**Policy Assessment and Recommendation Report of the Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour on Budget Vote 39, Strategic Plan, 2023/2024 Annual Performance Plan of the Department of Trade, Industry and Competition, 23 May 2023.**

1. **Background**

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism and Employment and Labour* (the Select Committee), having considered the request of the *National Council of Provinces* to analyse and report on *the Strategic Plans, Annual Performance Plans and budget allocations of the Department of Trade, Industry and Competition* (the Department), tabled by the *Minister of Trade, Industry and Competition* (the Minister), and in terms of the *Public Finance Management Act of 1999* (PFMA), as well as the *Money Bills Amendment Procedure and Related Matters Act, 2009*, reports on its Policy Assessment and Recommendation Report as follows:

1. **Committee Process**

The Select Committee considered the Strategic Plans for the 2023 medium term period and the *Annual Performance Plan of the Department of Trade, Industry and Competition* (the Department) on 9 May 2023. The Committee has further considered the adequacy of financial resources deployed for the implementation of the plans.

1. **Introduction**

Recent past government economic policy strategy documents have underscored that global uncertainties and an uneven domestic recovery will weigh on the economic outlook over the medium term. Economic growth, low investment, job creation remains key risks in the South African economy. 2023 SONA, including the *2023 Budget Review* highlighted that the main focus of government is to revive economic growth and create jobs. So far the economy is not performing as expected. Previous government policy strategy documents have highlighted that persistent structural constraints remain a challenge for South Africa economic growth prospects. Over the medium term, *2023 Budget Review*, including reports by the *World Bank* and the *South African Reserve Banks* underscored a need for South Africa to accelerate major economic reforms in order to create necessary jobs and encourage investment over the medium term.

South Africa is one of the biggest economies in Africa. The Committee highlighted that in terms of distribution of resources, jobs and opportunities are concentrated in three main provinces, Gauteng (Johannesburg), Western Cape (Cape Town), and KwaZulu Natal (Durban). There is a need for government to close the gap in terms of economic growth, investment and employment. In addition, rural economies need urgent interventions to increase rural economies and incomes.

Further, Covid-19 has exposed the vulnerability of the South African economy, even though the government implemented a stimulus economic package to support lives and livelihoods, cushion businesses and save jobs. Too many households remain vulnerable. Securing electricity supply remain a major risk to the overall commerce, economy as these have been hard hit. Further, clean and safe drinking water, efficient freight transport for goods to reach global markets, remains a concern.

Further constraining the South Africa economic growth trajectory, is the deterioration of the global economy with its high inflationary pressure resulting to monetary policy tightening aimed at containing high inflation across a range of advanced economies and emerging markets. In addition, there are major uncertainties relating to energy and food market disruptions caused by the Russia-Ukraine conflict, US-China trade wars, and intensity of geo-political risks.

It was highlighted that South Africa’s structural economic constraints, including unreliable electricity, high levels of market concentration, inefficiencies in network industries and the high cost of doing business; limit the rate at which the economy can grow and create jobs.

It was underscored that cutting red tape and supporting small businesses, remains a priority. However, execution remains a challenge. Investing in small business remains high on government policy agenda, not only for businesses in urban economies, but also for rural and township economies. The growth of the South African economy is largely dependent on the growth and expansion of businesses, and attraction of both domestic and foreign investment. The 2023 Budget Review highlighted that gross fixed-capital formation grew in the third quarter of 2022, led by the public sector. Total investment remains R59.9 billion below pre-pandemic levels – with private investment accounting for R50.7 billion of the shortfall. Further, investment in skills remains pivotal to getting the economy moving (point emphasised by the World Bank in various reports)

It was reported that consistent with forecast downgrade, South Africa’s international trade in 2022 registered a surplus of R193 billion, down from R432 billion in the previous year. The exports that kept the trade balance positive included rapid growth in coal exports, which expanded 121 percent in 2022, as compared to the previous year, followed by iron and steel (16 percent) and vehicles (12 percent). It was highlighted that trade opportunities both in the African continent and the global village should be used strategical to support the economy, and further access global talent to boost skills base, and access new markets. It was advanced that the African Continental Free Trade Area (AfCFTA) if implemented successful, will present good growth opportunities for South Africa and the African region.

