Role of the National Industrial Participation Programme

The National Industrial Participation Programme (NIPP) was launched in 1997. It is a programme of the Department of Trade and Industry (the dti) and uses government procurement to leverage investment, exports and technology development. The NIPP is administered by the dti through its Industrial Participation Secretariat (IPS).

NIPP Mission

The mission of the Programme is to leverage economic benefits and support the development of South African industry by effectively utilising the instrument of government procurement. This mission is guided by the National Industrial Participation (NIP) Policy.

NIPP Objectives

- Ensure sustainable economic growth;
- Facilitate access to new markets, and establish new trading partners;
- Encourage Foreign Direct Investment (FDI) into South Africa;
- Increase exports of South African ‘value-added’ goods and services;
- Encourage research and development (R&D) collaboration in South Africa;
- Contribute to job creation in South Africa;
- Develop human resources in the country;
- Ensure technology transfers to South Africa; and
- Support the economic development of historically disadvantaged communities.
The National Industrial Participation (NIP) became obligatory on 1 September 1996. Cabinet fully endorsed the Department of Trade and Industry’s (the dti’s) NIP Policy and its Operating Guidelines on 30 April 1997.

Characteristics

Obligatory

Value Threshold – Imported Content

- Any single contract with imported content equal to or exceeding US$10 million, or
- Multiple contracts for the same products or services, each with imported content exceeding US$3 million, awarded to one seller over a two- (2-)year period, which in total equals to or exceeds US$10 million, or
- A contract with a renewable option clause, where, should the option be exercised, the total value of the imported content would equal to or exceed US$10 million, or
- Single contract with multiple suppliers of the same products or services, where the value of the imported content, in total, equals to or exceeds US$10 million, shall incur pro rata 30% of the total NIP Obligation.

The Impact of NIP on Government Procurement

In terms of the NIP Policy, all government and State-Owned Enterprise (SOE) purchases or lease contracts (goods, equipment or services) with an imported content equal to or exceeding US$10 million (or the equivalent thereof) are subject to an Industrial Participation Obligation.

Any seller/supplier who incurs an NIP Obligation will be required to participate in the South African economy, as per the stipulations of the Operating Guidelines, and in compliance with the stated evaluation criteria. All NIP Projects/Business Proposals should be based on the principles of mutual benefit and business sense.
30% NIP Obligation

The sum-total of all commercial/industrial activity (subject to the dti’s crediting criteria) must equal or exceed 30% of the imported content.

Mainly Performance-Based Evaluation

**Fulfilment Period** = seven (7) years from the effective date (30 days after the signing of the Main Purchase Agreement) of the NIP Agreement.

Banking of Credits

Excess credits can be banked for a period of four (4) years after the NIP Obligation has been discharged. Only 50% of any new NIP Obligation can be fulfilled using banked credits.

Acceptable Performance Guarantee

The Value of the Performance Guarantee shall be 5% of the NIP Obligation.

Broad-Based Black Economic Empowerment (B-BEE) Requirements

A minimum of 20% of the total NIP Obligation should reflect B-BBEE involvement, as per the B-BBEE Codes of Good Practice.

**Example:**

A State-Owned Enterprise (SOE) purchases goods to the value of US$100 million. The imported content of these goods amounts to US$80 million.

The seller of such goods would therefore incur an NIP Obligation to the value of US$24 million (30%). The seller would be obliged to submit and implement business projects that would generate NIP credits equal to or exceeding the IP Obligation of US$24 million. An allocation of 20% of the US$24 million shall be allocated for B-BBEE involvement.

An acceptable performance guarantee to the value of US$1.2 million (5%) would be required prior to the contract being awarded.

The seller would have seven (7) years to discharge the NIP Obligation from the effective date of the NIP Agreement.
**NIP Criteria**

An NIP proposal must meet the following criteria in order to qualify for NIP credits.

Demonstration of compliance with the NIP criteria, as outlined below, rests with the obligor.

**No Increase in Purchase Price**

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

**Mutual Benefit**

NIP Proposals must be economically beneficial for the seller as well as being in accordance with National Economic Objectives.

**Additionality**

All NIP projects must reflect new or incremental business. Investment or joint venture-type projects only qualify for credits if they are either new facilities or the expansion of existing facilities. Investment in existing facilities should demonstrate, beyond a reasonable doubt, the added benefit accruing from such investments. Export promotion-type projects qualify for credits only if they are either new products or existing products introduced into new markets (new country or new customers).

