TRADE & INDUSTRIAL POLICY STRATEGIES

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Localisation for Industrialisation: Implementation Options and Risks

INTRODUCTION

South Africa has not fully realised the benefits of localisation as a tool for reindustrialisation. A number of issues contribute to this: a) failure to consolidate demand across the state due to fragmentation of procurement plans; b) the influx of cheaper imports which threatened industries such as steel and the clothing, textiles, leather and footwear (CTLF) sector; and c) disagreement on the economic logic of localisation as a tool to support economic growth and reindustrialisation, resulting in fragmented implementation.

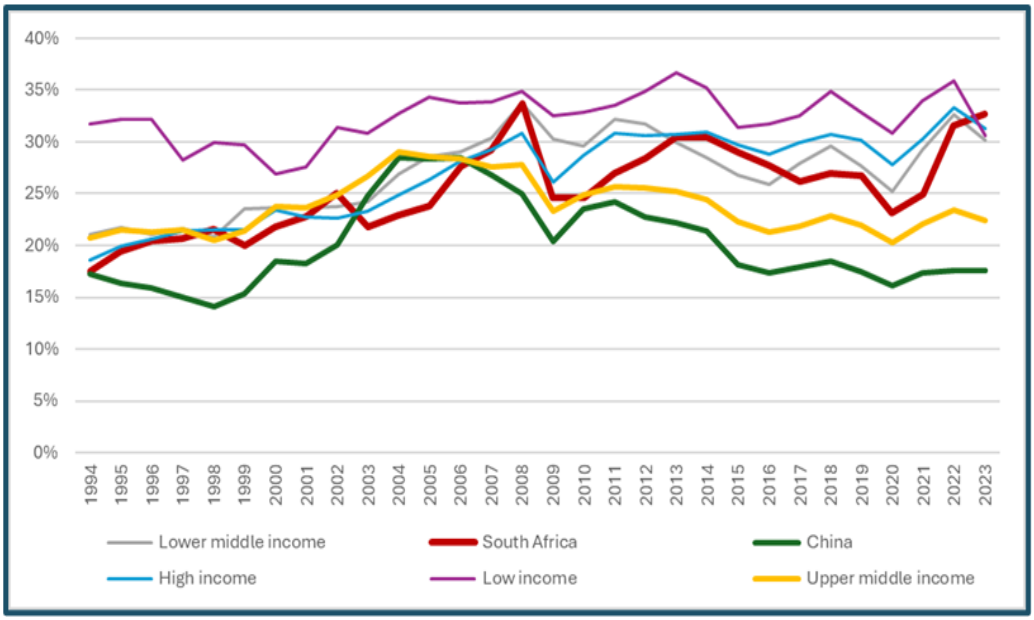
This brief aims to provide an analysis of localisation and procurement in South Africa. Among other issues, this will include analysis of the import intensity in major industries, a review of existing policies and resource allocation for localisation, and propose options for improving outcomes and implementation.

IMPORTS INTENSITY AND OPPORTUNITIES FOR LOCALISATION

This section provides an overview of localisation in South Africa.

South Africa is not an outlier among comparator countries in terms of the import intensity of its gross domestic product (GDP). Still, South Africa's imports as a share of GDP grew from almost a fifth in 1994 to about a third in 2023, with decreases during economic shocks. In contrast, other upper-middle-income countries' imports as a share of GDP remain at around a fifth (peaking at almost a third in the early 2000s, but also affected by economic shocks). Notable perhaps is that high-income countries have a more imports intensive GDP compared to South Africa, surpassed only by low-income countries (see Graph 1). However, the differences in the imports intensity of GDP between South Africa and high-income countries reflect the differences in the developmental history and challenges of these economies.

Graph 1: South Africa's imports of goods and services as a share of GDP compared to China and other upper-middle-income economies and income groups



Source: From Makgetla, 2023:4. *Note:* Updated to 2023 using data from World Bank. World Development indicators. Interactive dataset. Downloaded from www.worldbank.org in August 2024.

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

Author
Nokwanda Maseko
TIPS Senior Economist:

Table 1: Top 10 imports as a share of total annual imports, 2005 and 2023

RANK	HS CODE	PRODUCT LABEL	SHARE OF TOTAL IMPORTS, 2005	HS CODE	PRODUCT LABEL	SHARE OF TOTAL IMPORTS, 2023
	TOP 10 IMPORTS, 2005			TOP 10 IMPORTS, 2023		
1	27090000	Crude oil	12%	**27101230**	Diesel	9%
2	98010030	Automotive components: For motor cars	5%	**27090000**	Crude oil	5%
3	87032390	Cars and related vehicles: Cylinder capacity 1 500 cm3 to 3 000 cm3	3%	**98010030**	Automotive components: For motor cars	4%
4	85252000	Transmission apparatus, for radiotelephony incorporating reception apparatus	3%	**98010040**	Original equipment components: For goods vehicles	3%
5	87032490	Cars and related vehicles: Cylinder capacity exceeding 3000 cm3	2%	**27101202**	Light oils and preparations: Petrol	3%
6	88024000	Aeroplanes and other powered aircraft of an of an unladen weight > 15000 kg (excluding helicop-ters and dirigibles)	2%	**85076000**	Lithium-ion accumulators (excluding spent)	2%
7	98010040	Original equipment components: For goods vehicles	2%	**49070014**	Foreign currency, in circulation, imported	2%
8	84733000	Parts and accessories of automatic data-processing machines or for other machines of heading 8471, n.e.s.	2%	**85171310**	Smartphones for wireless networks	2%
9	71023100	Non-industrial diamonds unworked or simply sawn, cleaved or bruted (excluding industrial diamonds)	1%	**30049099**	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	1%
10	30049000	Medicaments for therapeutic or prophylactic purposes, put up in measured doses	1%	**87032290**	Cars and related vehicles: cylinder capacity 1000 cm3 to 1500 cm3	1%

Source: Calculated based on South African Reserve bank (SARS) data from ITC Trade Map online interactive

The imports intensity of South Africa's GDP reflects broader economic challenges including an inability to compete with cheaper imports and limited domestic production capacity in some industries. This is re-enforced by South Africa's reliance on mining exports compared to peer economies. Revenue from exports enables imports of manufactured goods. The imports intensity of high-income countries reflects higher levels of development that have enabled the relocation of some production capacity to countries such as China in exchange for imports of consumer goods and luxuries.

South Africa's imports have almost quadrupled since 1990s, with growth slowed by the global financial crisis in 2009. By 2005, imports had grown to more than R900 billion (in constant 2023 terms), buoyed in part by growing auto and petroleum imports. As of 2023, imports had grown to almost R2 trillion. From the list of imported products, South Africa's Top 100 import products account for more than half of the total import value (with slight growth between 2005 and 2023).

The top imports cover industries like petroleum, automotives, mining and earthmoving equipment, electronics and electrical equipment, and renewable energy products, amongst others. Additionally, automotive imports accounted for almost a third of the value of the Top 100 imports (and more than a tenth of total imports[1]), while petroleum products were almost a quarter of the Top 100 value, based on trade data. In 2023 the value of petroleum imports surpassed that of automotive imports[2] . Imports include goods for final consumption and intermediate products for use in local production or assembly, and in the repairs and maintenance. For instance, although there have been increasing imports of fully built-up cars over the past decades, there have also been increases of intermediate products. Intermediate automotive imports accounted for about 70% of total automotive imports in the Top 100 list in 2023, up from slightly less than two thirds in 2005. A similar trend is noted in the other imports. Table 1 on page 2 shows the Top 10 imports for 2005 and 2023, as well as their share of total imports.

Apart from fully built-up cars, petrol, smartphones and other electronics, most of the products in the Top 100 are for use in industrial processes including the manufacture of other products, as well as for use in mining and agriculture for instance.[3] As such, only a limited number of these products fall within the designated products and sectors. In 2023, the only designated products in the Top 100 were set-top boxes[4] and t-shirts, with a combined import value of R20 billion (2% of Top 100 imports). Further to the limited number of designated products within the Top 100, some imports are procured by households, business and the state, which muddies the waters in estimating demand from the state. Given this, the extent of the impact of designation for supporting localisation remains unclear. Nonetheless, opportunities for increased local procurement throughout the state still exist. More so as the state looks to spend almost R1 trillion in infrastructure programmes across a number of sectors and levels of government over the Medium-Term Expenditure Framework (MTEF) period.

[1] This refers to automotive imports falling in the Top 100. There are additional imports falling outside this range, which would increase the share against the total.

[2] The growth in petroleum imports was in part driven by diesel and other petroleum imports, the former due to increased loadshedding going back to 2022, and the latter due to losses in refinery capacity beginning in 2021, and only showing improvements in the first part of 2024.

[3] The quarterly TIPS Import Tracker provides updated data on the Top 100 imports. https://www.tips.org.za/manufacturing-data/tips-import-tracker

[4] The HS code for set-top boxes also includes products like routers, which presumably places the value of set-top box imports far below the R17 billion reported for this HS code.

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Table 2 summarises spending plans based on sector of investment, and disaggregation by level of government. Transport and logistics, energy, and water and sanitation will be the largest recipients of infrastructure investment over the medium term. The investment in transport and logistics covers more than 10 projects aimed at improving toll and non-toll road networks in Limpopo, Free State and KwaZulu-Natal. Some of this expenditure will be for rail freight between Gauteng and Eastern Cape in support of the automotive industry (National Treasury, 2024:149).

