

# Industrial Policy and Incentives for Pharmaceutical and Medical Devices Sector

**IDD PHARMACEUTICAL AND MEDICAL DEVICES**

**DEPARTMENT OF TRADE AND INDUSTRY,  
SOUTH AFRICA**

**SAPC 4 OCTOBER 2019**



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**Slide 1**

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# INDUSTRY OVERVIEW: PHARMACEUTICAL

- Trade balance deficit over almost two decades
  - Less than 1% of GDP
- More recently imports constitute approximately 60-70%
- Predominantly Asian and European imports
- Pharmaceutical exports gradual increase
  - Efficiency of manufacturing firms
  - weakness of the exchange rate makes exports attractive.
- Market value R45bn in 2016.
- 276 companies (different activities) licensed by SAPHRA
- Local manufacture, valued at R 4.9bn in 2015, dominated by local companies.
- SA companies #1 overall market share, Pharmaceuticals only and OTC only in 2017



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# INDUSTRY OVERVIEW: MEDICAL DEVICES

- Domestic medical device industry underdeveloped,
  - Imports 90% of the market by value.
  - Trade deficit
  - SA market ranks amongst the 30 largest globally
- 2016-2021 CAGR = 8.4% in local currency terms
- Market value = ZAR24.2bn by 2021
- Imports increase by 6% to USD2.1bn in 2017
- >60% of all imports are sourced from 5 countries (2017)
  - half from the top three.
  - USA remains the dominant supplier, in value terms, 22%
  - Germany with 14%.
  - China's increase to 13%



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# POLICY DIRECTIVES

- Industrial Policy Action Plan (IPAP)
  - Economic Sectors, Employment and Infrastructure Development (ESEID) cluster
  - Structural change, by encouraging the development, growth and increased competitiveness of the manufacturing (Value Added) sector
  - Overall policy and plans to address the key challenges of economic and industrial growth and race based poverty, inequality and unemployment
- Reindustrialisation for inclusive growth (2019) i.e. Masterplan
  - Encourage sustainable investment in South Africa
  - Identify employment opportunities
  - Identify national, regional, broader international possibilities
  - Identify opportunities to deepen industrialisation (cross sector linkages)



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# PHARMACEUTICAL AND MEDICAL DEVICES DESK

Industrial Development Division  
(Policy development and implementation)



Chemicals, Cosmetics,  
Pharmaceutical and Plastics



Pharmaceutical and Medical Devices



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# INDUSTRIAL POLICY OBJECTIVE W.R.T LOCAL CONTENT REQUIREMENTS

- Leverage public expenditure
- Develop and enhance local manufacturing capacity and capabilities
- Support industrial innovation and technological developments
- Create employment and sustain jobs
- Boost exports and ensure suppliers are integrated into OEMs global value chains
- Support broader economic empowerment through the creation of black industrialists



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# INDUSTRIAL POLICY OBJECTIVE W.R.T LOCAL CONTENT REQUIREMENTS

- Preferential Procurement Policy Framework Act (PPPFA) was enacted in 2000, and its Regulations promulgated in 2001
- Local Content Regulations came into effect on 7 December 2011 through the 2011 PPPFA
- Amended Regulations applicable from the 2018 Public Procurement cycle onward
- **Section 8: Local Production and Content**



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# PROCUREMENT LEVERS

## ➤ Designation: Local Production and Content

- Sectoral In depth analysis establish local production capacity and public procurement opportunities.
- ***Section 8 of Preferential Procurement Policy Procurement Act (PPPFA)***
  - ***empowers the dti to designate specific industries/sectors for local procurement by organs of state supporting industrialization***
- Establish capacity database in both pharmaceutical and medical devices to inform designation recommendations
  - ARV, TB, OSD



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# PROCUREMENT LEVERS

- **National Industrial Participation Programme (NIPP)**
  - Applicable to all government procurement,
  - **Imported Content => US\$10 million**
  - **Direct NIPP**
    - projects where there is potential to develop or support strategic industries
  - **Indirect NIPP**
    - projects where there is no potential or opportunities for local manufacturing in procured industries
- **Other include Defense Industrial Participation Programme (DIPP) and CSDP**



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# POLICY INSTRUMENTS: INCENTIVES

## Broadening Participation

- Incubation Support Programme (ISP)
- Support Programme for Industrial Innovation (SPII)

## Competitiveness Investment

- Manufacturing Competitiveness Enhancement Programme (MCEP) – Suspended due to oversubscription
- Export Marketing Investment Assistance (EMIA)
- Sector Specific Assistance Scheme (SSAS)
- Capital Projects Feasibility Programme (CPFP)

## Manufacturing Investment

- 12I Tax Allowance Programme
- Automotive Investment Scheme (AIS)
- Aquaculture Development and Enhancement Programme (ADEP)

