

Draft Sector / Subsector / Industry Profile Template for Designation in terms of the PPPFA

1. CONSIDERATIONS FOR DESIGNATION OF INDUSTRIES / PRODUCTS IN TERMS OF THE PPPFA

1.1. Section 9 of the revised regulations to the PPPFA empower the DTI to designate certain industries that are of 'critical importance' for local manufacture by organs of state and public entities.

1.2. Considerations which should influence the decision to designate certain industries should include the following considerations

1.3. Alignment with policy objectives particularly where such designation contributes to:

1.3.1. Creation and retention of decent jobs

1.3.2. Advancement of sectors identified as part of the IPAP and Growth Path

1.3.3. Other core policy objectives: promotion of SMME's; geographic spread; technological capabilities **etc.**

1.4. In making such an assessment and in order to inform procurement guidelines, an industry profile must first be developed by the DTI. It should broadly address the following broad questions:

1.4.1. How significant is public procurement in relation to the industry?

1.4.2. What is the existing structure and capacity of the industry?

1.4.3. What role can public procurement play in raising / retaining employment in the industry, sequentially upscaling the industry and raising its competitiveness? Upscaling here implies increases in both the volume of products produced as well as value-added. Competitiveness implies an increasing ability on the industry to compete against imports and possibly move into export markets.

1.4.4. What considerations should National Treasury and procurement officers take into account to ensure that no excessive price premium is paid, in the structure of tenders in specific designated industries?

1.5. Section 2. below sets out the structure, content and indicative data sources for such an industry study.

1.6. Section 3. below sets out some monitoring and evaluation considerations and indicative proposals.

2. INDUSTRY PROFILE STUDY

2.1. Significance of public procurement for the industry

The higher the existing or potential level of public procurement, the greater the impact will be of designating an industry in terms of employment and value-added. Therefore, the aim of this section should be to demonstrate that there is significant demand for the particular product by government. To demonstrate this the section should at least address the following:

- This section should adequately define/identify the product that is to be designated. The designation is for a product and not sub-sectors or sectors. There are a variety of 'product items' within a 'product space'. A product space defines product items with generally similar functionality; but may have different quality-price combos or may be made for a particular market segment. Therefore a distinction must be made between the product item and the product space.
- The extent of demand from public entities must be established in absolute value as well as relative terms. All public entities that procure the items must be identified and discussed in this section. In particular, a detailed historical record (at least three financial years) of the quantities and values procured by a particular public

entity must be established. The following points provide further clarity.

- The data required to measure demand should be expenditure data for all public entities that procure the particular product. This data should look at expenditure trends over at least the past three financial years. More specifically, the data should indicate whether or not the product is procurable on a fleet as opposed to an ad hoc basis.
- This section should also provide a comparison between actual and projected expenditure. This comparison would prove useful in assessing the accuracy of projected expenditure figures which in turn will be useful in determining the future demand for a particular product.

Data sources:

- *National Treasury, including Budget and Expenditure documents, database of contracts exceeding R100k.*
- *Specific government departments / SOES*

2.2. Industry structure

2.2.1 Domestic production and employment

This section should provide an overview of the magnitude of local production, employment and the manner in which production is organized horizontally and vertically. In particular, this section should seek to address the following:

- Estimate of number of domestic manufacturers in the industry

- Existing and potential levels of output (volume and value where appropriate), sales, value-added and capacity
- Existing and potential employment levels
- Levels of industry concentration and competition, including identification of the large / lead / dominant firms in the industry, with information disaggregated by firm where possible
- The reason for certain employment and output trends
- The key inputs into the product's production

Data sources:

- *Statistics South Africa SIC data (accessible via Quantec)*
- *Industry associations*
- *Bargaining councils*
- *Mcgregor's Who owns Whom*
- *Further information collected by sector desks*

2.2.2 Imports

It is important that this section address the following:

- Import volumes and values
- Percentage import penetration
- Identify the components used to produce/manufacture the product. Determine which components are imported and those manufactured locally. Identify whether the imported components are produced locally or whether they can be produced locally.
- Provide the unit average price of imported components and locally manufactured components.
- Discuss the magnitude and evolution of imports in absolute and relative terms
- Discuss key import supplying markets - size, products, trends

- Discuss the nature of import competition with local products. What is the basis of competition? Is it price or quality?
- Import volumes and values (last decade) also by origin

Data sources:

- *Customs and Excise / Statistics South Africa HS and SIC data (accessible via Quantec)*
- *Industry associations*
- *Further information collected by sector desks*

2.2.3 Industry multipliers

This section should provide an illustration of how a stimulus in demand would impact on the output and employment levels along the products value chain. In other words, this section must include a detailed value chain analysis of the product. **This value chain analysis is of the utmost importance since it will be essential in determining whether or not the particular product is to be designated.**

Data sources:

- *To be estimated from input-output tables by e.g. IDC, CSID*

2.2.4 Competition and price considerations

This section should provide an overview of the levels of competition amongst domestic suppliers. In particular, this section should speak to the following:

- Establish if there is a dominant firm in the market
- The number of players in the market
- The extent of import competition

- Compare the local average unit price to the import average unit price where available
- Price setting practices
- Do buyers or sellers set prices?
- Is there a price leader?
- Average industry mark up

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2.2.5 Availability and security of supply

At a broad level this section should discuss the following:

- An assessment of the current ability of the industry to supply public demand
- An assessment of the ability of the industry to sequentially scale up to meet future demand
- Recommendations on any up-front exemptions for specific products that are not, cannot be or are unlikely to be made locally, or would command such a price premium that they cannot justify inclusion in the designation.

In addition the section should provide data that would answer the following:

- How are the product's inputs secured?
- What are the risks associated with securing inputs?
- How are these risks mitigated by producers
- What is the current and potential production capacity within the industry/sector?

2.2.6 Local content

This section should assess the current level of local content by value and the ability of the industry to sequentially scale up local content over time. In particular, the following issues need to be addressed:

- What is the current local content of the product?
- The key inputs that are sourced locally vis-à-vis those secured in international markets?
- The proportions of the key inputs that are sourced locally vis-à-vis those secured in international markets?

2.2.1. Recommendations

Overall recommendations on:

- Whether the industry should be designated
- Competition and price considerations that should be taken into account in the tender process
- Up-front exemptions