In the energy sector, investment has been directed towards improving the electricity grid by increasing the installed renewable energy capacity and expanding transmission lines. These infrastructure investments (excluding investment in services) will total about R900 billion in the medium term, and present potential for increasing local production of the required intermediate goods. Nevertheless, these investments are a decrease, in real terms, from past investments across the state and business (see TIPS Real Economy Bulletin Second Quarter 2024).

In addition to state infrastructure investments that can drive localisation, business has also committed to supporting local procurement by applying local content requirements in production and increasing their procurement of locally produced goods (see for instance the various industry Master Plans). Businesses have also committed to use their procurement systems to support supply chain improvements through supplier development programmes (see Table 3 on page 9).

Table 2: Projected public infrastructure expenditure over the MTEF period, in billions of Rand

	AREA OF EXPENDITURE	MTEF SPEND (R BILLION)
Sector (a)	Energy	204
	Water and sanitation	161
	Transport and logistics	340
	Digital infrastructure	5
	Health	41
	Education	56
	Human settlements	44
	Administration services	28
	Total projected expenditure	**878**
Spending by level of government (b)	National departments	41
	Provincial departments	184
	Local government	214
	Public entities	111
	Public-private partnerships	19
	State-owned companies	375
	Total projected expenditure	**944**

Source: National Treasury, 2024. *Note: (a) Excludes spending estimates for various services; (b) Includes spending for services excluded as per (a).*

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The imports intensity of South Africa's GDP is in line with peer economies. This still presents both a challenge and an opportunity for local producers and consumers. A challenge because the import of final goods increases competition for local producers that might be unable to compete with imports, but also an opportunity for producers to identify goods with large local demand that they target for localisation. This requires financial and other commitments from both the state and business to increase demand and production of local goods, including using infrastructure programmes to build local supply chains that can supply the necessary goods, and also compete in export markets.

OVERVIEW OF LOCALISATION POLICY AND RESOURCING

This section discusses the aims of localisation in South Africa, and looks at various tools used to implement the policy. The section then evaluates some of the resources for implementation.

Localisation efforts have shifted focus post-1994 to incorporate objectives like inclusive employment creation, building industrial capacity and growing the economy (the dtic, 2021:1). Nonetheless, among other issues, ongoing debates about the economic logic of localisation (see Makgetla, 2023:3-10), and fragmentation in state procurement have limited the prospective gains from the policy.

Localisation policy

South African adoption of localisation as an industrial policy tool predates the founding of institutions like the Industrial Development Corporation (IDC) and the South African Bureau of Standards (SABS) in the 1940s. Since its founding in 1940, the IDC has provided financial resources for establishing new industries and supporting existing ones with the aim of supporting government's imports replacement strategy for manufactured products for household and industrial use (Levin, 2023:190). Similarly, SABS has supported industrialisation and localisation by developing and maintaining national standards and conducting conformity compliance for a range of industries (SABS, n.d.). Other localisation efforts have been supported through local content requirements and tariff support. For instance, even early on, localisation in the automotive industry was supported through local content requirements, with the target of 66% by mass in later iterations, used in conjunction with high tariffs on built-up vehicles (Barnes, Black, and Monaco, 2018:3; Monaco and Wuttke, 2023:2). Other industries also benefited from this support, including clothing – which until South Africa's trade liberalisation in the early 1990s was among the strongest manufacturing sectors in the country.

Post-apartheid trade liberalisation saw South Africa's localisation policy approach change from use of local content requirements in favour of import-export strategies – for instance, the Motor Industry Development Plan (MIDP). Whereas local content requirements place a target on how much of a final product must be manufactured locally (e.g. 60% of a fully built-up vehicle must be produced locally), import-export complementation allows for manufacturers to earn export credit for local value add on products exported. In turn, these export credits can be used to rebate duties on imports of inputs or final products. Aside from the strategy change in the MIDP, the National Industrial Policy Framework (NIPF) of 2007 continued this shift, with only two mentions of local content made in reference to the MIDP and World Trade Organization provisions. The Industrial Policy Action Plan (IPAP) – published for the first time in 2007 – fared better by setting some targets for the dti[5] to pursue increased localisation across sectors like chemicals and plastics. However, national policy changes like the removal of local content requirements in the MIDP have not always hindered local industry from pursuing such targets. The automotive industry for instance still includes local content requirements – though these largely remain unmet and voluntary (but form part of the core incentive framework, per the production incentives).

[5] *The Department of Trade, Industry and Competition (the dtic) was established in June 2019 with the merger of the departments of Economic Development and Trade and Industry (the dti).*

The IDC has provided financial resources for establishing new industries and supporting existing ones with the aim of supporting government's imports replacement strategy for manufactured products.

