

The National Industrial Participation (NIP)

Revised Guidelines 2013



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA





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Public procurement is widely regarded as one of the principal policy instruments to deepen and expand industrial and economic activity within both developing and developed countries. The extent to which this policy instrument can be leveraged in support of the domestic manufacturing sector is indicated by the fact that in 2012 public procurement amounted to R236,654 billion and constituted 7.4 percentage points of gross domestic product (GDP).

Over the past 15 years, public infrastructure investment by government departments and state-owned companies (SOCs) has been a key driver of investment in South Africa. In 2012, Government adopted a National Infrastructure Plan, which falls under the Presidential Infrastructure Co-ordinating Committee (PICC), and in terms of which public infrastructure investment is projected to be R827 billion over three years, commencing in 2013.

These investments will improve access by South Africans to healthcare facilities, schools, water, sanitation, housing and electrification. Investment in the construction of ports, roads, railway systems, electricity generation and dams will help unblock existing economic development constraints and stimulate faster economic growth.

Recently, a significant portion of public procurement has led to high levels of imports, in some instances without due regard for the need to secure and stimulate domestic manufacturing capacity and increase competitiveness. It is estimated that this figure was R150 billion in the 2010/11 financial year. However, over the last few years, Government has sought to reverse this trend by designing and implementing a set of interlocking and mutually supportive public procurement instruments to support localisation. These are:

- Amended Regulations of the Preferential Public Procurement Finance Act (PPPFA) that enable the Minister of Trade and Industry to designate sectors for local procurement to a defined threshold. The regulations also enable state institutions to stipulate localisation requirements in tender specifications not designated by the Minister. Clause 9.3 of the amended regulations enables all state departments and entities to design and adjudicate tenders enshrine localisation objectives; and
- The adoption in 2007 of localisation and supplier development through the Competitive Supplier Development Programme (CSDP), which applies to the procurement programmes of SOCs and designed to increase the competitiveness, capacity and capabilities of the local supplier base. The period since 2007 has witnessed substantial progress in the roll-out of this programme in some SOCs.

Further impetus was provided to the drive to support domestic manufacturers in the form of the Procurement Accord, which was adopted in 2011 and commits all the social partners – Government, business, labour and the community constituency – to support localisation.

A further strengthening of the procurement lever was effected in December 2012, when Cabinet approved a revised NIP policy. The Revised Guidelines provide practical effect to Cabinet's decision and are designed to update and strengthen the NIP and align it with the suite of other procurement instruments as well as maintain its core principles and objectives.

The NIP places a statutory obligation on the suppliers of goods and services to Government, that have an imported content of \$10 million and above, to participate in domestic economic activity, by supporting the productive sectors of the economy through any or a combination of investment; export sales, research and development, technology transfer and transformation of the domestic economy, with special emphasis on the manufacturing sector.

The Revised Guidelines have been issued by the Department of Trade and Industry (**the dti**) and are binding on all government departments, spheres of Government and SOCs, unless so exempted by **the dti** under the terms and conditions set out.

The revised NIP policy, together with other procurement policy instruments, is designed to support the production sectors of the economy, with special emphasis on the value-adding, tradable manufacturing sectors. The revised NIP policy is based on lessons learned through implementation of the NIP, and has been the subject of extensive research and significant and ongoing engagement with the private sector.

There has been a sea-change, with respect to the quantity and quality of the procurement instruments that Government has brought to bear in support of the production sectors of the economy as well as the impact of these instruments. Although more needs to be done, I have no doubt that these instruments have had a positive impact and am confident these new measures will further contribute to providing support for the domestic economy and the shared perspective of growing the economy, creating employment and fighting inequality.

I wish to thank all those companies that have participated as NIP partners and those who have assisted in the process to strengthen the Revised Guidelines.

A handwritten signature in black ink, appearing to read 'R. Davies', with a stylized flourish at the end.

Dr Rob Davies, MP
Minister of Trade and Industry



LIST OF ACRONYMS

APDP	Automotive Production Development Programme
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CSDP	Competitive Supplier Development Programme
CSP	Customised Sector Programme
CSIR	Council for Scientific and Industrial Research
FDI	Foreign Direct Investment
FET	Further Education and Training
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
IPCC	Industrial Participation Control Committee
IPS	Industrial Participation Secretariat
LED	Local Economic Development
MIDP	Motor Industry Development Plan
NECSA	Nuclear Energy Corporation of South Africa
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
NIPF	National Industrial Policy Framework
NIPP	National Industrial Participation Programme
NIP	National Industrial Participation
NQF	National Qualifications Framework
PPPFA	Preferential Procurement Policy Framework Act
OEM	Original Equipment Manufacturer
R&D	Research and Development
SA	South Africa
SAA	South African Airways
SADC	Southern African Development Community
SAQA	South African Qualifications Authority
SATS	the South African Technical Specification
SDP	Supplier Development Programme
SETA	Sector Education and Training Authority
SMME	Small, Medium and Micro Enterprises
SOC	State-Owned Company
the dti	The Department of Trade and Industry
ZAR	South African Rand

DEFINITIONS

The following definitions and interpretations apply to the National Industrial Participation (NIP) programme and may not necessarily carry the same meaning as used internationally or elsewhere.

