

The Reconfiguration of the SA Defence Industry in the Post-2015-Defence Review Environment: Prospects & Challenges

Presented by: Moses Khanyile

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SCOPE



Key Questions



2015 Defence Review Context



Strategic national initiatives



Way forward

KEY QUESTIONS



How do we **restore our defence industry** to its former glory of:

- * being the employer of choice?
- * providing cutting edge solutions to domestic defence and security requirements?
- * being reputed for innovation

given the challenges of:

- declining domestic defence budget
- increased competition from within and multinationals
- inability to dominate African defence market
- skills drainage



Implementation of the SA Defence Review 2015: **capacity**?

- Intra-Africa trade: ~10%
- Intra-North American trade: ~40%
- Intra-WE trade: ~60%



How do we **transform** the defence industry such that:

- * it remains globally competitive in niche areas?
- * it continues to provide for the SANDF's requirements
- * it benefits the broader South African business community?

DEFENCE REVIEW CONTEXT



Main goals (4) & tasks (13) for the SANDF



Five (5) Planning Milestones



Milestone 1: Arrest the decline



Milestone 2: Rebalance and re-organise the Defence Force



Milestone 3: Create the sustainable Defence Force that can meet current ordered defence commitments



Milestone 4: Enhance the Defence Force's capacity to respond to challenges in the strategic environment



Milestone 5: Defend the Republic against insurgency and/or armed conflict to the level of a limited war



Defence Strategic Development Trajectory



Localisation



Governance & Policy Co-ordination: National Defence Industry Council (NDIC)

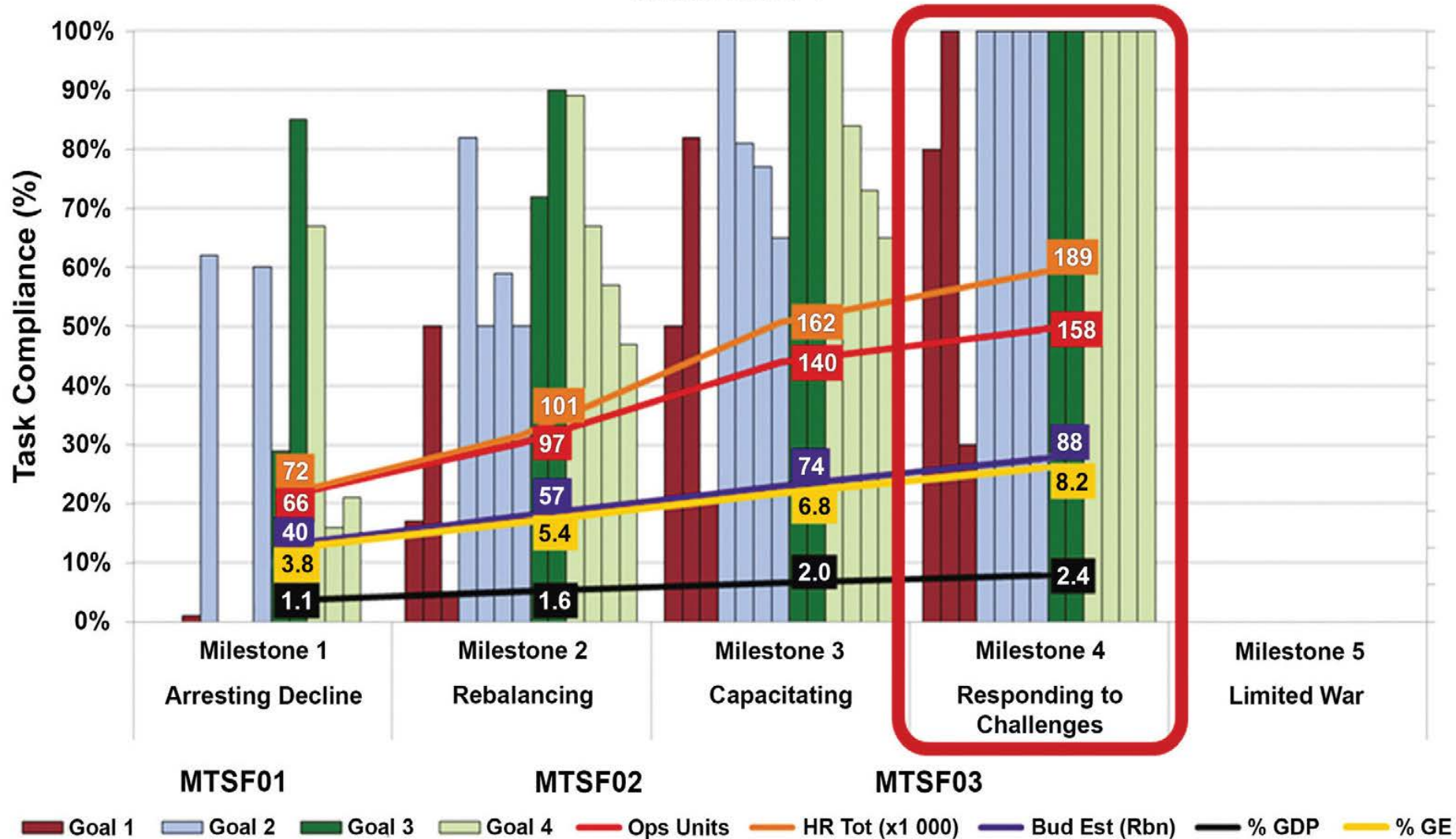
DEFENCE REVIEW CONTEXT (Cont'd)



