



# A CRITICAL EVALUATION OF DEVELOPMENT PROJECTS FUNDED BY MILITARY PROCUREMENT OFFSETS IN SOUTH AFRICA

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# PROCUREMENT OFFSETS

- Reality in most of the world
- Particularly for military deals
- Very few empirical evaluation type studies conducted internationally to assess the impact of offsets in the recipient country.
- Research has found that military trade offsets seldom deliver what they advertise in terms of job creation, technology transfer and trade linkages
- Also rife with corruption



# PROCUREMENT OFFSETS IN SOUTH AFRICA

- Industrial Participation required by law since 1996 for all deals in excess of US\$10 million, and should be equal or exceed 30% of the deal's value
- Industrial Participation has two parts:
  - Direct – i.e. goods/deals related to the equipment purchased
  - Indirect – i.e. not directly related to the equipment purchased and primarily social development projects



# PROCUREMENT OFFSETS IN SOUTH AFRICA

- 1998 Strategic weapons procurement deal - warships and military aircraft in an effort to re-equip navy and air force
- Offsets were estimated to result in approximately US\$20 billion investment, as well as the creation of approximately 65,000 jobs over an eleven year period



# BENEFICIATION OF PRECIOUS METALS IN SA

- At same time as the arms deal was designed and concluded, South Africa's legislation guarding the country's mineral wealth and mining operations changed significantly and the local beneficiation of minerals became a legislated obligation
- Beneficiation = conversion of the extracted minerals and metals into value-added products throughout the value chain
- Provided ideal opportunity for mining companies and weapon suppliers to join forces



# OFFSETS AND BENEFICIATION PROJECTS

- Six National IP precious metal beneficiation-related projects were established.
- Of these six, only two are still operational.
- Evaluation of three of these projects:
  - South African Royal Manufacturers (SARM) - a gold chain manufacturing plant. No longer in operation
  - Filk Gold Chains – a gold chain manufacturing plant. Still in operation
  - Silplat – platinum jewellery manufacturing plant. Still in Operation



# DIRECT CASH FOREIGN INVESTMENT

- Main objective of the IP programme is to encourage direct foreign investment into South Africa

Filk Gold Chains	SARM	Silpat
US\$1.5 million	US\$9 million.	US\$47million (2004 NIP annual report, p. 26) US\$25 million (Implats press release, 07 April 2004)



# FOREIGN TECHNOLOGY TRANSFER

Filk Gold Chains	SARM	Silpat
Yes, albeit not 100% due to protection of own turf by overseas company. Only has 10% of the technology capacity. SA technology years behind that of Italy	Could not be established for sure, although report of purchase of casting machinery from Italy, however conditions of these deals not established	Yes, albeit not 100% due to protection of own turf by overseas company





# NEW TRADING PARTNERS & SUSTAINED EXPORTS

Silk Gold Chains	SARM	Silpat
Yes, there are distribution agreements with various overseas distributors in USA, Europe and Far East	Had an exclusive deal with one US-based company. Led to fraud and theft.	Yes, working through Silmar to establish trading partners in Europe and elsewhere



# JOB CREATION

Silk Gold Chains	SARM	Silpat
Yes, jobs increased with more than 50% since the NIPP intervention	Approximately 200 permanent jobs plus some contract workers, however all jobs were temporary and not sustainable	Saved the 120 jobs that was in existence prior to the NIPP intervention. These jobs have been sustained.



# SKILLS DEVELOPMENT

<b>Silk Gold Chains</b>	<b>SARM</b>	<b>Silpat</b>
Training happening on continuous basis in-house on-the-job, also in Italy and through AngloGold Ashanti initiatives	Some in-house on-the-job training.	Training happening on continuous basis in-house on-the-job



# SUSTAINABLE GROWTH

<b>Silk Gold Chains</b>	<b>SARM</b>	<b>Silpat</b>
Yes, factory growing in terms of products and staff levels	No	Yes, at this time



# LESSONS

- Tendency by offset obligors to start ‘greenfields’ projects instead of building on already existing ‘brownfields’ projects.

Silk Gold Chains	SARM	Silpat
‘brownfields’	‘greenfields’	‘brownfields’

- Better sustainability by developing existing companies



# LESSONS

- Critical to ask how the offset activity is being financed. If it is fully financed by capital raised outside the weapons purchasing nation, then it is actually bringing in fresh capital.
- Transfer of technology cannot be sustainable because the transferring company will not stop advancing in its own knowledge and technological prowess. Receiving company remains a market competitor.



# CONCLUSION

- Offsets here to stay, have to find a way to make them work
- Offsets can be successful on condition that the offset programme is properly conceived and implemented, and utilizes the right resources
- These conditions do not currently exist in South Africa.



Thank you.

Any Questions?

