Government Incentives for Manufacturing must be Simplified.

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One of South Africa's top experts on government aid to industry has suggested that the impact of the government's incentives could be enhanced by simplifying the rules for obtaining assistance.

The suggestion came from Cova Advisory Director Tumelo Chipfupa, who was addressing delegates at the SA Manufacturing Indaba in Kempton Park.

He said that government has responded well to the needs of the manufacturing sector in SA, by expanding support, and provides billions of rand a year for manufacturing.

"There has been good growth in the total amount of financing from the Industrial Development Corporation (IDC), as well as incentives from the Department of Trade and Industry (the dti)," he revealed.

"In 2013, the dti disbursed over R5 billion worth of incentives, while the IDC paid out R16 billion.

"These are significant amounts, and government deserves to be complemented for its agility in responding to the challenges of helping manufacturing to grow."

However, Chipfupa said there are areas where the application process for government incentives and financing activities could be improved.

"Sectors such as the automotive industry and the film industry, whose growth is largely attributable to government policies and incentives, suggest themselves as the best areas to begin to learn lessons that could be applied to the rest of the manufacturing sector - where success has not been as pronounced," he argued.

He argued that the incentive regimes in the film sector and in the auto sector promote and provide certainty to business. The incentives rules are relatively simple to grasp, and access is easy.

"This is in contrast to other incentive programmes where there are many access criteria. Packing in as many requirements as one can….has many disadvantages. Aside from limiting access, it also makes for very complex appraisals, slows down decisions on awards, and generally promotes uncertainty," he said.

“Because of this uncertainty, firms outside the auto sector may shy away from incorporating incentives into their financial and business models. We need to learn from what we have done in auto, and simplify,” he stressed.

He added that automotive and film companies have been successful in working with government to ensure the incentive packages for their sectors are tailored to their needs.

Chipfupa, who was a senior dti official before he joined Cova Advisory last year, told the Manufacturing Indaba that South Africa can learn many lessons from Asian successes like Singapore on the importance of manufacturing to economic development.

“One of the biggest development lessons coming out of the dynamic high growth Asian economies is that the growth of the manufacturing sector is crucial,” he stated.

“The people who are getting ahead are willing to devote resources to manufacturing.

“In 1960, the relative size of Singapore’s and South Africa’s manufacturing sectors was approximately the same, about 22% of the economy. What has happened since 1960 is that Singapore has grown its manufacturing sector at an average rate of 7% per annum, while our own manufacturing sector has grown at an average rate of 2%. Today manufacturing is still about 22% of economic activity in Singapore, while in South Africa it has shrunk to just 12% of economic activity.

“In the successful economies, manufacturing growth was not spontaneous. It was actively pursued by governments using all types of industrial and trade policies. In South Africa the sector has the added challenge of a volatile exchange rate, unstable labour relations - and, since 2008, slow growth in the economies of our trading partners.”

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Cova Advisory is a consultancy which provides advice to business on government grants, green taxes and sustainability

For more information, please contact Tumelo Chipfupa on 082 789 8915 or Duane Newman on 082 783 5057.