DEFENCE REVIEW CONTEXT (Cont'd)

DEFENCE DEVELOPMENT TRAJECTORY





Milestone 4



DEFENCE REVIEW CONTEXT (Cont'd)





Localisation:

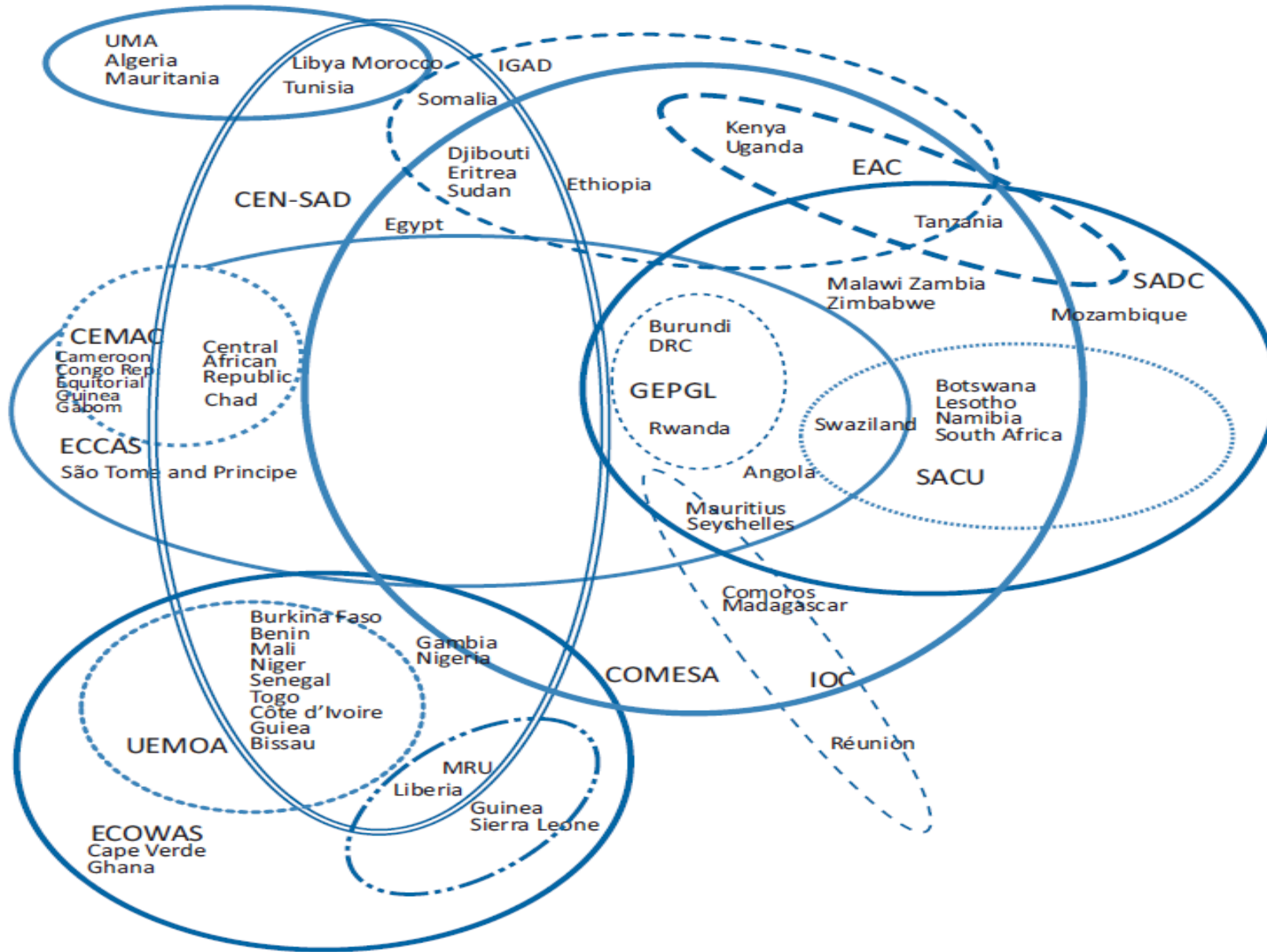
-  Definitions for different types of companies based on origin and location (Cht-15)
-  Items targeted for local design & production:
 - Munitions, batteries and spares, secure command and control communications, information warfare equipment.
-  MOTS (military-off-the-shelf) items: complex items required in small quantities
-  Sourcing from local suppliers to serve as impetus to re-industrialisation