Direct NIP

Direct NIP refers to local manufacture, value-addition and related services projects that are directly related to the sector or industry from which the public sector procurement contract originates. Direct NIP is the overwhelmingly preferred method for fulfilling industrial participation obligations, particularly in those sectors considered strategic for the country's industrial development objectives and as set out in successive iterations of the IPAP as well as the New Growth Path (NGP).

A clear case setting out why direct NIP cannot be utilised in any particular instance will inform any exemption in this regard.

Indirect NIP

Indirect NIP refers to local manufacture and services projects unrelated to the sector or industry from which the public procurement contract originates. Indirect NIP is not the preferred method for fulfilling industrial participation obligations. Indirect NIP should only be applicable to those areas of public sector procurement where there is neither the capacity nor capability – or reasonable expectation that such capacity and capability could be developed – to support long-term industrial development, but for which there is significant expenditure by public entities. Indirect NIP may only be used under the following conditions:

- (i) To leverage obligations arising from the services industry [leasing contracts and consulting services];
- (ii) To create market access opportunities; and
- (iii) To facilitate access to small-scale capital.

Fleet Procurement

Fleet procurement refers to a programme of procuring capital equipment extending over a longer period, usually a 10 to 15-year procurement programme that involves a relatively long projected working life for which it is essential to maintain an operation or service.

The CSDP and fleet procurement levers overlap and “co-exist” with designation and will be managed accordingly. For this reason, procuring entities are obliged to indicate in their tender documents the procurement lever that is applicable for each tender, and notify **the dti** and DPE of such a stipulation.

NIP Credit

A factor used to adjust the transaction value of NIP-related financial transactions for purposes of determining and measuring the performance of NIP projects. NIP credits may be used to either reduce the NIP obligation or be banked for use in the fulfilment of any future NIP obligations.

Local Sales

Local sales refer to the value of sale of goods and services generated by NIP projects for purposes of fulfilling NIP obligations. Sales to countries within the Southern African Customs Union (SACU) are considered to be local sales.

Export Sales

Export sales refer to the value of sale of goods and services generated by NIP projects for purposes of fulfilling NIP obligations. This definition relates to sales outside of SACU. For the purposes of calculating NIP credits, a formula $[1 + \text{local content}]$ is used, where export sales is a result of the obligor investment in the NIP project, while a formula $[\text{local content} \times 2]$ is used where market access is the only role of the NIP obligor in the project.

Value Added

Value addition refers to the activities that contribute to the variation of product shape, form, use and monetary value and have changed through some value-added process, e.g. software reconfiguration, software integration, assembly or manufacturing process. Sales and Marketing activities or any other similar type of services are not considered for NIP credits.

Local Content

Local content means the total tender price less the imported content. It is expressed as a percentage of the total price of a product, taking into account the cost of each of the components that are used in the manufacture of such product, and is calculated in accordance with the South African Technical Specification [SATS 1286:2011].

Imported Content

Imported content is defined as that portion of a tender price represented by:

- (a) The cost of imported components; and
- (b) The cost of parts or materials that have been or are still to be imported (whether by the suppliers or the supplier's subcontractors or any other third party), the cost of which is inclusive of the costs incurred abroad, plus freight and other importation costs.

Investment

Investment is classified as the amount of capital, whether in the form of equity or loan financing, injected into the project or business, for the purposes of buying assets and other set-up costs. For NIP purposes, investment is classified under the following categories:

- (i) Greenfield investment: Business ventures where capital is employed to create new "start-up" facilities for a business in a location where there are no existing facilities of the same type owned by the obligor.
- (ii) Brownfield investment: Business ventures where existing facilities are purchased for the purposes of introducing new products, services or expanding the facility to provide for an increase in product or service demands. This includes investment that is aimed at upgrading facilities for purposes of increasing competitiveness and access to new markets.