As of 2021, the guiding policy document for localisation is the Department of Trade, Industry and Competition policy statement on localisation for jobs and industrial growth

As of 2021, the guiding policy document for localisation is the dtic policy statement on localisation for jobs and industrial growth. The policy statement is in part a response to supply chain disruptions from the COVID-19 pandemic. In addition to building local production capacity, the objectives of localisation as envisioned in the policy statement include building resilience and increasing innovation; improving the competitiveness of local industries; supporting transformation, economic inclusion and jobs for women and youth; and developing jobs in new industries and the green economy.

Efforts to increase production and consumption of locally made goods and services are considered from public sector procurement and private sector procurement. Though aimed at achieving the same objectives, these tools differ in design. The state has scope to require its entities to buy locally made products, although recent challenges and the subsequent amendments require this is done differently than in the past. The private sector local procurement is done either as a licensing requirement or is voluntary (through the Proudly South African initiative, the National Economic Development and Labour Council (Nedlac) local procurement agreement, or Master Plans). The following sub-section provides an overview of these different localisation tools and follows with a summary of the resources allocated to strengthen localisation efforts so local firms supply cost effective and high-quality products ensuring that over time localisation does not raise the cost structure of the economy nor compromise on safety or quality.

Public sector local procurement

Designation

Though designation would have been used much earlier, recent commitments by the government to implement designation as part of supporting localisation can be traced back to the Local Procurement Accord of 2011. Agreement on designation among stakeholders was on the basis that the policy could be supported through the large spending power of the state. The first nine products and sectors were designated in 2012, with the list growing to 28 products and sectors in 2021. Designated products and sectors include rail stock; set-top boxes; steel products; and components for construction and energy-related products, among others. Local content requirements range between 20% and 100% of the final product and apply to companies looking to do business with the state (the dtic, n.d.-a:4-5). The designation policy allowed exemptions per tender in cases where local content requirements could not be met (the dtic, n.d.-b).

Designation continued following the repeal of the 2011 regulations and the introduction of the Preferential Procurement Regulations of 2017. Changes made in the 2017 regulations include the requirement that, when feasible, contracts above R30 million (or minimum of 30% of the contract value) must apply sub-contracting to various designated groups. Nevertheless, the Constitutional Court declared the 2017 regulations unconstitutional, resulting in the 2022 amendments, which took effect in 2023.

Changes include removal of some regulations covering the prequalification criteria, Broad-Based Black Economic Empowerment (BBBEE) requirements for allocating preference points, local production and content, as well as subcontracting, among others. The implication for local content was the removal of designation as a localisation tool. However, the Public Procurement Act No. 28 of 2024 provides a new legal framework in which the minister for the dtic can designate a sector or product for local production based on a new legal standard. With this standard, designation can happen *"…where only locally produced or manufactured goods meet the stipulated minimum threshold for local production and content, taking into account economic and other relevant factors…"* (Parliament, 2024). The provisions of the Act are not yet active and will require regulations before they can be used.

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The state has in recent years also used the competition legislation to support local firms; however, this has been recently challenged and argued to have diminished investment.

Other support for localisation

In addition to designation, other tools to support increased local production include manufacturing incentives (such as grants and tax credits) and related support programmes (provision of technical and business expertise). Different organs of state provide such incentives, including the dtic. Table 3 shows some of the various incentives aimed at supporting local production. The table summarises the main requirements for support, and the kinds of support offered by the relevant institution. Generally, the incentives offered by the dtic, and other organs of state, cover a range of industries and business sizes.

Apart from the different incentives, the state has, as part of its toolkit, tariffs and quotas which can be imposed on imports and exports as part of the support to local manufacturers. Broadly, import tariffs are meant to help with the competitiveness of locally produced goods (at least as it relates to cost) by increasing the cost of goods not sourced locally. An import quota would limit the volume that can be imported for a particular good, with the view to meet demand with local production. Export tariffs can be used to ensure security of supply for local producers. For instance, an export tariff could be applied to an input that local manufacturers need (e.g. an export tariff on steel scrap to ensure security of supply for local steel manufacturers and fabricators).

A range of other support mechanisms exist, including the use of competition policy to protect local production capacity and increase local production (by using public interest conditions on mergers and acquisitions for instance).

Private sector local procurement

The state, through its licensing conditions, can require private firms to support local businesses. These requirements for instance are included in the mining and gambling legislation. The state has in recent years also used the competition legislation to support local firms; however, this has been recently challenged and argued to have diminished investment. Last, the BBBEE requirements have been an important mechanism to support local procurement. The concern, however, has been that the legislation does not distinguish between locally made goods and imports. These requirements have in some cases been shown to disadvantage local firms over imports, as the local producers often have a lower BBBEE scoring than trading companies.

Unlike the above, Proudly South African localisation commitments are not founded in law. Instead, these depend on the decisions made by individual businesses, in part based on the cost or benefit of local procurement weighed against the cost of importing. Further, whereas designation applied to companies doing business with the state (therefore not obliged to supply locally produced goods to non-state actors), Proudly South African localisation efforts generally focus on consumer goods for the general public but can also be implemented by industries and companies working with the state and state entities.