1. **Overview of the Legislative and Policy Mandate of the Department**

The aim of the Department is to foster a dynamic industrial, globally competitive South African economy, characterised by meaningful economic transformation, inclusive growth and development, decent employment and equity, built on the full potential of all citizens. Apart from the Constitution of the Republic, the legislative framework which informs the work of the department constituted by the following legislative Acts:

* Companies Act (2008);
* Manufacturing Development Act (1993);
* Broad‐Based Black Economic Empowerment Act (2003);
* Consumer Protection Act (2008);
* Industrial Development Corporation Act (1940);
* Competition Act (1998), as amended;
* International Trade Administration Act (2002).

The Department has 16 public entities over which it performs oversight, namely:

* Companies and Intellectual Properties Commission (CIPC);
* Export Credit Insurance Corporation (ECIC);
* National Consumer Commission (NCC);
* National Consumer Tribunal (NCT);
* Companies Tribunal (CT);
* National Credit Regulator (NCR);
* National Empowerment Fund (NEF);
* National Gambling Board (NGB);
* National Lotteries Commission (NLC);
* National Metrology Institute of South Africa (NMISA);
* The International Trade Administration Commission (ITAC);
* National Regulator for Compulsory Specifications (NRCS);
* South African Bureau of Standards (SABS);
* South African National Accreditation System (SANAS);
* The Competition Commission (CC);
* The Competition Tribunal (CT);
* The Industrial Development Corporation (IDC);

Of the 16 public entities reporting to the Department, three are self-funded, namely – *Companies and Intellectual Properties Commission* (CIPC); *National Empowerment Fund* (NEF) and *National Lotteries Commission* (NLC). The Department further makes transfers to the *Industrial Development Corporation* (IDC) which administers some of the incentives. The Department’s vision is to support the development of a dynamic, industrialised South African economy, characterised by meaningful economic transformation, inclusive growth and development, decent employment and equity. Further, the Department aims to build South African citizens to realise their full potential.

**Updates to institutional policies and strategies**

It was reported that the Department’s industrial strategy is designed to promote industrialisation to propel higher levels of growth and investment. Simultaneously, it has to overcome the core socio-economic challenges such as deep levels of inequality and joblessness. These changes all require disruptive and far-reaching structural changes in long standing economic systems. At the same time, the profound changes wrought by the Covid-19 pandemic, slower international trade growth and heightened tensions amongst major economies is deeply changing the context of industrial policy. The *Economic Reconstruction and Recovery Programme* (ERRP) resulted in the formulation of the re-imagined industrial policy which also builds on various national key strategic economic policy documents such as the *National Development Plan,* the *New Growth Path Framework and the Industrial Policy Action Plans*. The re-imagined industrial policy seeks to deepen the domestic market by growing employment, increasing outcomes and undertaking other measures to improve equity and income distribution, and to widen the market for South African goods and services through a stronger focus on exports to the region and other rapidly growing economies. The three apex outcomes introduced by the Department in its 2023 spending plan to consolidate the efforts of all programmes and entities cover the following areas:

* Industrialisation to promote jobs and rising incomes;
* Transformation to build an inclusive economy and
* A capable state to ensure improved impact of public policies.

The three apex outcomes have six underlying pillars that reflect the core aims of the re-imagined industrial strategy:

* To combine growth with transformation;
* To boost local production;
* To grow exports and expand African trade;
* To increase investment;
* To establish a more reliable and low-cost energy system while greening the overall economy and to grow employment.

The 2023 Budget Review stressed that firms remain under strain given challenging domestic business conditions. Gross fixed-capital formation is estimated to slow to 1.3 per cent in 2023 as weaker global demand and tighter global financial conditions constrain foreign investment. The electricity crisis will weigh on investment decisions and reduce profitability through lost production and increased operating costs. Transport freight and logistics operations, delays in the rollout of infrastructure through the independent power producer programmes will affect the overall performance of the economy. The Department’s strategic policy direction should be mindful of the policy sentiment outline in the 2023 Budget Review.

The 2023 Budget Review indicates that widespread criminal activity poses a threat to economic growth and national security. In addition, a deterioration of the fiscal outlook due to unfunded spending pressures or the materialisation of contingent liabilities could increase borrowing costs, *and crowd out both private and public investment*.