**Sustainability**

All NIP projects should be economically and operationally sustainable, even after the discharge period.

**Causality**

Causality means that the NIP project must result directly from an NIP Obligation, arising from a 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 IP project. A projects submitted under a Strategic Partnership Agreement need not meet this criterion.

Furthermore, causality means that each project must be shown to have been caused by the obligor as a result of the obligor’s NIP Obligation or the obligor’s direct or indirect involvement therein; or where the involvement of the obligor caused the project to eventuate within a shorter time period than would otherwise have been the case.

In respect of investment-type projects, the obligor should provide or facilitate at least 10% of the investment amount.
Responsibility

The fulfillment of any NIP Obligation lies solely with the seller.

NIP Arrangements

NIP arrangements include the following activities:

- Investments:
  - Joint Ventures
  - Licensee Production
  - Technology Transfers;
- Sub-Contracting Works;
- R&D Collaboration;
- Export Promotion;
- Supply Partnerships with South African industry; and
- Delivery of Specialised Technical Training.

Role Definition of Purchaser and NIP Secretariat

The NIPP does not form part of the evaluation criteria of any tender process, unless otherwise stated in the tender documentation.

The minimum 30% obligation applies to all contracts awarded, where the value of the imported content is greater or equal to US$10 million.

The process of tender evaluation and awarding by the purchaser is parallel to that of the NIP Secretariat.

* NIP is a precondition but not a factor in the adjudication, unless all bids are relatively close.
The National Industrial Participation Programme
Revised Guidelines 2008

NIP Obligation Procedure

Purchaser-Industrial Participation Secretariat discuss Request for Proposals and NIP

- Conclusion of MOUs
- Submission, evaluation and approval of business concepts
- Notification to the purchaser that minimum NIP requirements have been met
- Tender award by the purchaser
- NIP contract negotiated and concluded
- Submission of a performance guarantee
- Submission, evaluation and approval of business plan
- Obligor delivers biannual progress reports
- Credits claimed and awarded
- Discharge of NIP Obligation
The NIP Obligation procedure can be summarised as follows:

- Liaison takes place between the Industrial Participation Secretariat (IPS) and the purchaser regarding NIP and the Request for Proposals (RFPs);
- Tender applicants are notified of compulsory NIP requirements;
- Memoranda of Understanding (MOUs)/Confidentiality Agreements between the IPS and the seller are concluded;
- Seller submits business concepts to the IPS;
- Discussions take place between the seller and the IPS regarding business concepts;
- These business concepts are then assessed by the dti’s Internal Control Committee (ICC) which, if NIP criteria deemed satisfied, delivers an ‘in principle’ approval;
- Should the ICC not approve the business proposals, further discussions take place between the IPS and seller;
- The IPS provides notification to the purchaser that the prospective seller has complied with the initial NIP requirements, and the purchaser then awards the contract;
- The purchaser then awards the tender to the obligor;
- The NIP Obligation becomes effective when the purchase contract is concluded;
- The NIP contract, including the fulfilment period and milestones, is negotiated and concluded;
- The obligor is required to provide the 5% performance guarantee;
- The obligor is required to submit business plans to the IPS, within three (3) months of signing the purchase contract;
- Following further discussions with the IPS on the business plans, the plans are thereafter submitted to the Industrial Participation Control Committee (IPCC) for evaluation and approval;
- During the NIP Obligation discharge period, biannual progress reports are required from the obligor and these are interrogated during the obligatory six- (6-)monthly review meetings;
- NIP credits are allocated against performance, supported by audited evidence that the claimed activity has taken place;
- The decision regarding NIP credits is communicated to the obligor, together with a report on the status of the seller’s NIP Obligation;
- Independent audit reports are required from the obligor on an annual basis and, in addition, the dti initiates ad hoc audits as and when required; and
- Upon fulfilment of the NIP Obligation, the obligor is notified in writing and, in so doing, is discharged of the Obligation.
Role of the Industrial Participation Secretariat (IPS)

- Keep track of all relevant transactions in South Africa that could attract an NIP Obligation;
- Assist, guide and advise the obligor in the fulfilment of his/her NIP Obligation;
- Conclude NIP contracts;
- Evaluate NIP business concepts prior to their submission to the ICC for approval;
- Submit recommendations in respect of NIP business plans to the IPCC for its approval;
- Administer and audit the performance of all NIP projects;
- Prepare status/performance reports for the IPCC, as required, for the allocation of credits;
- Timeously submit an annual report to the Parliamentary Portfolio Committee on Trade and Industry and the IPCC; and
- Assist the IPCC with its functions, and where possible, disseminate all decisions of the latter to all relevant parties.

