

ERSA Research Brief

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Programmatic Procurement: A Political Economy Review of the Transnet Freight Rail Competitive Supplier Development Programme (CSDP)

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Public procurement policies in a nation such as South Africa do not only serve as purchasing guidelines. They also function as a tool of socio-economic development, historic redress and industrial policy. South Africa faces significant infrastructure challenges, in the energy and transport sector, as a result of decades of underinvestment by public entities, such as Transnet, in those sectors. Transnet has projected R300 billion in spending to upgrade their operational infrastructure over the next two decades. Incidental labour absorbing sectors in the component manufacturing and other sectors have been affected by low public investment, with reduced orders from a dominant firm like Transnet. With the need for public investment in rail infrastructure established, the report analyses some of the dynamics underpinning the use of public spending as an instrument of industrial development.

The report focuses on the Competitive Supplier Development Programme (CSDP), a programme initiated by the Department of Public Enterprises to ensure that the local rail supplier industry benefits and achieves growth, as a result of Government infrastructure expenditure. The CSDP requires original equipment manufacturers (OEMs), who are in most instances, multinational firms, to create relationships with local suppliers to ensure that the infrastructure developed, and the equipment procured, such as rolling stock, has a high level of local content. The envisaged benefits of the CSDP for Transnet and the entire economy are numerous; reduction in the need for imported inputs, avoiding balance of payment pressures, technological upgrading for local suppliers and improved lead times for Transnet Freight Rail. Therefore, the CSDP is an important industrial policy instrument aimed at supporting local industry through the transfer of skills, technology and know-how, from OEMs to local suppliers.

In problematizing the CSDP, there are a range of issues. Firstly, there are multiple stakeholders; the local rail supplier industry, Transnet, the different government departments charged with incentives, procurement, political and financial oversight, and the OEMs. Secondly there are different policy perspectives on procurement and industrial policy, among the different government departments charged with financial and/or political oversight over the CSDP. Thirdly, the local supplier industry has been weakened over decades due to low levels of public investment, however, they are now required to scale up in a short period of time to meet the large orders, which they are clearly not equipped for, at an individual firm level. In looking at all these challenges the study hypothesises that only harmony, alignment and co-ordinated interaction between the three issues will ensure the success of the programme.

The study, initially explores the different perspectives on industrialization, deindustrialization and industrial policy, whilst looking at the role of the state, and state owned enterprises (SOEs) in development. In looking at public procurement as an industrial policy tool, the study tackles the difficult issues of corruption and rent seeking. Taking its cue, from the work of economist Mushtaq

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Khan, the report argues that the success of an enabling industrial policy, is shaped by the interaction of governance agencies, firm structures and political settlements in a given and specific country context. The study employs this framework in analysing the data sources, and also in providing recommendations in the concluding chapter.

The report discusses practical and legislative issues related to procurement, outlining the entire procurement process and its inherent dynamics. The study also discusses how incongruities as a result of different views within the state, affect the implementation of policy. Furthermore, the study unmasks some of the contestations around different legislation which governs procurement. The interviews raise these issues with Transnet, rail sector analysts other government officials, and interesting views emerge. A brief assessment of the expectations of the local supplier industry, OEMs, Transnet and the government is also conducted. It is clear, that perhaps the sudden burst of investment, after decades of underinvestment, has created instability, uncertainty and suspicion. Indeed, the domestic industry is meant to benefit, but through OEMs who are responsible for CSDP plans and co-ordination of local suppliers. The government, and Transnet sees the initiative as having the potential to benefit local industry, however local suppliers face huge risks and uncertainties. Moreover there is a level of mistrust by the local supplier industry of the Government, as a result of different policy approaches and contradictions in legislation, policy and regulation. There is also mistrust around the role Transnet Rail Engineering, another division of Transnet, in fulfilling OEMs supplier development obligations, placing it in direct competition with firms in the local supplier industry.

The report discusses all these difficult matters, and contextualises the study within the review of the literature, analysing the interaction between the governance agencies charged with implementation and oversight of the program, the local firm structures meant to benefit from the CSDP, and the contested and fragmented political settlement underpinning the relationship between the different stakeholders, and oversight activity over the CSDP as an industrial policy tool. The study concludes with some instructive recommendations on how the basis and contours of the interaction between all three can be reformed, in a manner that ensures the CSDP leads to, structural transformation and industrial development.