Investment in water, roads, port and energy infrastructure is pivotal to the recovery and growth of the economy. The Committee emphasised that provincial and municipal capital spending should be scaled up. Lack of capital spending at both provincial and local government would have a direct impact to the success of the Special Economic Zones and Industrial Parks. Local government capacity and capability would need to be geared-up. This would need crucial investment facilitation and cluster-oriented management capabilities.

1. **Budget Policy Area**

The Department will continue to develop and implement various sectoral master plans over the MTEF period. These key components of the *Re-Imagined Industrial Strategy*, which presents a multi-pronged approach to industrial development, with an emphasis on building partnerships with the private sector to secure investment to create jobs. Over the period ahead, this entails focussing on supporting the implementation of key interventions outlined by the ERRP, particularly by providing industrial finance, developing industrial infrastructure and enhancing competitiveness and localisation. According to the *2023 National Treasury Estimates of National Expenditure*, the Department’s total expenditure is expected to increase at an average annual rate of 0.5 percent, from R10.9 billion in 2022/23 to R11.1 billion in 2025/26. Spending in the *Incentives Programme*, mainly to disburse funds for industrial financial assistance, is expected to increase at an average annual rate of 3.2 percent, from R5.3 billion in 2022/23 to R5.8 billion in 2025/26. Allocations to the programme account for an estimated 51.1 percent (R16.9 billion) of the Department’s expenditure over the MTEF period. The *Transformation and Competition Progra*mme’s baseline is expected to decrease at an average annual rate of 17.3 percent due to the *Social Employment Fund* for the *Presidential Employment Initiative* not being extended beyond 2023/24.

***Providing industrial finance***

In support of the ERRP, initiatives in the Incentives Programme are aimed at growing sustainable and competitive enterprises through providing direct or indirect industrial financing. Over the next three years, the Department will continue to provide financial support to the Automotive Incentive Scheme, the Black Industrialists Programme, the Agro-Processing Support Scheme, the Strategic Partnership Programme and the Aquaculture Development and Enhancement Programme. Allocations to the Manufacturing Incentives sub-programme account for an estimated 51 percent (R8.8 billion) of the Incentives programme’s budget over the medium term.

The Department will also provide financial assistance or support to 300 clothing and textile firms through the clothing and textiles competitiveness programme, which has a budget of R1.8 billion over the period ahead in the Sectors programme. Through these incentive programmes, the department expects to leverage R83 billion in private sector investment. A further R728.8 million over the medium term is reprioritised, mainly from the Department’s operational budget, as it implements the new energy vehicle roadmap. The roadmap is intended to enhance the transitioning of the automotive industry in South Africa from internal combustion engines to electric motors, in line with global trends.

***Developing industrial infrastructure***

A critical part of the economic reconstruction and recovery plan includes interventions to catalyse investment through infrastructure development. This includes subsidising bulk infrastructure and top structures (factories) in special economic zones, and rolling out infrastructure to revitalise a targeted 16 industrial parks over the medium term. These subsidies are provided mainly through the *Infrastructure Investment Support* subprogramme in the *Incentives* programme, with R4.5 billion over the MTEF period allocated for special economic zones, R443.4 million for industrial parks and R372.7 million for critical bulk infrastructure such as water, electricity and sewerage connections.

***Enhancing industrial competitiveness and localisation***

The department aims to enhance industrial competitiveness at firm and sector level through conditions on financial incentives and local procurement policies that encourage industry to use local products. This entails disbursing funds to technical institutions such as the Proudly South African campaign to support sectoral work on master plans and projects that aim to improve industrialisation and competitiveness, and increase localisation. Through collaboration between government, business and labour, these policy interventions are aimed at building local industrial capacity for the domestic and export markets. Expenditure for this work is within allocations amounting to R2.5 billion over the medium term in the *Industrial Competitiveness* sub-programme in the *Sectors* programme. A further R30 million over the period ahead is allocated to the South African Bureau of Standards for local content verifications.

1. **Changes to the Department’s Strategic Outcomes**

The Departmentin previous APPs targeted *inputs and activities* that would have a beneficial outcome and impact on jobs, industrial output, exports, and investment. This was done because many external factors driving the outcomes were outside the control or influence of the Department and the entities within its portfolio. The Department highlighted that a focus on inputs/ activities can distort resource allocation, it also limits accountability on the impact of the use of public resources. To address both these concerns, a new high impact based and outcome focussed approach was developed. For the 2023/24 financial, building on progress made since 2019, the Department’s APP has a significant new element – meaningful outputs that more closely track to the three outcomes to measure success of the Department and its entities’ work. The new approach focusses on meaningful outputs (referred to targets).