Role of the Industrial Participation Control Committee (IPCC)

- Provide strategic guidance and approve guidelines for the NIPP;
- Ensure, with the assistance of the IPS, that all relevant government offices and state-owned enterprises are aware of and enforce their NIP Obligations in relation to the NIPP;
- Review, comment and decide on recommendations made by the IPS regarding the NIP proposals of the prospective obligor;
- Evaluate the performance reports, as supplied by the IPS, and award credits or invoke penalties where justified;
- Ensure that all relevant NIP agreements are monitored and audited by the IPS on a regular basis;
- Ensure that the IPCC meets as often as circumstances require, but at least once a month; and
- Ensure that the IPCC has, as its quorum, the dti and any two (2) of the following government departments, namely the Departments of Foreign Affairs, Public Enterprise, Defence, or National Treasury.
NIP Contractual Agreements

Initiation Documents – MOU/Confidentiality Agreement

• Such documents represent the commitment of parties involved in the NIP process, to participate within the parameters of the NIP programme, and respect the confidentiality of the discussions and negotiations between these parties.

Strategic Partnership Agreement (SPA)

• Long-term pro-active agreement between government and the supplier;
• Not linked to a single tender – can accommodate multiple tenders;
• NIP Obligation can be offset through the SPA, provided the SPA’s proposed projects equal or exceed the NIP Obligation;
• Should this not be the case, the SPA must be supplemented by further projects;
• SPA projects have a lifespan of ten (10) years and banked credits must be used within five (5) years of being awarded;
• Credits shall be claimed within twelve (12) months of the financial year-end; and
• The SPA must be export-biased.

Contracts with NIP Obligors – NIP Obligation Agreement

• Conditional upon winning the tender;
• Linked to a single tender;
• Surplus credits generated/accumulated during the seven- (7-) year period can be banked for use in discharging a future NIP Obligation, subject to the following conditions:
  - Banked credits remain valid for four (4) years after the fulfilment period;
  - Only 50% of the new NIP Obligation can be satisfied using banked credits;
  - Performance guarantee (5%);
  - Milestones:
    o 30% by year three (3);
    o 70% by year five (5); and
    o 100% by year seven (7).
Evaluation/Crediting Methodology

Business plans/proposals are evaluated, and possible performance-based credits indicated. The following depicts the methods used to award NIP credits:

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>METHODOLOGY</th>
<th>FACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sustainable Economic Growth</td>
<td>Revenues accumulated over the fulfilment period</td>
<td>US$1 = 1 credit LC at least 40% to qualify</td>
</tr>
<tr>
<td>2. Export Promotion</td>
<td>Export Revenues = Additional Credits</td>
<td>US$1 = 1 + LC* LC at least 40% to qualify</td>
</tr>
<tr>
<td>3. Job Creation</td>
<td>Salaries and Wages costs accumulated over the fulfilment period</td>
<td>US$1 = 1 credit</td>
</tr>
<tr>
<td>4. Training and Development</td>
<td>Training and Development costs accumulated over the fulfilment period</td>
<td>US$1 = 1 credit</td>
</tr>
<tr>
<td>5. Promotion of SMMEs**</td>
<td>Outsourcing to SMMEs</td>
<td>US$1 = 1 credit</td>
</tr>
<tr>
<td>6. Black Economic Empowerment (BEE): Minimum 20% of total NIP Obligation should reflect BEE involvement</td>
<td>Outsourcing to BEE-SMMEs</td>
<td>US$1 = 2 credits</td>
</tr>
<tr>
<td>7. Investment and Technology Transfer</td>
<td>Capital outlay or capital injections</td>
<td>US$1 = 2 credits</td>
</tr>
</tbody>
</table>

*LC = Local Content
**SMMEs = Small, Medium and Micro Enterprises
**Example: Projected Credit Schedule**

<table>
<thead>
<tr>
<th>INCOME</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales: 5,100</td>
<td>9,400</td>
<td>10,800</td>
<td>10,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic (x1) 2,000</td>
<td>3,400</td>
<td>4,200</td>
<td>4,200</td>
<td>13,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports* (I + LC) - 75% LC</td>
<td>3,100</td>
<td>6,000</td>
<td>6,600</td>
<td>6,600</td>
<td>39,025</td>
<td></td>
</tr>
<tr>
<td>BEE Ownership (% x Revenue) - 30%</td>
<td>1,530</td>
<td>2,820</td>
<td>3,240</td>
<td>3,240</td>
<td>10,830</td>
<td></td>
</tr>
</tbody>
</table>

