



the dti



THE DEPARTMENT  
OF TRADE AND INDUSTRY  
SOUTH AFRICA



**REPORT ON PROJECTS OF  
THE NATIONAL INDUSTRIAL  
PARTICIPATION PROGRAMME**

**JUNE 2003**

# *Table of Contents*

## **REPORT ON PROJECTS of THE NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME**

**JUNE 2003**

1.	Executive Summary.....	2
2.	Review of IPS Internal Processes.....	4
3.	Project Review.....	6
4.	The NIPP: Leveraging Growth.....	20
	Appendix A: List of projects.....	31

# EXECUTIVE SUMMARY

## 1. EXECUTIVE SUMMARY

### 1.1 Introduction

Government departments as well as the large parastatals procure a range of goods and services from domestic and foreign suppliers. The Industrial Participation Programme is one of a number of programmes, which leverages procurement and market access to further other social and economic goals. Launched in April 1997, the National Industrial Participation Programme's (NIPP) principal objective is to raise investment levels and increase exports and market access for South African value-added goods and services by leveraging off government procurement. Participation in the Industrial Participation Programme becomes obligatory when the imported content of any public sector purchase exceeds US\$ 10 million.

The size of obligations being monitored at present is approximately US\$ 14 billion and needs to be discharged by 2011 in the case of the defence procurement and 2013 in the case of the SAA's acquisition of Airbus aircraft. Since the programme's launch projects generated investment, sales and exports in excess of US\$1billion. Altogether, at least 5 000 jobs have been created. During the period between March 2002 and January 2003, the Industrial Participation Control Committee approved 134 projects encompassing all sectors outlined in the dti's Integrated Manufacturing Strategy (IMS).

This report on the National Industrial Participation Programme covers the activities of the Industrial Participation Secretariat to end financial year 2002/2003. As requested, this report will mainly focus on providing a detailed report on actual projects that have been facilitated. Given the large number of projects being monitored, only a selected list of strategic projects are covered in the main body of the report. A more comprehensive list of projects is provided in Appendix A. The projects cover both the defence and non-defence sectors and details are provided on the geographic spread of these projects as well as the number of people employed.

### 1.2 Overview of Obligations

Non-defence obligations arose mainly from Telkom tenders and South African Airways purchases. A smaller amount of the obligations arose from purchases by government departments and other state-owned entities. A number of investment and export promotion projects have been initiated as a result of these obligations. Other projects are generated through the Strategic Partnership Agreements (SPAs) pro-actively entered into by potential suppliers. These projects are expected to generate credits to the value of US\$1.5 billion over the next seven (7) years. These projects are mainly located in the aerospace, telecommunications, information technology, and engineering sectors. As indicated in the report, binding agreements for the placement of work and the purchase of locally produced goods between obligors and domestic firms have been signed for most of these projects.

The obligations arising from defence-related purchases needs to be discharged over a n seven (7) or eleven (11) year period and run from 2000 until 2011. More than 45 investment and export projects have been implemented thus far. These projects are expected to generate exports and investments to the value of over US\$6 billion. The planning, construction and installation phases of a number of projects were completed in 2002. Included in this is a number of strategic projects in the automotive and gold beneficiation sectors that commenced production in 2002 and early 2003.

The last bi-annual review meetings indicated that the obligors are on course and that significant investment, export and local sales have been generated. Overall, the performance of defence obligors' implemented projects have been in line with, and in some cases, exceeded their commitments.

It is expected that more investment projects will be initiated before the end of 2003. This will further increase the level of investment, sales and exports generated under this portfolio. Local industry will further benefit from increased foreign direct investment and new foreign market channels that will open up as a result of these new projects.

# CORPORATE GOVERNANCE

## 2. REVIEW OF IPS CORPORATE GOVERNANCE AND CAPACITY

In the past year, the Industrial Participation Secretariat continued improving the internal administrative processes as per the recommendations of the joint report into the SDP, the Auditor-General and Price Waterhouse Coopers (PWC). The capacity of the IPS was strengthened with the appointment of two additional employees at different levels. This action was necessitated by the increased workload as a result of the South African Airways purchases of the airbus aircraft and the pending purchase by Spoornet of locomotives, the Spoornet Main Line Locomotives Investment Programme (SMLLIP).