Job Creation

Job creation refers to the number of new direct jobs that are created or the number of jobs retained as a result of the NIP project. In the case of jobs retained, the onus is on the NIP obligor to prove that jobs would have been lost had it not been for its involvement in the project. The number of persons employed (reflected concretely in the amount paid for salaries and wages) is used in calculating NIP credits.

State-Owned Company (SOC)

A SOC refers to an enterprise that is registered in terms of the Company's Act [Act No. 3 of 2011 as amended] as a company, and either:

- (a) Falls within the meaning of state-owned enterprise (SOE) in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999); or
- (b) Is owned by a municipality, as contemplated in the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000), and is otherwise similar to an enterprise referred to in paragraph (a) above.

Technology Transfer

Technology Transfer refers to the transfer of technology or technical know-how from an owner of the technology to a seeker of that specific technology by means of some form of agreement – licensing, joint venture, strategic alliance, outright sale or mutually acceptable means. In determining the value of technology transfer for purposes of NIP credits, the net present value of the stream of associated economic benefits that are yielded by the technology over its life span will be determined through negotiations. These benefits will include the real value of technology, patents, trademarks, copyrights and other technology-related variables.

Research and Development (R&D)

For NIP purposes, R&D refers to those systematic activities that combine both basis and applied research, that are aimed at discovering solutions to problems or creating new goods and knowledge. R&D may result in ownership of intellectual property such as patents, where the development cost is carried forward, but the cost of basic and applied research is written-off as incurred.

Transformation of the economy

Economic Transformation relates to those NIP activities that seek to support the development and growth of small, medium and micro enterprises (SMMEs), co-operative enterprises, black economic empowerment (BEE), women empowerment, as well as regional development initiatives as set out in a range of government policy documents giving effect to these policy objectives.





1. Introduction

The NIP programme was approved by Cabinet in September 1996 and seeks to build the country's industrial capabilities through the leveraging of public procurement. NIP places an obligation on all suppliers of goods and services to Government to participate in some form of economic activity through any or a combination of the following key objectives: investment to raise production capacity and competitiveness in strategic sectors of the economy; export promotion; R&D collaboration; technology transfer; and acquisition. NIP means that all Government purchases that have an imported content of \$10 million and above are subjected to a NIP obligation, calculated as an equivalent of 30% of the imported portion of the purchase contract. This 30% NIP obligation is fulfilled through local economic activities that have the potential to impact positively on the objectives of NIP.

NIP forms part of the four-tier system of public procurement levers approved by Cabinet in December 2012, i.e. designations in terms of the amended regulations of the PPPFA; the Competitive Supplier Development Programme; Direct NIP and Indirect NIP.

2. The Objectives of the NIP

The objectives of the NIP are to:

- (i) Ensure sustainable economic growth, with particular emphasis on the value-adding, labour-intensive and strategic manufacturing sectors of the economy;
- (ii) Facilitate access to new markets and/or establish new trading partners;
- (iii) Encourage FDI into South Africa, particularly in strategic productive sectors of the economy;
- (iv) Ensure there is technology transfer to South Africa;
- (v) Encourage R&D collaboration and the commercialisation of such new technology in South Africa;
- (vi) Enable and support South African manufacturers to enter global supply value chains (GVCs) of major OEMs;
- (vii) Contribute to sustainable job creation and/or retention; and
- (viii) Support broad-based black economic empowerment and contribute to regional economic decentralisation where possible and appropriate.

3. The NIP Obligation

Subject to exemptions specified in clause 3.5 below, all purchases or lease contracts for goods and services by Government and SOEs with an imported content equal to or exceeding US\$10 million or equivalent value ("the NIP threshold") are subject to a NIP obligation.

Companies with a NIP obligation are required to sign an obligation agreement with **the dti** within a month of signing the purchase agreement with the procuring entity. The obligation agreement governs the relationship between **the dti** and supplier. It defines the NIP obligation value/s, requirements to fulfil the NIP obligation, performance milestones, performance monitoring processes and the NIP credit allocation criteria.

3.1. Types of government contracts

The following types of government contracts will attract NIP if the imported content equals or exceed the NIP threshold:

3.1.1 Single Contracts

This refers to any single contract with the imported content equalling or exceeding the US\$10 million NIP threshold.

3.1.2 Multiple Contracts

This refers to multiple contracts for the same products or services, each with an imported content exceeding US\$3 million, awarded to one seller over a two-year period, which in total equals or exceeds the US\$10 million NIP threshold.

3.1.3 Contracts with Renewable Options

This refers to all contracts with a renewable option clause, where the total value of the imported content would equal or exceed the US\$10 million NIP threshold.

3.1.4 Lease Contracts

This refers to all lease contracts where the total imported cost of the lease equals or exceeds the \$10 million NIP threshold.

