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PARLIAMENT  
OF THE REPUBLIC OF SOUTH AFRICA



Presentation  
to the  
Portfolio Committee on Defence and Military Veterans

**NDIC Initiatives in Support of the Defence Industry**

27 November 2019

**PURPOSE**

To brief the Portfolio Committee on Defence and Military Veterans on the NDIC Initiatives in Support of the Defence Industry

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## SCOPE

- ❖ NDIC Background
- ❖ NDIC Initiatives
- ❖ Way Forward
- ❖ Discussion



## NDIC BACKGROUND

### NATIONAL DEFENCE INDUSTRY COUNCIL (NDIC)

- **Defence Review 2015 (Chapter 15):** National policy on defence and related matters
  - Approved by Cabinet: 20 March 2014
  - Approved by Parliament: June 2015
- **NDIC Launched** by Minister of Defence: March 2016
- **NDIC Mandate (Defence Review):** 'A significant policy making and coordination tool for the defence industry', that is charged with the tasks of:
  - ❖ Establishing and maintaining the focus of a national vision in respect of the defence industry;
  - ❖ Coordinating approaches between the Defence Force and the defence industry;
  - ❖ Overseeing the development and implementation of policies and strategies appropriate to the defence industry and, in particular the National Defence Industrial Strategy;
  - ❖ Ensuring the optimal integration of the defence industry with the National Development Plan (NDP), industrial and trade policy and South Africa's regional and wider foreign policy and strategy;
  - ❖ Furthering the optimal development of the defence industry;
  - ❖ Government's marketing support to the defence industry.



## NDIC BACKGROUND ...

### ➤ NDIC Governance:

- \* NDIC Constitution which was approved by Cabinet
- \* Chaired by the Minister of Defence and Military Veterans
- \* Chairmanship delegated to the Secretary for Defence
- \* Meets once every quarter
- \* Secretariat provided by the DOD

### ➤ NDIC Membership:

- \* Secretary for Defence / Chairman
- \* Chief of the SANDF
- \* Commissioner of Police
- \* Group Chief Executive Officer of Denel
- \* Chief Executive Officer of Armscor
- \* Chief Executive Officer of the CSIR
- \* Chief of Defence Materiel
- \* Executive Director of Aerospace, Maritime and Defence Industry Association (AMD)
- \* Directors-General (or Senior Representative) from the following national departments:
  - The Presidency, Public Enterprises, State Security; DIRCO; Science and Technology; Military Veterans; Trade and Industry; Small Business Development.



## NDIC INITIATIVES

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### Defence Industry Strategy

#### \* PURPOSE:

- Analyse strategic defence industry environment
- Identify defence industry needs and available government support initiatives
- Propose realistic policy options for government intervention in support of the industry
- The role and impact of the defence industry is analysed in respect of: **technology, revenue generation, intellectual property generation, industrial base, employment and market penetration**
- The national vision on the defence industry is articulated: ***the Desired End-State***
- Various options available to government in order to support the industry are evaluated
- Proposed option: ***"Secure, Stabilise and Sustain"*** the industry
  - **Secure:** Identify capabilities and capacities deemed essential that are at risk of being scaled down or lost, and move urgently to secure them:
  - **Stabilise:** Establish inclusive collaboration between government and the industry at strategic and operational level. Develop long-term acquisition strategy, and drive "Team SA" country brand
  - **Sustain:** Establish strategic partnerships that provide strategic and sovereign capabilities; support defence exports, and transform the industry by facilitating access to the industry for the designated groups
- An online version to be published during this financial year (2019/20 FY)



## NDIC INITIATIVES

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### Defence Industry Fund (DIF)

**PURPOSE:** To finance SME companies that are providing products and services to Armscor and the DOD/SANDF

**RATIONALE:** Commercial banks and state-owned development finance institutions are prohibited by their founding documents and policies from providing finance support to companies operating in the defence space; it is also a mechanism to transform the industry through accessible finance options.

- ❖ It was initiated and catalysed by Armscor and AMD, and supported by the DOD
- ❖ Following a competitive process, Crede Capital Partners was appointed as the Fund Manager
- ❖ It was launched in June 2018
- ❖ Products and Services:
  - \* Contract finance
  - \* Trading finance
  - \* Equity finance
- ❖ Current Status:
  - \* It has been busy with capital raising in local and international markets
  - \* Seed funding has been secured
  - \* Busy finalising an MOU with the DOD
- ❖ Governance: DOD, Armscor, AMD and Crede Capital Partners are members of the DIF Advisory Council



## NDIC INITIATIVES

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### Defence Sector Charter

- ❖ The Code came into effect on 12 April 2019 and has no transitional arrangements
- ❖ It is legally binding on all entities in the SADI including national and provincial departments, organs of state, Public Entities, private enterprise providing Defence Materiel
- ❖ Entities that derive more than 50% of their annual turnover from the SADI must be measured on the sector Code
- ❖ Unique Features:
  - Inclusion of military veterans
  - Localisation
  - Targeted procurement
  - Lower threshold for EMEs
  - Enterprise Supplier Development (ESD) Fund
- ❖ Minister of Defence and Military Veterans still has to appoint the Defence Sector Charter Council