Proudly South African – the membership-based organisation founded in 2001 – has largely been the driver of voluntary commitments for local content. Over the years, the organisation's work has shifted slightly to also include promoting accessibility of locally produced goods and services, with a set target of 50% of the cost of production incurred locally, as well as requiring that imports undergo significant transformation (Proudly South African, 2023:7).

In the past half-decade, the Master Plans have formed part of the private sector localisation strategy, with businesses making commitments to increase local procurement and content, while the state committed to fixing infrastructure, among other areas. The Master Plans include furniture, poultry, Retail-CTFL, steel and the automotive industries. Although this is a long-standing goal, the automotive industry committed to reaching 60% local content for vehicles assembled locally by 2035, up from the current 40% (the dtic, 2018:18).

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The Retail–Clothing Textile Footwear Leather Master Plan commits industry to increasing local CTFL procurement to 65% of retail sales by 2030; and although there is no explicit target, the Furniture Industry Master Plan also commits to support localisation efforts

Similarly, the Retail–Clothing Textile Footwear Leather Master Plan 2030 commits industry to increasing local CTFL procurement to 65% of retail sales by 2030; and although there is no explicit target, the Furniture Industry Master Plan also commits to support localisation efforts (the dtic, 2020:12; the dtic, 2021:15).

Developing and strengthening local supply chains have emerged strongly in the post COVID-19 era, partly as during COVID-19 and the Russian invasion of Ukraine supply chains were disrupted. These, however, are not the only drivers. Short-run cycles, particularly in the clothing retail space as well as consumer demands, have been supported by several South African retailers for locally made clothing products, and also formed part of the R-CTFL Master Plan. Local supply chain strengthening has also formed part of the approach in sectors, such as mining, which prior to 1994 largely had to buy locally and then followed a global sourcing approach with the internationalisation of the sector. In recent years the domestic mining firms have returned to local sourcing especially in dealing with challenges specific to their South African operations, notably deep level mining.

The success – however defined – of the designation and voluntary commitments localisation strategies depends on all stakeholders abiding by their commitments. For the state, this means investment in the required physical and systems infrastructure to create an enabling environment. For business, it requires commitments to integrate into global value chains and also make the necessary investments to build local supply chains.

Resource allocation

This section evaluates the resource and capacity requirements for localisation.

Localisation efforts have, over the decades, required marshalling significant financial and non-financial resources for both business and the state. Part of the resourcing has been for building a new industrial class formerly excluded from the mainstream economy (for instance BBBEE and the Black Industrialists Programme) and capacitating new suppliers (supplier development programmes, for instance). Other resources are cross-cutting (like infrastructure investments, and capacitation and resource allocation for implementation across the state).

Various support programmes have been implemented across different departments to support goals of increasing participation of previously excluded groups in the mainstream economy and in access to industrial policy and employment creation and broader economic growth through support of business, especially small, medium and micro enterprises (SMMEs). The programmes include financial support (and support for business infrastructure like machinery and equipment), technical skills capacitation, as well as access to markets and retails (see Table 3). Aside from state support for increasing local procurement, some private businesses have over the years made commitments (including evaluating procurement policies) to support increased local procurement.

Table 3 summarises selected programmes that provide financial and other resources to support local production initiatives, especially for SMMEs. Aside from the programmes in Table 3, the Competition Commission's support for localisation is through the use of public interest conditions for mergers. The Commission assesses what impact a merger would have on local production and on local resources and inputs. In addition, the Commission includes increased localisation as one of the key remedies for addressing a merger's impact on an industry (Competition Commission, 2024:9-10).

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Table 3: Summary of current localisation resourcing programmes by state and business