It was reported that the 10 core targets represent the real impact the Department aims to achieve in the economy, and measure crucial indicators like local output, job creation and the performance of black industrialists. While all the Department’s targets are important, the following core targets are the apex priorities, and all programmes are expected to contribute to the achievement of the following essential outputs:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **R200 billion**  In investment pledges secured across the state | **R40 billion**  In additional local output committed to achieved | **R700 billion**  In manufacturing exports | **R300 billion**  In manufacturing exports to other African countries | **R25 billion**  In exports to Global Business Services (GBS) |
| **R40 billion**  In Black Industrialist Output achieved | **1 million**  Jobs supported or covered by Master Plans | **100 000**  Jobs to be created | **23 000**  Jobs in black industrialists firms | **20 000**  Additional workers with shares in their companies |

These 10 core outputs are part of 45 output and targets which have been clustered into the following 12 functional focus areas:

|  |  |
| --- | --- |
| 1. Investment | 1. Energy |
| 1. Industrial production | 1. Green Economy targets |
| 1. Exports | 1. Stakeholder engagement and impacts |
| 1. Industrial support | 1. Addressing crime |
| 1. Transformation | 1. Red tape and state capability targets |
| 1. Jobs | 1. Improving the capacity and responsiveness of the state and social partnership |

The 45 outputs have been divided into four types, mainly:

* 10 Core Targets – Measure the performance and transformation of the economy and reflect some of the ultimate objectives the Department trying to achieve;
* 13 Programmatic Targets- Help achieve the aims of the core targets, but directly measure the impact of specific activities, such as providing industrial finance;
* 15 Enabling Targets- Enable the achievement of Programmatic targets by creating the systems and environment that make Departmental activities work and
* 7 Contextual Responsive Targets- Often involve work outside of core programmes and are designed to respond to pressing needs in the economy and to encourage the Department to be flexible and agile in its work.

The new approach:

* Plans for results and impact; and not for audit outcomes;
* Sets out the sensitivities, co-dependencies or external factors that may affect outputs;
* Is ambitious and will require a break in the Department’s traditional ways of working;
* Requires that some existing activities be discontinued or reduced to refocus resources;
* Ensures that the Departmental plans and functions account for the economic returns against public resources invested in pursuit of those goals;
* Requires active engagement not just about what has been achieved (or not), but about what we are doing, what we are learning, how we are responding when we miss targets, and about the quality of the decision-making and resource allocation.

To enhance the delivery, a number of internal refinements of functions and resources will be made:

* Staffing: re-assignment of human resources and provision of specialists for identified core outputs;
* Skills needs: focus on skills in key areas e.g. project management, monitoring, financial evaluation;
* Vacancies: 25 percent of critical vacancies to be filled per quarter, based on new skills required;
* Funding: Re-prioritisation of the funding through shifting and virements of the budget to the core programme;
* ICT: Automation of manual customer-facing systems and provision of reliable internet capability;
* Programmes: consolidate from 10 to 9 programmes;
* Accommodation: a new Ops Centre as the implementation coordinating space for managers;
* Systems: Reduced bureaucracy on staffing and finance.

***Role of Programmes***

Of the nine Programmes, six are core drivers of the targets, namely the Trade, Investment/Spatial Industrial Development; Sectors; Incentives; Exports, and Competition/ Transformation.

It was highlighted that the integrated approach requires that each functional policy programme contributes outside its traditional core area. For example, the Trade branch will not focus only on negotiation and administration of trade agreements, but will also have a mandate to contribute to jobs, investment, community outreach and writing up of case studies of impact of trade policies on the lives of South Africans. The Sector Programme’s targets will be reviewed to shift the programme from notionally a ‘coordinating role’, to a programme of more active front-line company support across different sectors. Two Programmes provide essential support services to the core programmes: Administration; and Research. They provide overall coordination, external stakeholder management, monitoring and evaluation, human resource enabling, financial management, ICT, legal, office facilities and fit-for-purpose research, all to be provided in innovative ways to support the new targets. In addition, the Administration Programme, through the Office of the Director General provides oversight support on all entities that report to the Ministry.