## NDIC INITIATIVES

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### Task Team on Denel

#### ❖ PURPOSE:

- Diagnosis of challenges facing Denel
- Propose a solution set to address the liquidity crisis in Denel
- Compile a comprehensive report with findings and recommendations for consideration by NDIC and relevant stakeholders

- ❖ The Task Team comprised executives from Denel, Armscor, AMD, the DOD and the DPE (Department of Public Enterprises)
- ❖ The draft report was presented to and/shared with the Denel Board, National Treasury and Deputy Minister of Defence and Military Veterans



## NDIC INITIATIVES

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### Task Team on Denel ...

#### ❖ Summary: Root Causes of Denel Liquidity Challenges

- Collapse of governance
- Corruption
- Fragmented government procurement approach to security-related products and services
- Misalignment between the DOD and DPE in respect of the funding of strategic and sovereign capabilities
- Inappropriate investment decisions
- Centralised Denel treasury / cash management
- Denel organisational structure

#### ❖ Summary: Recommendations:

- Alignment between the DOD and DPE in respect of funding of strategic and sovereign capabilities
- Recapitalisation
- Private sector participation
- Realignment with key government structures (JCPS cluster), especially in respect of acquisition of major equipment
- Reset DOD contracts, with new realistic timeframes and contractual arrangements
- Support the broader local defence industry



## NDIC INITIATIVES

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### Intervention Plan

- ❖ Challenges within Denel and the decline in SANDF budget caused major strain on the supply chain, especially companies that rely primarily on Denel and SANDF business
- ❖ Some companies were retrenching, working shorter weeks, losing critical skills and others were closing down or on the verge of closing down
- ❖ NDIC commissioned a study to look at the impact of reduced DOD funding and Denel challenges on the defence industry
- ❖ 303 local and international locally-based companies were analysed in terms of:
  - Their involvement in either strategic or sovereign capabilities
  - Their reliance on the DOD for their business sustainability
  - The level of distress
- ❖ It was discovered that 18 companies, that were dealing primarily in sovereign or strategic capabilities, relied heavily on the DOD funding and were very distressed
- ❖ The Intervention Plan was developed to propose mechanisms that could be implemented to address or alleviate the impact on distressed companies



## NDIC INITIATIVES

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### Designation of Small-Calibre Weapons and Ammunition

#### PURPOSE:

- ✓ To explore possibility of reviving local production of small-calibre weapons and their associated ammunition
- ✓ To improve on national security with regard to sovereign requirements for security of supply of small-calibre weapons and ammunition
- ✓ To propose smarter and centralised procurement mechanisms for such weapons and ammunition

#### RATIONALE:

- ✓ Local demand: SANDF, SAPS, Correctional Services, Home Affairs, Customs, Metro Police and private security
- ✓ Local production:
  - Improved national security through traceability of weapons and ammunition
  - Denel used to produce small-calibre weapons but had to exit the business due to fragmented government procurement system. However, it still produces ammunition
  - Employment opportunities
  - Improved tax base
  - Expanded manufacturing capacity
- ✓ Proposal still to be presented to the JCPS cluster



## NDIC INITIATIVES

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### Resource-based Alternative Funding Model

#### ❖ PURPOSE:

- To provide an alternative mechanism for funding defence exports for African countries with mineral resources
- To promote defence exports for both small and large defence companies
- To compete favourably with other major powers that are already implementing alternative mechanisms for funding defence exports to Africa

❖ A model has been designed to ensure legal compliance, while being competitive

❖ Key role-players include Armscor, banks, commodity trading companies, government agencies such as SARS and the Reserve Bank

❖ Presentation has been made to National Treasury

❖ The next presentation will be made to the JCPS cluster, and, if necessary, to Cabinet

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## NDIC INITIATIVES

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### Export Support Administration

❖ PURPOSE: To ensure a smooth, seamless and predictable export administrative process in support of defence export transactions

#### ❖ RATIONALE:

- To address the issue of End-User Certificates
- To advise the Minister of Defence and Military Veterans on the desired end-state and proposed approach to dealing with the matter

❖ NDIC wrote a letter to the Minister for consideration prior to the meeting of the National Conventional Arms Control Committee (NCACC)

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## WAY FORWARD

- ❖ Present the proposal on small-calibre weapons and ammunition to the JCPS cluster during first quarter of 2020
- ❖ Publish the Defence Industry Strategy on the website
- ❖ Engage key stakeholders on the implementation of the Resource-based Alternative Funding Model
- ❖ Minister to appoint the Defence Sector Charter Council
- ❖ Await feedback from the NCACC on the issue of End-User Certificate



## DISCUSSION