PROGRAMME	KEY OBJECTIVES	KEY REQUIREMENTS	SUPPORT
Black Business Supplier Development Programme ***(Department of Small Business Development DSBD)***	• Fast-tracking SMMEs with potential for growth. • Growing Black-owned SMMEs through linkages to corporate and public sector enterprises.	• 51% Black majority shareholding • R250 000 to R35 million turnover per year. • Operational for one year at minimum. Registered for VAT.	Up to R1 million: • R800 000 50:50 cost-sharing for machinery, equipment and tools. • R200 000 80:20 cost-sharing for business development and training.
Small Enterprise Manufacturing Support Programme ***(DSBD)***	• Build a manufacturing sector for an improved industrial base (productive economy) through a focused import replacement programme. • Build the industrial base for both the domestic market and external market (in particular, the African Union market).	• Legally registered entity in terms of the Companies Act, 1973. • 100% South African-owned. • Predominantly Black, women, youth and persons with disabilities owned and managed. • Operation for at least two year prior.	• Technical skills focusing on business management training, certification (SABS and other standards bodies) and lab testing for accreditation through the relevant bodies. • Business infrastructure support. • Facilitating route to market and retail sales.
Strategic Partnership Programme ***(the dtic)***	Encouraging large private sector enterprises and state collaboration to support, nurture and develop SMEs within the partner's supply chain.	• Legally registered in South Africa per the Companies Act. • Minimum turnover of R100 million per annum over two consecutive financial years at least. • BBBEE compliance with valid certificate.	• Cost-sharing between government and strategic partners to provide infrastructure and business development. • Up to R15 million per financial year over three years (subject to availability of funds).
Black Industrialist Scheme ***(the dtic)***	Accelerate the quantitative and qualitative participation of Black industrialists in the national economy, selected manufacturing sectors and value chains; as reflected by their contribution to growth, investment, exports and employment.	• Majority 51% Black industrialist ownership. • Control over the business. • Operating in manufacturing in PAP sectors and re-imagined industrial policy.	Cost-sharing towards: • Capital investment costs/Up to R3 million for feasibility studies and development of a bankable business plan. • Up to R500 000 in post-investment support • Up to R2 million in business development support.
Downstream steel industry competitiveness fund* ***(IDC**)***	To help the steel industry with an interest subsidy with discounts for qualifying clients.	• Start-up or established business. Either: • Achieve BBBEE Level 4 or submit plan to achieve Level 4 within 36 month, or • Be at least 50% Black owned (regardless of BBBEE score), or	• Interest subsidy up to R75 million for SMEs and large businesses with differing pricing models. Guarantees and subsidy on guarantee fees: • Up to R10 million per client for five years, 1% subsidy on guarantee fees up to R1 million per client for five years.

PROGRAMME	KEY OBJECTIVES	KEY REQUIREMENTS	SUPPORT
		• Where funding will increase capacity or employment creation (without monopolising the value chain).	End-user finance Interest rate subsidy: • R1 million–R75 million at 2.5% fixed interest for five years.
Furniture Industry Challenge Fund ***(IDC)***	Assist qualifying businesses in the furniture industry to, among other areas: • Improve competitiveness. • Increase local production within the value chain. • Maintain and or increase employment.	Various, including: • Based in South Africa. • Able to export or compete with imports. • BBBEE Level 4 or able to achieve Level 4 within 36 months of approval. • No retrenchments for duration of access to the facility. • Source at least 50% of inputs locally.	• R20 million per applicant from IDC programme fund (support up to 84 months for plant and equipment and 48 months for working capital). • R20 million in Manufacturing Competitiveness Enhancement Programme (MCEP) funding per applicant (with limit across MCEP sub-funds).
Youth Pipeline Development Programme ***(IDC)***	Improve applicant's readiness to increase probability of consideration by IDC.	• Youth-owned businesses. • Meet IDC sector and funding limits. • Start-up or expansion.	• 50:50 loans and grants. • Prime; repayable after IDC's normal debt, subordinated in terms of cash-flow and security.
Zimele enterprise, supplier and youth development programme ***(Anglo American)***	Helping businesses within and outside the mining value chain to grow, diversify, innovate and respond to buyers' procurement needs.	• Majority (>51%) Black-owned. • Within a mining community or zone of influence supplier. • With existing systems for ethics and good governance. • Able to match business supply chain opportunities.	• Business and financial topics training. • Assistance with developing a growth plan. Link to market opportunities. • Access to supplier roundtables and other workshops.
Enterprise and Supplier Development ***(University of Johannesburg)***	Creating a solid business base for entrepreneurial people and in turn create further employment.	• Unclear, but programme focuses on Black-owned SMMEs.	• Mentorship and access to the Small Business Enrichment Programme. • Managerial skill transfer. • ICT business solutions for existing SMMEs. • Access to user-friendly financial management tools.

Source: From relevant organisation's websites and reports on support programmes. Edited for length and readability, or added as is. *Notes*: * Includes conditions related to turnover as part of the eligibility criteria (except for the end-user subsidy). ** The IDC has for decades provided a range of support measures for different industries for small and large businesses. The institution has also provided funds for distress relief (e.g. the Flood Relief Fund and Unrest Business Recovery Fund). The programmes included are not a comprehensive list of all the institution's support over the years. See Levin (2023:189-207) for more detail on the history of support measures by the IDC.

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VIEWS ON LOCALISATION AND THE NECESSARY SUPPORT MEASURES

There are numerous points of debate regarding localisation. It is generally accepted that localisation can lead to increased costs for both producers and consumers in the short to medium run. The debate essentially centres on the extent of those costs and whether they are offset by long-term benefits from domestic production. In addition, if the costs of localisation are to be internalised by the state, a key question is how long industries can be supported to move beyond the point of infancy?

One view is that localisation is a "*tax on consumption and investment…*" and can affect business drive to innovate given the assurance of a certain level of demand (CDE, 2023:2). Leigland and Eberhard (2018:577) also argue that localisation leads to increased production inefficiencies while increasing the cost of inputs and reducing competition.