3.2. NIP fulfillment period

The fulfillment Period for NIP obligations is 7 years, commencing from the effective date of the NIP obligation. Projects linked to the NIP obligation agreement will carry a life span of 7 years. After this period, any excess credits accumulated will be banked for a further period of 4 years. Banked (excess) credits may be used to discharge 50% of any new obligation.

4. Exemptions from NIP

The following contracts are exempted from NIP:

- All procurements by SOCs that fall under and have been expressly defined as falling under the Competitive Supplier Development Programme, managed by the Department of Public Enterprise, and for which there are Supplier Development Plans (SDPs) in place, which has been made a stipulated criteria for the tender adjudication. Where there are no SDPs in place, NIP will apply; and
- All products, sectors or sub-sectors that are designated for public procurement by the Minister of Trade and Industry in terms of the Amended Regulations of the PPPFA. This exemption does not apply to the whole value of the contract, but specifically to the designated products.

5. Principles of NIP

The criteria for evaluating qualifying NIP business concept are based on the following principles.

5.1. Additionality

All NIP projects must reflect new or incremental business. Investment type projects only qualify for NIP credits if they are either new facilities or the expansion or upgrading of existing facilities. Investment in existing facilities should demonstrate, beyond reasonable doubt, the added benefit of “competitiveness upgrading” accruing from such investments. Export promotion-type projects qualify for NIP credits only if they are either for new or existing products that are introduced into new markets.

5.2. Causality

Causality means that the NIP project must result directly from a NIP obligation, arising from a Government purchase contract. In other words, the obligor would not have initiated or participated in the project had it not been for the NIP programme or a condition of the purchase contract. There must be a clearly identifiable link between the NIP obligation, the obligor and the NIP project. A project submitted under a Strategic Partnership Agreement need not meet this criterion, other than to demonstrate that it has been caused by the involvement of the obligor.

5.3. No Increase in Purchase Price

The NIP obligation must not result in an increase in the price of the purchase contract.

5.4. Sustainability

All NIP projects should be economically and operationally sustainable. Capacity and competitiveness must be created to enable the project to sustain momentum even after the NIP obligation has been discharged.

6. Qualifying NIP Projects

6.1. Investment

Investments that are triggered by a NIP obligation should wherever reasonably possible take the form of a capital injection dedicated to the establishment, expansion or upgrading of a manufacturing facility in South Africa. Investments can also involve a capital outlay that is aimed at creating new or expanding or upgrading service facilities in South Africa.

6.2. Licensee Production

Licensed production refers to the production of goods by a South African firm based on the transfer of technology under direct commercial arrangement between the NIP obligor and the South African firm.

6.3. Export promotion

Export promotion involves the procurement of locally manufactured goods and services by foreign companies. To qualify for NIP credits, these purchases and sales transactions must be for new products and/or new markets. Obligors must

provide documentary proof that the products/services would not have otherwise been exported without direct involvement of the obligor.

6.4. Subcontracting

In the context of NIP, subcontracting refers to the local production of components or parts of a product by a South African firm as part of an agreement between the local firm and the obligor. The subcontracting arrangement does not necessarily involve the licensing of technical information; instead, it may be a direct commercial arrangement between the NIP obligor and the South African local partner/firm.

6.5. Technology Transfer

Technology transfer refers to the transfer of technology or technical know-how from an owner of the technology to a seeker of that specific technology by means of some form of agreement – licensing, joint venture, strategic alliance, outright sale or mutually acceptable means. In determining the value of technology transfer for purposes of NIP credits, the net present value of the stream of associated economic benefits that are yielded by the technology over its life span will be determined through negotiations. These benefits will include the real value of technology, patents, trademarks, copyrights and other technology-related variables.

6.6. Research and Development (R&D)

For NIP purposes, R&D refers to those systematic activities that combine both basic and applied research aimed at discovering solutions to problems, creating new products/processes or improving existing products/ processes. R&D may result in ownership of intellectual property such as patents, where the development cost is carried forward, but the cost of basic and applied research is written-off as incurred.

7. Non-Qualifying Projects

- 7.1. Business activities that have been submitted and approved for purposes of satisfying the Equity Equivalent requirement under the B-BBEE Act do not qualify for NIP.
- 7.2. Business activities that benefit from the automotive investment scheme do not qualify for NIP. An exception may be allowed, provided that such exemption is informed by a clear case setting out the reasons why a project receiving benefits from the automotive incentive scheme, should also benefit from NIP. This should typically be linked to localisation technologies that are deemed a priority at sectoral level. For example, if the proposed NIP project is seen to be satisfying one of the localisation technologies or activities that are prioritised by the Automotive Supply Chain Competitiveness Initiative (ASCCI) or similar platforms.
- 7.3. Business activities that benefit from the 12i Tax Incentive scheme will not qualify for NIP.

