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## ECONOMIC RECOVERY

# Localisation not a four-letter word if there are strategies

**E**conomic recovery from the devastation wreaked by Covid-19 was always going to be a long, hard slog.

After the past few days of looting, inclusive economic recovery becomes ever more urgent. Central to that will be getting right the triangle of improving the local manufacturing base, recovery in small, medium and micro enterprises (SMMEs) and ensuring BEE is truly broad-based.

The ANC-led government's "neoliberal approach", captured in the Growth, Employment and Reconstruction strategy and its abiding by global trade



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requirements on joining the World Trade Organization have been blamed for the gutting of our manufacturing sector.

The parliamentary budget office, which analysed 20 years of industrial policy interventions from 1994 to 2014, found that their cost was high compared with the outcomes, and that these "can be improved through

better management or alternate policies or means".

While the ideological and historical debates can continue on what should have been done in the 1990s, we have to urgently focus on what is to be done now.

A recent report on localisation commissioned by Business Unity SA (Busa) and Business Leadership SA (BLSA) opens on a chilling note: "SA's manufacturing sector output has remained unchanged since 2004."

Similar to the budget office report, it points out how applying localisation to particular sectors while using better focused policy

instruments could make a difference in SA's economic recovery. The Busa/BLSA report cites a number of international successes such as the American Recovery and Reinvestment Act, which saw \$800bn being ploughed into the US economy by the Obama administration to help the US recover from the global recession of 2007-2008.

In SA, a successful example is that of the Renewable Energy Independent Power Producer Procurement programme (REIPPP), which by 2018 had helped attract investment in the private sector of R210bn, including R49bn foreign direct investment. However, the

Busa/BLSA report notes that the REIPPP emphasised "jobs, local content benefits and local community development" at the expense of BEE.

Addressing apartheid legacies through broad-based BEE (BBBEE) policies is essential for the achievement of inclusive growth. However, legislation enacted since 2003 and accompanying guidelines have shown mixed results as revealed by the annual reports of the BBBEE Commission.

Deepening unemployment during the pandemic has been equalled by bad news for SMMEs: it is estimated at least 40% of small businesses had to shut down due to Covid-19.

Looking to the future of the SMMEs, BEE and the localisation triangle, one aspect of SA's approach should be to replicate the successes of programmes such as the REIPPP while addressing its shortcomings. The Busa/BLSA report explains that its success was due to "clear policy design; co-ordination and trust between the public and private sectors; ensuring sufficient capacity in public monitoring; and careful design of programmes and incentives".

As for BEE, the Mapungubwe Institute, in its Beyond Tenderpreneurship document, argues that SA needs to restructure BBBEE policies by

linking them to economic structural reforms, as well as "developing diverse strategies for supporting business, transforming the design of empowerment deals and improving the level of control over operations by BBBEE beneficiaries".

Enhancement of the SMME sector, which the Busa/BLSA report describes as capable of "moving the dial on a macro level more effectively", was recognised even by Monday's World Bank report, which suggests SA should raise its self-employment level from the now 10% of all workers to 30%.

A FinFind report, analysing a year of Covid-19, found that a

large proportion of respondents from the SMME sector were optimistic about recovery and are committed to reimagining new business models. The majority identified reliable power supply, access to funding and assistance with digital marketing as critical factors.

Instead of blustering into another decade of wasteful and ineffective policies, the government should take the lead in working with the private sector to develop strategies informed by the evidence-based options at its disposal.

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