National Defence Industry Council (NDIC)

-  Policy co-ordination
-  Develop and manage defence industry strategy

The “spaghetti bowl” of regional formations in Africa



Source: Economic Commission for Africa

STRATEGIC NATIONAL INITIATIVES

Role of national departments and State-owned entities:

- * Trade and Industry: IPAP, NIP, B-BBEE, etc
- * Science and Technology: Innovation Hub; DPSS, etc
- * Department of Defence: SANDF, Armscor



STRATEGIC NATIONAL INITIATIVES (Cont'd)

National Defence Industry Council (NDIC)



Launch: March 2016

Mandate:

- National vision on the defence industry
- Alignment between SANDF needs and role of the defence industry
- Policy and strategy development
- Integration of the defence industry within the NDP

Composition:

- Chaired by Minister of Defence & Military Veterans but delegated to the Secretary for Defence
- DGs of 11 government departments
- Executive Director of AMD – the defence industry association
- CEOs of SOEs in the defence industry (Armcor, Denel, CSIR)

STRATEGIC NATIONAL INITIATIVES (Cont'd)

National Defence Industry Council (NDIC)



Key Initiatives:

- Development of the Defence Industry Strategy & Implementation Plan
- Defence Sector Charter

STRATEGIC NATIONAL INITIATIVES (Cont'd)

National Defence Industry Council (NDIC)

Defence Industry Strategy

- ❖ 1st Draft released for public comment
- ❖ Role of the defence industry in the implementation of the Defence Review 2015
- ❖ Four Courses of Action for government:
 - “Business-as-Usual”**: Continue with current under-funding and operational over-stretch. Outcome: No acquisition, no R&D resulting in unplanned, unstructured, uncontrolled downward spiral, shedding capabilities and jobs
 - “Planned Shut-Down”**: Accept the reality of under-funding; plan winding down of the industry; retain MRO (Maintenance, Repair & Overhaul) capability.
 - “Stabilise and Sustain”**: Decide to retain those defence capabilities that are still viable and recover those that are deemed essential
 - “Stabilise and Develop”**: Use the existing industry capabilities as a foundation for an expanded and better balanced industry to support the SANDF.



STRATEGIC NATIONAL INITIATIVES (Cont'd)

National Defence Industry Council (NDIC)

Defence Sector Charter

- ❖ Gazetted for public comment: 4 Oct 2017
- ❖ Consultative sessions among defence analysts, academics and broader defence companies
- ❖ Introduces various scorecards for designated groups, including military veterans



Armcor & AMD Initiative: Establishment of the Defence Industry Fund (DIF)

Objective:

To promote the growth and sustainability of the Defence Industry by :

Products / Services

Accessible finance



- Land / Buildings Finance
- Equipment Finance
- Project Finance
- Working Capital Finance
- Bridging Finance
- VAT loans
- Finance Guarantees
- Revolving Credit

Industry Development







- Business Plan Development Support
- Financial Administration Training / Advice
- Human Resources Training / Advice
- Technical & Production Management / Advice
- Market Access & Business Linkages advice & facilitation
- Sector Research & Market Related Studies

IMPLICATIONS

- Licence category (FSB)
- Credit licence (NCR)
- Forex Licence (SARB)



WAY FORWARD

-  Finalisation of the Defence Industry Strategy
-  Drafting of the Implementation Plan
-  Launch of the Defence Sector Charter
-  Launch of the Defence Industry Fund

Thank You