8. General Procedure for Compliance with NIP

To comply with the minimum requirements of NIP, all potential suppliers of goods and services with a foreign content that equals or exceeds the NIP threshold of \$10 million (or equivalent) are required to strictly comply with the following procedure:

8.1. SBD 5 Form

Government procuring entities must include a copy of the SBD 5 Form as one of the eligibility forms/documents to be completed and submitted by bidders submitting government tenders or RFPs.

A copy of this completed form must be submitted to **the dti** upon submission of tender documents. An acknowledgement of receipt will be issued by **the dti**.

8.2. NIP Obligation Agreement

Obligors are required to sign a NIP obligation agreement within a month of the signing of the main purchase agreement.

8.3. Performance Guarantee

Upon signature of the NIP agreement, obligors are required to furnish **the dti** with an acceptable form of performance

guarantee within 90 days of the effective date of the NIP obligation agreement. The following performance guarantees may be accepted:

- **Bank Guarantee**

For the purposes of NIP, the term “Bank Guarantee” refers to an irrevocable commitment by a bank to pay a specified sum of money in the event that the NIP obligor fails to perform on the legally binding undertaking to discharge the NIP obligation to the satisfaction of the Government of South Africa.

- **Company Guarantee**

This refers to an irrevocable commitment by the obligated company or its parent company to pay a specified sum of money in the event that the NIP obligor fails to perform on the promise to discharge the NIP obligation to the satisfaction of the Government of South Africa. This is accepted in circumstances where the obligor can demonstrate a solid financial standing and the ability to meet this commitment.

8.4. Strategic Partnership Agreements (SPA)

SPA refers to an arrangement where companies are allowed to undertake NIP activities in advance and bank NIP credits as defined for future use. The SPA, upon date of signature, will remain valid until the parties agree to terminate. Projects linked to the SPA will carry a life span of ten (10) years. NIP credits carry a limited life span of five (5) years from the date of award and credits that are not used within this period will automatically lapse. Banked NIP credits in the SPA may be used to discharge future NIP obligations.

8.5. NIP Business Concept

The primary purpose of the business concept is to provide a brief overview of the proposed project and preferably be not more than five pages. It is primarily used by the IPS to adjudicate whether the business concept meets the NIP criteria before a company can embark on a more detailed business plan. It should contain the following information:

- A brief description of the type of project, as outlined in section 6;
- A brief description of the products or services;
- A brief description of the technologies, processes and systems to be used;
- The source of raw material inputs and estimated local content;
- The proposed geographic location;
- A clear demonstration of the project's sustainability; and
- Demonstrate concisely how and the extent to which the project will contribute to the objectives set out in section 2.

8.6. NIP Business Plan

A NIP business plan is a document that expresses the purpose and direction of the NIP project, clarifies the growth potential of the project and outlines project deliverables, timelines and resource allocation. At the same time, it should concisely demonstrate the role and commitment of the NIP obligor and the local partner(s) to the NIP project. Where the project involves other participating companies, the business plan must be accompanied by bona fide letters from those companies indicating their support and binding commitment to participate in the project as a NIP project. It should expand on the information provided in the business concept and include the following additional information:

- Partners (companies involved in the project);
- Ownership structure, including the role of the obligor;
- Funding details, where applicable;
- Financial projections, including estimated credit schedules over the lifespan of the project;
- Employment projections, both local and foreign; and
- Demonstrate causality and additionality.

9. Performance Milestones

The economic success of the NIP programme depends on the ability of obligors to identify and implement value-adding business activities in the productive sectors of the economy, including services that meet the NIP criteria. Because of challenges associated with business start-ups and ramp-up phases of projects where commercial production may start at relatively low levels of volume, obligors must observe the following performance milestones in the processes of discharging NIP obligations:

9.1. Milestone 1

Discharge of a minimum of 30% of the aggregate value of the NIP obligation within three years of the effective date of the NIP agreement.

9.2. Milestone 2

Discharge of a minimum of 70% of the aggregate value of the NIP obligation within five years of the effective date of the NIP agreement.

9.3. Milestone 3

Complete discharge of the NIPP obligation within seven years of the effective date of the NIP agreement.

10. Performance Review

10.1. Annual review meetings

The parties must hold annual review meetings, commencing from the effective date of the NIP obligation agreement. The purpose of a NIP review meeting is to assess the obligor's performance against milestone targets as set out in the obligation agreement. This review also assesses the performance of all projects in relation to the achievement of the NIP objectives mentioned in section 2.