**EXPENDITURE**

| Land and Building (x2) 5,000 | 10,000  |
| Plant and Equipment (x2) 6,000 | 1,000  |
| Tooling (x2) 3,000 | 500  |
| Other Set-Up Costs (x2) 500 | 1,000  |
| Material Costs 190 | 1,200  |
| Salaries and Wages (x1) 760 | 2,520  |
| Training and Development (x1) 50 | 200  |
| Services: *as examples |
| Transportation/Shipping (x1) 70 | 150  |
| Security (x2) 10 | 80  |
| Auditing (x2) 10 | 50  |
| Technical Services (x1 etc.) 10 | 300  |
| Consulting Fees (x2) 70 | 450  |
| R&D Expenses (x2) 60 | 150  |
| Sundries 10 | 60  |
| TOTAL CREDITS ACCUMULATED | 117065  |

**Export Promotion for Goods and Services**

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Exports</th>
<th>100% Local Content</th>
<th>NIP Credits per Annum</th>
<th>NIP Credits Accumulation</th>
<th>60% Local Content</th>
<th>NIP Credits per Annum</th>
<th>NIP Credits Accumulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>60</td>
<td>(60 x 100% x 2)</td>
<td>120</td>
<td>72</td>
<td>(60 x 60% x 2)</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>(100 x 100% x 2)</td>
<td>200</td>
<td>120</td>
<td>(100 x 60% x 2)</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>3</td>
<td>200</td>
<td>(200 x 100% x 2)</td>
<td>400</td>
<td>240</td>
<td>(200 x 60% x 2)</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>4</td>
<td>250</td>
<td>(250 x 100% x 2)</td>
<td>500</td>
<td>300</td>
<td>(250 x 60% x 2)</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>5</td>
<td>260</td>
<td>(260 x 100% x 2)</td>
<td>520</td>
<td>312</td>
<td>(260 x 60% x 2)</td>
<td>312</td>
<td>312</td>
</tr>
</tbody>
</table>

**Sourcing Arrangements for Export Markets**

<table>
<thead>
<tr>
<th>Year</th>
<th>Purchases (Local Content 100%)</th>
<th>NIP Credits per Annum</th>
<th>NIP Credits Accumulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,000 x 2 = 2,000</td>
<td>1,000 x 2 = 2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2</td>
<td>2,000 x 2 = 4,000</td>
<td>2,000 x 2 = 4,000</td>
<td>6,000</td>
</tr>
<tr>
<td>3</td>
<td>4,000 x 2 = 8,000</td>
<td>4,000 x 2 = 8,000</td>
<td>14,000</td>
</tr>
<tr>
<td>4</td>
<td>5,000 x 2 = 10,000</td>
<td>5,000 x 2 = 10,000</td>
<td>24,000</td>
</tr>
</tbody>
</table>
R&D Collaboration with South African Partners

<table>
<thead>
<tr>
<th></th>
<th>All direct costs incurred</th>
<th>a multiplier to be determined, or</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>All revenues generated after commercialisation</th>
<th>a multiplier to be determined.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Skills Development

Stand-alone projects for skills development in engineering and technical fields are considered on a case-by-case basis.

Format of Business Concepts

Business concepts submitted to the ICC for in-principle approval should be in Executive Summary format, and contain the following information:

- Contact details;
- Partners’ names;
- Brief description of products/services;
- Broad marketing strategy;
- Broad financial projections;
- Brief description of the technologies, processes and systems;
- Geographic location;
- Indication of jobs likely to be created/retained;
- Demonstration of causality and additionality; and
- Concept notes submitted by obligors should also include NIP credit schedules, with projections related to the specific type of arrangement, including the projected milestones.
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Example: Business Concept