In line with the recommendations of the Joint Report on the SDP, the dti engaged the services of independent legal advisors to provide an opinion pertaining to the controls in respect of the effective implementation of the NIPP and Defence Industrial Participation (DIP) programmes to ensure that prime suppliers fully meet their obligations as contained in the relevant agreements. The legal opinion concurs with our view that the remedies available to the South African government in terms of the contracts are consistent with international practice.

The first phase of the industrial participation electronic database was completed in December 2002. This allows the IPS staff to electronically update information about obligors and companies with strategic partnership agreements. It also enables real time reports on the status of the projects to be printed. Increased efficiencies and controls are expected as a result of the electronic system. The next phase will be undertaken during the financial year 2003/2004 and will include decision support system, control and risk management facilities and improvement to the user friendliness of the system.

The IPS held workshops to review the National Industrial Participation Programme and the guidelines for better efficiencies and to align its objectives and principles with government's key focus growth areas. The review will be completed in the second quarter of 2003.

Across all activities of IPS, consideration is taken of risks and corporate governance issues. Control measures that have been put in place are continuously reviewed to incorporate changing circumstances, if any. The risk management process occurs at all levels. Social, environmental and ethical risks are an integral part of that shared responsibility. The IPS makes use of the recommendations of internal and external auditors, which conduct regular reviews of risk management as part of their yearly audit.

Corporate governance is at the core of IPS operations and as part of its normal risk management responsibility, the IPS regularly monitors issues, which impact on it's responsibility. In addition to the code of conduct required of all dti employees and the disclosure requirements of senior managers, members of the IPS and the Industrial Participation Control Committee are required to sign confidentiality agreements and to disclose of possible conflict of interests in all the control committee meetings.

# Review of IPS Corporate Governance

The IPS is determined to achieve the highest standards of corporate social responsibility, taking positive steps to maximise the economic and social benefits that can be derived from the Industrial Participation Programme. Particular attention is paid to government's objectives of equity and geographic spread by encouraging IP projects to include historically disadvantaged South Africans.

# PROJECT REVIEW

## 3. PROJECT REVIEW

The performance of the obligors is monitored through six monthly reports and review meetings as well as regular project site visits by IPS personnel and dti industry experts. A number of site visits have been conducted over the past year to monitor the progress made on IP Projects. Where necessary, use is made of other experts from institutions such as the CSIR and Mintek. Corrective action is normally taken in respect of any potential problems identified.

In addition to the above measures, all the contracts signed with the SDP obligors and new contracts signed since November 2002 include specific milestones that must be achieved. These milestones are set at regular intervals to enable a tight monitoring of the performance of each obligor towards fulfilling its obligation.

In terms of industrial participation policy all projects approved under the IP programme must be commercially viable and must be able to continue business even when the obligations have been fulfilled. This is to avoid the creation of "white elephants".

### 3.1 SELECTED AGUSTA PROJECTS

Agusta's links with high-tech international companies in Italy has enabled the transfer of state of the art technology equipment to local companies. This technology transfer is always accompanied by technical training to increase the skills of local employees. An added benefit of this link with international companies is the off-take agreement (guaranteed export earnings), which accompanies such an investment. Two of the Agusta projects are briefly described below.

#### 3.1.1 Filk Gold Chains



*Filk gold chain facility for the local manufacture of gold jewellery, mainly for exports*

A joint venture between Filk SpA (Italian) and Oro Africa (local) was set up for the manufacture and export of gold jewellery. The new company, Filk Gold Chains South Africa was set up in July 1999. New high-tech machinery for speeding up the processes was bought and technical training for using these machines has been conducted. The project is located in Cape Town in the Western Cape, employs approximately 50 persons and generates approximately US\$26 million p.a. in revenue, where at least 80% is exported to major markets in the USA and the UK.