10.2. Project site visits

The purpose of a NIP project site visit is to verify the implementation status of the project, new or additional assets, employment records and general management of the project. **the dti** reserves the right to conduct project performance reviews and site visits as and when necessary.

10.3. NIP Credit Claims

NIP project performance stipulations, as projected in the approved business plan, require that the obligor must submit NIP credit claims at least once but no more than two times a year. Such applications for NIP credit claims shall be supported by documentary evidence of performance (certified copies of sales invoices and proof of investment), with written confirmation of such financial transactions by the participating local companies.

10.4. NIP Credit Methodology

10.4.1 Investment Model

Investment related NIP projects are credited with a multiplier of 2 NIP credits. For the investment to earn NIP credits, the NIP obligor must have provided direct funding to the project/s.

This funding must have been used to finance:

- (i) The establishment of a manufacturing facility;
- (ii) Acquisition of capital equipment;
- (iii) Technology-transfer costs; and
- (iv) Where jobs are created as a result of the investment, the cost of salaries and wages of such employees qualify for NIP credits.

In all instances where investment-related NIP credits are claimed, documentary evidence of actual transactions must be produced.

For the purposes of determining and awarding NIP credits for investment-related NIP projects, the criteria outlined in Table 1 will be used.

Table 1: Investment Project

NIP Objective	Crediting Methodology	NIP Credit Multiplier
Sustainable Economic Growth [Local Sales]	Revenues accumulated over the fulfilment period	\$1 = 1 Credit Minimum 40% LC
Export Promotion	Export Revenues = Additional Credits	\$1 = 1+LC* Minimum 40% LC
Job Creation	Cost of Salaries for a specified number of jobs accumulated over the fulfilment period	\$1 = 1 Credit
Training and Development [directly linked to project investment]	Cost of training accumulated over the fulfilment period	\$1 = 1 Credit
SMME** Promotion	Outsourcing to SMMEs	\$1 = 1 Credit
Black Economic Empowerment	Outsourcing to BEE SMMEs	\$1 = 2 Credits
	BEE Ownership % x revenue	\$ x ownership % = Credits
Investment and Technology Transfer	Capital outlay	\$1 = 2 Credits
R&D Expenses	All costs	\$1 = 2 Credits

Table 2: Example of NIP Credits Schedule Based on the Investment Model

	Year 1	Year 2	Year 3	Year 4	Year 5	Credits
INCOME						
Total Sales:		5 100	9 400	10 800	10 800	
Domestic (x1)		2 000	3 400	4 200	4 200	13 800
Exports* (I+LC) - 75% LC		3 100	6 000	6 600	6 600	39 025
BEE Ownership (% x Rev) - 30%		1 530	2 820	3 240	3 240	10 830
EXPENDITURE						
Land and Building (x2)	5 000					10 000
Plant and Equipment (x2)	6 000	1 000				14 000
Tooling (x2)	3 000	500				7 000
Other Set-Up Costs (x2)	500					1 000
Material Costs	190	1 200	1 690	2 040	2 040	
Salaries and Wages (x1)	760	2 520	2 570	2 630	2 630	11 110
Training and Development (x1)	50	200	300	300	300	1 150
Services:						
Transportation/Shipping (x1)		70	150	160	160	540
Security (x2)	10	80	120	150	150	1 020
Auditing (x2)	10	50	80	100	100	680
Technical Services (x1) etc.	10	300	480	550	550	1 890
Consulting Fees (x2)	70	450	400	370	370	3 320
R&D Expenses (x2)	60		200	220	220	1 700
Sundries	10	60	60	60	60	
Total NIP Credits Accumulated						117 065

10.4.2 The Export Promotion Model

Export promotion involves the export of locally manufactured goods. For export-related projects, NIP credits are based on:

- (i) Revenue
- (ii) Local content

Table 3: Export Promotion projects

	Year 1	Year 2	Year 3	Year 4	Year 5	Credits
Annual Export	60	100	200	250	260	
100% Local Content (LC)						
NIP Credits per Annum [Revenue x 100% x 2]	120	200	400	500	520	
NIP Credits Accumulated	120	320	720	1 220	1 740	1 740
60% Local Content						
NIP Credits per Annum [Revenue x 60% x 2]	72	120	240	300	312	
NIP Credits Accumulated	72	192	432	732	1 044	1 044

11. Roles and Responsibilities

11.1. Industrial Participation Secretariat (IPS)

The powers and functions of the IPS are set out as follows:

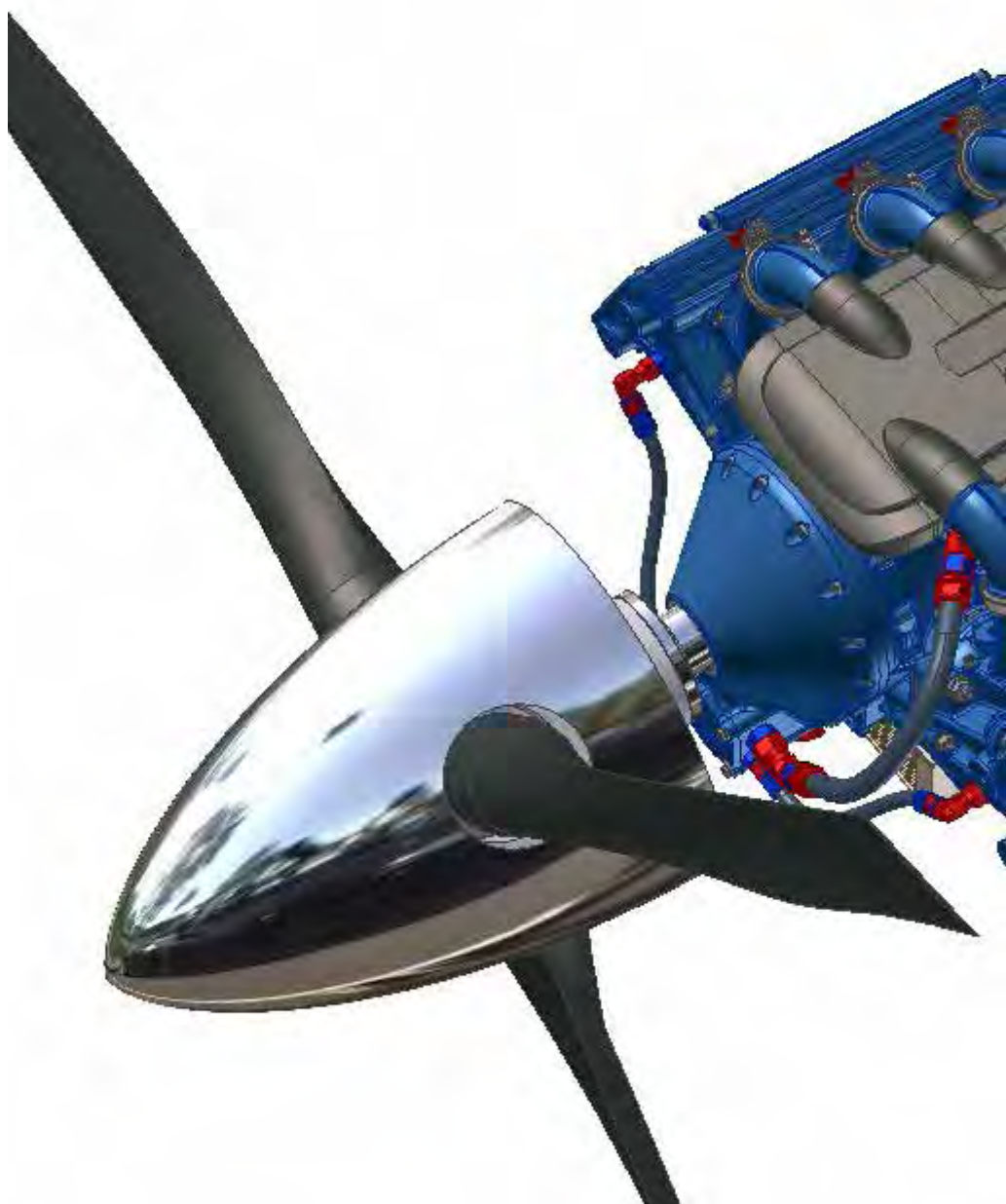
- a) Monitor all relevant procurement transactions in South Africa that do attract NIP obligation;
- b) Assist, guide and advise obligors in the fulfilment of their NIP obligations;
- c) Conclude NIP contracts to secure strict compliance;
- d) Evaluate NIP business concepts prior to submission to the ICC for adjudication;
- e) Submit recommendations regarding NIP business plans to the Industrial Participation Control Committee (IPCC) for approval;
- f) Administer and audit the performance of all NIP projects;
- g) Prepare status/performance reports for the IPCC for the allocation of credits; and
- h) Assist the IPCC with its functions and where possible disseminate all decisions of the latter to all relevant parties.