Another view is that localisation can lead to increased local production and investment, and result in increased employment and investment and can help reduce input costs such as transport (Makgetla, 2023:8). Maina and Hansen (2023) make a similar argument in support of localisation to support job creation and building of industry in least developed countries. PwC (n.d.) adds that localisation can build resilience across local supply chains to prevent production disruptions like those experienced due to the COVID-19 pandemic.

As part of the support for localisation, it is necessary to assess and address key areas that might hinder manufacturers' ability to take advantage of support measures for increasing local production and consumption. These key areas include, for instance, availability of key infrastructure like functioning roads and rail to ensure cost effective and timely delivery of inputs to producers and final goods to consumers. For instance, the estimated losses from ports disruption in 2023 were at R100 million per day in direct and indirect costs and stranded some 20 vessels for more than two weeks (Creamer, 2023). In addition, Transnet Freight Rail has over the past year increased exports of chrome and ferrochrome through the port of Maputo following agreement with Mozambique's rail authority (McKay, 2023), responding in part to damage to South Africa's rail infrastructure caused by cable and steel thefts. In addition, disruptions in electricity supply affected production, trade and consumption, with significant implications for job creation and economic growth. With more than 300 days of loadshedding between 2022 and 2023, some businesses incurred losses from production disruption, while others increased costs by installing systems to circumvent disruptions (use of diesel generators or installation of renewable energy back-up systems for instance).

Makgetla (2023:8-16) provides a detailed exploration of the economic logic of localisation as well as the key conditions for success. The paper also explores other debates on localisation and other options for industrialisation. Rather than make an argument for and against localisation, it points to where there could be benefits, and what the nature of the blockages and costs would be. From this, the paper notes that the outcomes of localisation rely, for the most part, on the nature of the blockage faced by domestic producers, with these often varying by industry (and therefore require case-by-case assessment), though some might be cross-cutting.

KEY OPTIONS, BENEFICIARIES, COST BEARERS AND RISKS

Building local production capacity has taken and will take more time, in part due to fragmentation in existing support systems aimed at facilitating increased local production. Though a range of public and private sector initiatives exist to foster increased production and consumption, these have not always been successful, nor have they always fostered growth of SMMEs. Building on existing interventions, Table 4 is an overview of various interventions for supporting localisation. It also proposes short-term actions that can be strengthened and aligned to support local production and consumption. The table also explores some of the potential risks and costs.

The outcomes of localisation rely on the nature of the blockage faced by domestic producers, with these often varying by industry (and therefore require case-by-case assessment), though some might be cross-cutting.

Table 4: Proposed policy options and short-term interventions to foster increased local production and consumption

POLICY AREA	INTERVENTION	SHORT-TERM ACTIONS	BENEFICIARIES	RISKS AND COSTS
Public procurement	Designation for organs of state	• Review designation process and ensure compliance with the legal requirements. • Create a clear framework for designating products aligned with state procurement.	• Local manufacturers	• Higher procurement costs for state as industries develop. • New framework not communicated to organs of state and officials not capacitated to ensure compliance.
	Procurement	• Redesigning tenders to disallow specification of brand names by procurers. • Tenders redesigned to align with local production as far as possible.	• Local manufacturers	• Delayed process for standardising tenders to remove specification of brand names and specifications not required for local needs.
	Tendering systems	• Improve systems for communicating call for tenders.	• Local manufacturers	• Financial cost of creating and or improving existing systems. • Risk of privileging certain businesses with access to this information (likely urban and better developed areas).
	Set asides	• Improve monitoring systems to ensure compliance with specified set asides for targeted groups (e.g. 30% of tender procured from SMMEs). • Improve systems to identify where large firms can collaborate with SMMEs.	• Formal and established manufacturers (possible improvement in access to inputs from local value chains) • SMMEs (integration into local value chains, including access to state demand)	• Integration might keep SMMEs entrenched in certain segments of value chain without ability to move up. • SMMEs not properly resourced to take advantage of set-asides, leading to imports.
	Improving systems across levels of government	• Improve systems to communicate regulation and framework changes across all spheres of government. • Adoption of local procurement regulations across	• Local manufacturers • Procuring agencies	• Financial costs of integrating communication and monitoring systems. • Officials increased workload and limited capacity for on-site monitoring.