## 3.1.2 Cape Mohair

This mohair spinning and dyeing company is a venture between Umbala Dyers, Samil, Alpha Tops and Alpha Establishment. The input is the raw mohair wool. Cape Mohair added value to the local clothing and textile industry by the introduction of a high technology spinning line and fancy twisting line, as well as the dyeing of yarn to produce coloured yarn for export. The yarn dyeing process was previously done overseas due to its sophistication, which is very different from dyeing of other fabrics. This venture helped to prevent the shut down of the factory by producing high value-added products for export to overseas customers. Based in the Eastern Cape, the facility employs 90 people, (60 in the spinning facility with further 30 in the dyeing facility) and generates revenues of about US\$2million per annum.



*Cape Mohair: Spinning and Dyeing facility*

## 3.1.3 Other Projects

Agusta will also be implementing three additional projects within the next three months. These projects are the production facility for the manufacture and export of leather seat-cover kits, new investment to improve capacity of an existing plant that manufactures and export high-pressure sensitive tapes and a gold jewellery manufacturing facility in the Free State.



# THALES PROJECTS

## 3.2 SELECTED THALES PROJECTS

A number of Thales's projects started in 2000 and they cover a range of areas ranging from manufacturing of solar panels, industrial waste treatment facilities to the manufacturer of carbon fibre wheels for motorcycles. Two of these projects are in Polokwane, with the rest in Western Cape. Two large projects are due to be implemented by the end of the first half of 2003.

### 3.2.1 Tenesa

This is a joint venture between Thales, Tenesa, and Total Energy for the manufacture and assembly of photovoltaic modules (solar panels) for mainly the export market. Tenesa (Pty) Ltd was previously a distribution centre that imported and sold solar panels with no value addition and employed five marketing personnel. The joint venture has enabled the company to add value through assembly and production of solar panels. The solar wafers are imported. Metal strips are soldered onto the wafers and checked. The wafers are joined together on a panel with a glass and plastic sheathing. The air bubbles are removed and the solar panels are cut according to size. The panels are checked for defects using a lamp. Framing occurs thereafter. The panel is then measured in terms of the energy it generates. The wattage is recorded and the panel is labelled accordingly. It is then packaged and ready for export.

Altogether 70 jobs were created at the initial set up and a further 70 jobs were created as a result of the expansion during 2000 and 2001. Estimated revenue per annum is currently around US\$ 20 million p.a.; 95% of production is exported through Thales and Total Energy.



*Local manufacture and assembly of solar panels for export*

### 3.2.2 Silicon Smelter and Silicon Fume Dioxide

In the year 1999/2000, a joint venture between Invensil and Pechiney was created to increase the production efficiency of the three existing furnaces at Silicon Smelters plant at Polokwane, South Africa. This prevented the closing down of the Pietersburg Smelters (now Polokwane Smelters). Presently only furnaces #2 and #3 have been completed. Furnace #1 will be upgraded in the second half of 2003. In the year 2000-2001, Pechiney introduced efficient technologies and training and upgraded the furnaces and the electrode system. New equipment was purchased to produce marketable silica fume for the export market through the introduction of densification technology. Silicon fume was previously dumped on sites.

This project has prevented the retrenchment of 390 employees and created a further 90 jobs. The facility is currently producing about 970 tonnes of silicon metal per annum, where the end users are the Far East, Europe and the USA. Revenue is approximately US\$2.5 million per annum with 95% of revenues from exports. The by-product, silicon fume dioxide, is 100% exported with revenues of approximately US\$1m per year. This project is to undergo further expansion with assistance from Thales.

### 3.2.3 Evertrade Medical Waste Facility

The Evertrade Medical Waste Facility is a health care risk waste company. It is based on best infection control practices and utilises state of the art technology for the management, transportation and processing of such waste in a controlled and ecologically friendly fashion. This venture involves the establishment of several



*Healthcare waste management and manufacture of waste*

waste management facilities and waste bin manufacturing plants around the country for export to Japan, Australia and Mexico. One waste management and bin manufacturing facility has already been established in the Western Cape and production started at the end of January 2002. The company uses advanced injection moulding technology that will enable it to produce products four times faster than existing technologies. The participants in Evertrade, the medical waste company, include a black economic empowerment company

and Steri-Cycle, a Nasdaq listed company; 12 direct jobs and 180 indirect jobs, have been created.