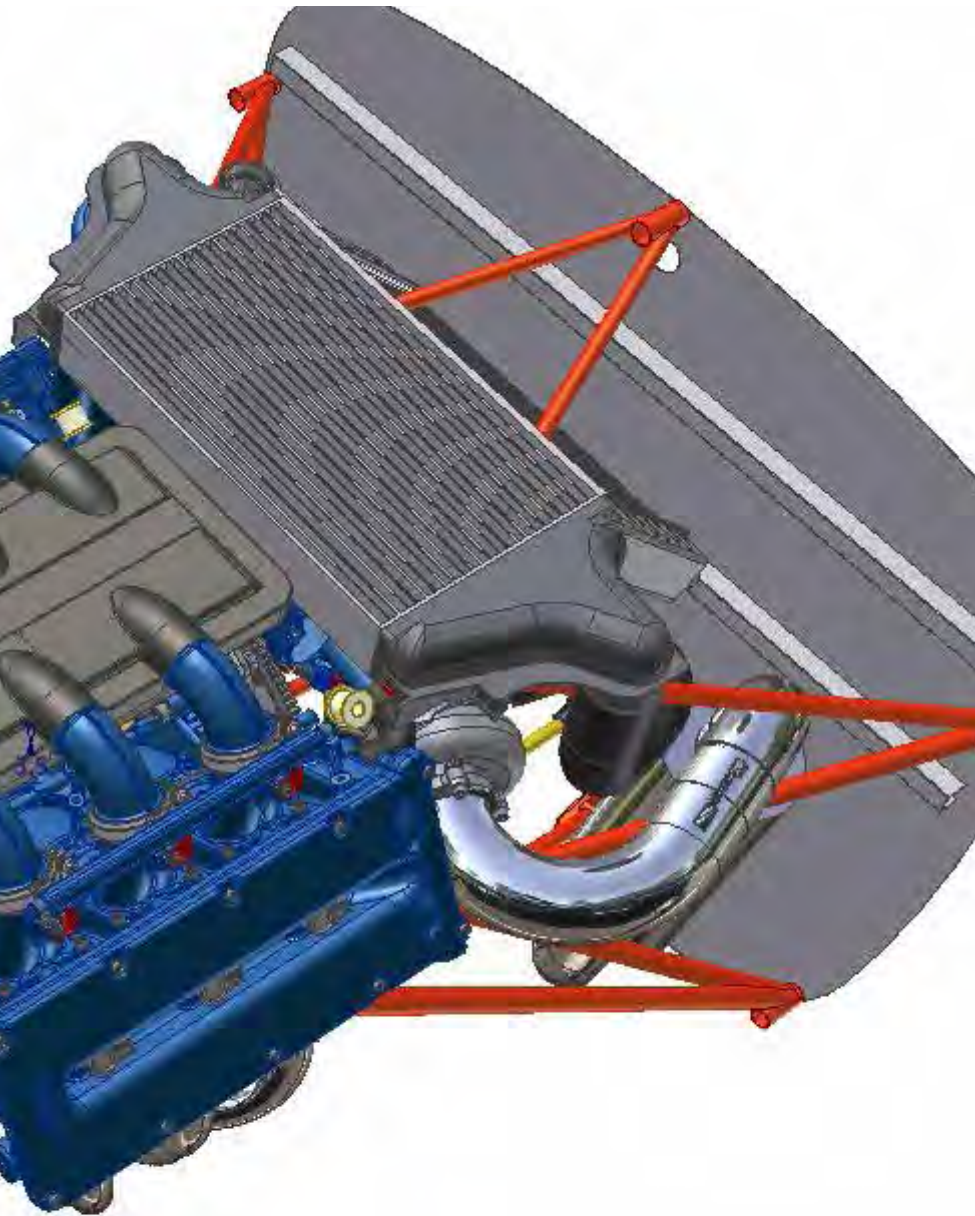
11.2. The Industrial Participation Control Committee (IPCC)

The powers and functions of the IPCC are set out as follows:

- (a) Provide strategic guidance and propose amendments to NIP guidelines, where necessary;
- (b) With the assistance of the Industrial Participation Secretariat (IPS), ensure that all relevant government departments and SOCs are aware and enforce their obligations related to NIP;
- (c) Adjudicate on recommendations made by the IPS regarding NIP business proposals;
- (d) Evaluate the performance reports, as supplied by the IPS, and award credits or invoke penalties where it is justified;
- (e) Ensure that all relevant NIP agreements are monitored and audited by the IPS on a regular basis; and
- (f) Report regularly to the Director-General, the Minister and the Portfolio Committee on Trade and Industry.







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