- Project name;
- Executive summary;
- Partners' names;
- Ownership structure;
- Capital structure:
  - Debt funding details;
- Brief description of products/services;
- Manufacturing/production processes involved:
  - Input materials to be used;
  - Description of industrial sector;
- Specify actual geographic location of project;
- Marketing:
  - New markets;
  - New customers;
  - Market research;
  - Marketing plan;
- Strategic value to South Africa:
  - Small, Medium and Micro Enterprise (SMME) promotion – provide details, if applicable;
  - BEE – provide details, if relevant;
  - Employment – provide details of jobs created or saved by the project, including a breakdown by skills level, i.e. unskilled, semi-skilled, skilled;
  - Training and skills development – discuss, if applicable;
  - Technology transfer – discuss, if applicable;
- Causality:
  - Role of the obligor in the project;
- Additionality:
  - New/additional products, services and markets to South Africa;
- Estimated revenue over a given time period:
  - Investment: US$/Rand Million;
  - Exports: US$/Rand Million;

Format of Business Plans

Detailed business plans submitted to the IPCC for final approval, should contain the following information:

- Executive summary;
- Description of business proposals:
  - Legal structure;
  - Ownership structure;
  - Role of the obligor;
  - Mission and strategic objectives;
  - Description of products/services;
  - Description of industrial sector, markets and customers;
  - Processes, systems, technologies and equipment;
  - Detailed employment projections – local and foreign;
  - Technology transfers;
  - Training initiatives; and
  - Exit mechanisms;
- Marketing:
  - Marketing research and analysis;
  - Marketing strategy; and
  - Marketing plan;
- Financial:
  - Pro-forma balance sheet, income statement, cash flow statement, etc.;
  - Internal Rate of Return (IRR), Net Present Value (NPV), and payback period;
  - Financial details of project;
  - Detailed credit schedule, with projections and milestones; and
- References of recent successes.
NIPP Glossary of Terms

The following definitions apply only to the interpretation of the NIPP and do not necessarily carry the same meaning as per every-day usage:

**Business Concepts**  
See ‘Format of Business Concepts’.

**Business Plan**  
See ‘Format of Business Plans’.

**Credits**  
Points allocated to measure the performance of the NIP project, used either to reduce the NIP Obligation or to be banked for any future obligation.

**Exports**  
For the purposes of calculating NIP credits, the use of multipliers applies only to sales outside of the SACU region. The following countries are part of the SACU: Lesotho, Swaziland, Namibia and Botswana. Sales to the SACU countries are regarded as local sales.

**Imported Content**  
Is the cost of goods and services, components, parts or materials which have been, or are still to be, imported (whether by the Seller or its suppliers or sub-contractors) based on a free-on-board (FOB) calculation, plus any other foreign direct importation cost and any cost relating to the payment of royalty or licensing fees.

**Industrial Participation Control Committee**  
See ‘Role of IPCC’.

**Industry Sectors**  
All projects satisfying the principles as outlined in the dti’s Industrial Policy will be considered for NIP credits. Primary sectors such as mining and agriculture as well as certain stand-alone infrastructure initiatives not linked to industrial activities would not be considered for NIP credits.

**Investment**  
Investment is classified as the amount of money, whether in the form of equity or preferential loan, injected into the project or business, for the purposes of buying assets and other set-up costs. Technology transfers can be included under investments.

**Job Creation**  
Refers to the number of new direct jobs that will be created or retained and that can be linked to an approved or proposed Industrial Participation Project. In the case of jobs retained, the onus is on the Obligor to prove that jobs would have been lost without its involvement. The amount paid for salaries and wages is used in calculating NIP credits.

**Local Content**  
In the case of products, local content refers to that portion of the value that is made, added or manufactured from Southern African Customs Union (SACU) natural resources, in South Africa. In the case of services, this includes all services rendered by individuals or organisations registered in South Africa for the purpose of carrying on a business.

**Local Sales**  
Sales within the SACU region.

**State-Owned Enterprises**  
Refers to any entity where the Government (National, Provincial or Local), or any government institution, owns a majority or controlling interest that can be exercised to influence the policy direction of that institution.

**Technology Transfer**  
Technology transfer refers to the diffusion of technology or 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 by mutually acceptable means.

**Value-Added**  
Refers to when value is added to a product when its shape, form, use and monetary value have changed through some process e.g. software reconfiguration, assembly or manufacturing process. Value added through installation of computer packages, marketing or other similar type of services is not considered for NIP credits.
Contact the National Industrial Participation Programme

via the dti Customer Contact Centre
Nation-Wide: 0861 843 384
International: +27 (12) 394-9500

or the dti Website
www.thedti.gov.za

The NIPP – facilitating the transfer of skills, technology and equipment, increasing exports, diversifying markets, and creating new local industries – for the benefit of all South Africans.