POLICY AREA	INTERVENTION	SHORT-TERM ACTIONS	BENEFICIARIES	RISKS AND COSTS
		all spheres of government. • Improve systems for monitoring, and actual monitoring to ensure compliance.		• Procuring officials not capacitated on the new systems.
Private procurement	Assessment of local production capacity	• Use available data to assess local production capacity across sectors.	• Local manufacturers	• Available data might not account for informal or small businesses. • Some businesses might consider such information confidential.
	Improving public messaging on local production and consumption (through Proudly South Africa for instance).	• Use Proudly SA and industry bodies' member-ship and forums to promote production and procurement of local goods. • Facilitate visibility of locally produced goods for procurement by households.	• Local manufacturers including small businesses	• Consumers unwilling to increase consumption of locally produced goods. • Creating winners (likely large businesses) and losers (likely SMMEs) through unequal visibility opportunities.
	Investment in business infrastructure in line with technology changes and comply with relevant specifications	• Assessment of new technologies that can improve production. • Assessment of costs for technology adoptions.	• Producers • Consumers	• Added cost of assessments, especially for SMMEs. • Lack of know-how for conducting such assessments (especially for SMMEs). • Cost of adoption too high.
	Improving links between producers and retail	• Improving collaboration between producers and retailers for access to shelf-space. • Improving access for SMMEs and informal businesses.	• Local producers	• Retailers too entrenched in existing supply chains. • Local production not in line with quality and price from existing supply chains.
	Develop supply chains to support local production	• Industry-level assessment of availability of inputs that disrupt production (e.g. textiles for clothing industry). • Identify areas of collaboration across the region where suppliers can provide inputs.	• Local manufacturers • SMMEs • Regional suppliers	• Lack of capacity to conduct the necessary assessments. • Producers apprehensive about collaboration.

POLICY AREA	INTERVENTION	SHORT-TERM ACTIONS	BENEFICIARIES	RISKS AND COSTS
		• Identify existing value chains where participants an be supported and integrated into existing local value chains (e.g. legal metal recyclers that can support foundries and other metal fabricators.		• Difficulty in building and integrating local and regional supply chains.
	Develop supply chains to support local consumption	• Collaboration between producers and retailers to identify and address problems with increasing local procurement (e.g. security of supply, quality). • Identify areas of collaboration between producers and retailers to ensure greater visibility of locally produced goods in stores.	• Local producers • Local consumers (in the case where locally produced goods are as or more price and quality competitive than imports)	• Retailers might be apprehensive about disrupting existing supply chains.
	Improved support for Black-owned businesses (especially SMMEs) including through BBBEE	• Identify (including using existing programmes) potential opportunities for collaboration between Black-owned businesses and formal businesses.	• Local Producers • Black-owned SMMEs	• Apprehension in supporting BBBEE businesses. • Lack of support of Black-owned businesses to grow and integrate into existing and new value chains.
Cross-cutting capacity building measures ***(public and private)***	Capacity building to support local production	• Assess existing programmes to ensure alignment with current needs. • State consolidation of existing (and similar) support measures financial and non-financial) to enable better support of businesses (especially SMMEs). • Improve collaboration with business to facilitate capacity building between large and SMMEs.	• Local producers	• Lack of capacity for conducting assessments. • Apprehension from stakeholders on building collaboration networks. • Potential delays in providing support owing to assessment process.

POLICY AREA	INTERVENTION	SHORT-TERM ACTIONS	BENEFICIARIES	RISKS AND COSTS
		• Build systems for collaboration between DFIs, producers and the state to identify areas of potential growth and where investment could improve out-comes for large producers and SMMEs.		
	Improving institutions and systems to foster industry competitiveness	• Collaboration between public and private sectors and standards bodies (SABS, NRCS) to identify exiting challenges and area of improvement for compliance with standards and specifications. • Develop a framework for identifying new standards and specifications to be integrated into the local system. • Develop a framework to enable improved collaboration between researchers (CSIR, universities), standards bodies and public and private sectors to develop new technologies and build or improve existing standards for these innovations.	• Local producers. • Consumers	• Lack of capacity from relevant stakeholders to facilitate collaboration. • Increases costs for businesses • Delay in setting standards • Lack of willingness from researchers to supply (for sale of licencing) new innovations • Protracted processes for setting standards • New standards too specific to South Africa, therefore hindering export potential.
	Improving use of competition laws to foster growth of local producers.	• Identify areas of improvement in existing public interest conditions that can be legally used by competition authorities. • Develop a framework for identifying industries that can be supported through public interest requirements.	• SMMEs • Large producers	• Limitations in the kinds of public interest conditions that can be introduced. • Lack of capacity to monitor compliance with conditions. • Increased costs from large firms taking legal action to stop implementation of conditions.

POLICY AREA	INTERVENTION	SHORT-TERM ACTIONS	BENEFICIARIES	RISKS AND COSTS
		• Identify areas of concentration where new producers can be assisted to grow and reduce con-centration.		• Delay in implementing conditions by large firms negatively affecting supply chains and businesses meant to receive support.
	Demand-side support measures to foster production and consumption	• Develop consumer incentives. • Identify goods that can support local production (e.g. incentive for solar to increase local production the relevant technologies).	Local producers Local consumers	• Lack of financial resources for consumer incentives. • Structural inequality entrenching access to incentives among a certain class.

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