## Services Investment

- Film & TV Production Incentive
- Business Process Services (BPS)

## Infrastructure Investment

- Critical Infrastructure Programme (CIP)
- Special Economic Zones (SEZ)



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# POLICY INSTRUMENTS: INCENTIVES

- Black Industrialist Scheme (BIS)
  - Launched 2016
  - 100 per annum
  - Address transformation
  - Development of industrialists in core sectors
  - Successful recipients
    - Condom manufacturers
    - Other healthcare support to be determined



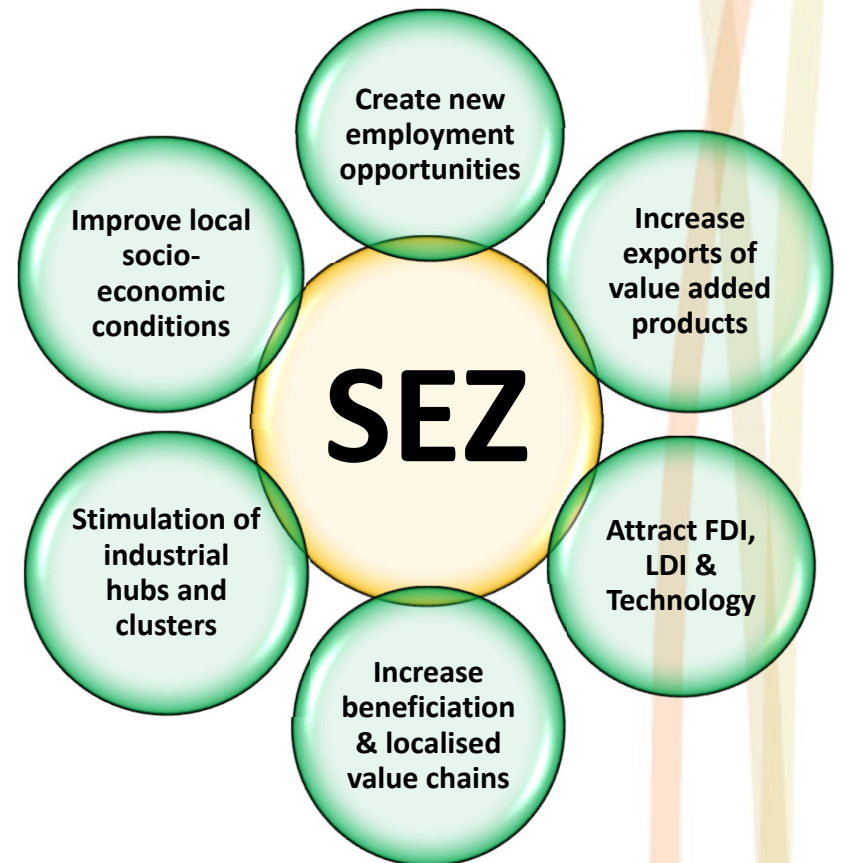
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# POLICY INSTRUMENTS: INCENTIVES –SEZ's

Special Economic Zones (SEZs) are geographically designated areas of a country set aside for **specifically targeted economic activities** to promote rapid industrial development.

Zones are supported through special arrangements and support systems to attract and retain targeted industrial investors.



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# INDUSTRIALISATION AND LOCALISATION

- **OSD** 2012 70% volume, 2014 >60% , 2016 50% value & volume, 2018
- **Family Planning** 2013 50% value, 2018 50% value (oral)
- **ARV** 70% value 2013, 2015 >60% value, 2019 69.7% local
- **Medical textiles** currently designated 100% under the Textiles designation – importers require exemption letter
- **Condoms** 2015/18 cycle only 1 manufacturer, 2018/2021 cycle 3 manufacturers (Section 8(4)(a) to boost localization)
- **Anti-TB** 2017 > 67% local
- **Intravenous tubes and catheters** localized using PPPFA



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# INDUSTRIALISATION AND LOCALISATION

- **Surgical sutures** 3 local manufacturers, 2017 Section 8(4)(a) to award >80% local
- **Wheelchairs** 2 domestic manufacturers, 2017/20 bulk awarded using Section 8.4(a) of the revised PPPFA Regulations.
- **Gloves** 1 domestic manufacture, localizing using PPPFA, increase exports, new site commissioned. 2nd re-establishing local manufacture Sep 2019
- **New 500 bed Hospital in KZN** furnishings of almost R1bn to be localized
- **Medical refrigeration** 2 local manufacturers, 1 awarded bulk using Section 8(4)(a)
- **3 quote system** used by the procurers and successfully negotiated for the prioritisation of the local manufacturers



# OTHER INITIATIVES

- **Cluster Development Program**
  - **Pheroid Cluster**
  - **Medical devices Cluster**
- **Chemical incentive**
  - **Approval pending**



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# THANK YOU

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