creation and to open opportunities for smaller businesses;
- Upgrading technology and skills; and
- Supporting transformation with developmental aims such as growth in small business; more inclusive ownership whether by individuals, workers or communities; more equitable workplaces; a greener economy; and expanding the production of affordable staple products and services for low-income households.

To be effective, the Master Plan has to include a structure for high-level engagement and oversight, with a commitment by the parties to ensure it is adequately capacitated. The parties must set aside sufficient personnel and time, and establish efficient mandating and dispute-settlement systems to build a responsive and effective process. Experience shows that delays in obtaining mandates and dealing with disagreements are among the greatest threats to the implementation of industrial policy measures.

Figure 2. Example of a format for evaluating the impact of measures on stakeholders

Instrument	Type of impact	Established producers	Actual and potential workers	Small business	Government
	<i>Benefits</i>				
	<i>Costs and risks</i>				

EVALUATION OF MEASURES

The initiatives in the Master Plan should be tested using the Socio-Economic Impact Assessment (SEIAS) approach in order to recognise the possible impacts of the proposed interventions on different stakeholders. Some of those affected may not be directly involved in the development of the Master Plan.

Figure 2 provides an example of how the SEIAS methodology can be used to evaluate Master Plan proposals. The methodology centres on identifying the main affected groups, and an evaluation of the likely costs, benefits and risks for each. The evaluation may be only descriptive if it is not possible to quantify the impacts without excessive delays and assumptions.

CONCLUSIONS AND RISKS

The Master Plan approach provides a framework for high-level, evidence-based engagement on industry strategies. The methodology outlined in this briefing note, which has been used in a number of sectors in South Africa, has to be adapted to the specific circumstances of each industry.

The core elements include:

- Commitment to high-level engagement between government and the dominant companies in the industry, with both sides demonstrating their buy-in by providing sufficient time and funding;

In-depth economic analysis of both domestic and global trends in the industry, centred on identifying

core blockages to growth and other national socio-economic objectives as well as innovative approaches to ameliorating them; and

- Establishing a high-level platform to manage achievement of the desired outcomes through constructive engagement and unblocking of key measures, rather than requiring inflexible and overly detailed commitments from the parties.

The main risks have proven to be:

1. Unwillingness on the part of parties to accept the evidence when it shows that they cannot achieve their desired outcomes immediately. Even if they sign off on the Master Plan, they may then initiate parallel processes that effectively undermine all the parties' commitment to its implementation.
2. Failure to balance the goals of growth and competitiveness, on the one hand, and socio-economic aims, on the other, leading ultimately to resistance to the process from key stakeholders.
3. Inadequate resourcing after the Master Plan is completed, and in particular a failure to schedule high-level oversight meetings with strong participation to drive implementation.
4. Reluctance to modify elements of the Master Plan when conditions change or the implementation process shows that the original ideas were not realistic.
5. Difficulty in securing alignment with the Master Plan across the state and business, especially from parties who were not directly part of the process.

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