**7. Departmental Spending Over 2023 Medium Term**

****

***Source: 2023 Estimates of National Expenditure***

Of the total budget of R10,9 billion for the 2023/24 financial year, approximately R1,7 billion (16,0 percent of the total budget) is the operational budget of the Department (compensation of employees, and goods and services), and a bulk of the budget R9,16 billion (83,9 percent of the total budget) is allocated to transfers and subsidies to departmental entities and private enterprises, among others. While R15,7 million (0,1 per cent) of the budget is allocated to payments for capital assets (machinery and software). Of the operational budget, a large proportion is allocated for compensation of employees (R1,06 billion or 61,1 percent of the operational budget or 9,8 per cent of the Department’s total budget).

It should be noted that the compensation of employees’ budget will decrease by 1,4 percent between the 2022/23 and the 2023/24 financial years due to the estimated reduction in the number of employees from 1 325 employees to 1 300 employees. In the medium term (2024/25 and 2025/26 financial years), the compensation of employees’ budget is expected to increase to R1,08 billion in 2024/25 with 1 243 employees and R1,13 billion in 2025/26 with 1 264 employees.

For the 2023/24 financial year, the Department has made significant changes to its targets and some changes to its programmes. The changes to the Programme names is reflected as follows:

|  |  |
| --- | --- |
| **Programmes (2022/23)** | **New Programme Names (2023/24)** |
| **Programme 2:** Trade Policy | Trade |
| **Programme 3:** Spatial Industrial Development | Investment and Spatial Industrial Development |
| **Programme 4:** Industrial Policy | Sectors |
| **Programme 5:** Consumer and Corporate Regulation Division | Regulation |
| **Programme 6:** Industrial Financing | Incentives |
| **Programme 7:** Trade and Investment South Africa | Export |
| **Programme 8:** Invest South Africa | (Combined with previous Programme  3) |
| **Programme 9:** Competition Policy | Transformation and Competition |
| **Programme 10:** Economic Research | Research |

The purpose of *Programme 1: Administration* is to provide strategic leadership, management and support services to the Department. The programme accounts for 7.7 percent of the total budget with an allocation of R840.3 million, resulting in a R23.7 million decrease from the previous financial year. In the 2022/23 financial year, the programme had set itself 26 indicators/targets, for the 2023/24 financial year these targets have been reduced to four.

In terms of *Programme 2: Trade* is to build an equitable global trading system that facilitates development by strengthening trade and investment with key economies and fostering African development, including regional and continental integration and development and cooperation in line with the African Union Agenda 2063. The programme accounts for 2.2 percent of the total budget and receives an allocation of R244.2 million for the 2023/24 financial year.

The purpose of *Programme 3: Investment and Spatial Industrial Development* is to support foreign direct investment flows and promote domestic investment by providing a one-stop shop for investment promotion, investor facilitation and aftercare support for investors as well as increase participation in industrialisation. For the 2023/24 financial year, this programme received an allocation of R168.6 million which is 1.5 percent of the total budget and is an increase of R8.4 million from the previous financial year.

The purpose of *Programme 4:* *Sectors* is to design and implement policies, strategies and programmes to strengthen the ability of manufacturing and other sectors of the economy to create decent jobs, promote inclusion and increase value addition and competitiveness, in both domestic and export markets. For the 2023/24 financial year, this programme received an allocation of R1.72 billion which accounts for 15.7 percent of the total budget.

*Programme 5: Regulation* is to develop and implement coherent, predictable and transparent regulatory solutions that facilitate easy access to redress and efficient regulation for economic citizens. For the 2023/24 financial year, this programme received an allocation of R359.6 million which is 3.3 percent of the total budget. This is an increase of R15.8 million from the 2022/23 financial year.

*Programme 6: Incentives* seeks to stimulate and support the development of sustainable and competitive enterprises, through the efficient provision of effective and accessible incentive measures that support national priorities. This programme captures the core mandate of the Department and receives the largest allocation of R5.4 billion accounting for 49.4 percent of the total budget. This R74.4 million increase from the previous financial year and is attributed to expected increases in spending in the Incentives Programme, mainly to disburse funds for industrial financial assistance.

*Programme 7: Exports*, seeks to increase export capacity and support direct investment flows, through targeted strategies, and an effectively managed network of foreign trade and investment offices. The programme has been allocated R244.2 million for the 2023/24 financial year which account for 3.7 percent of the total budget. This allocation is a decrease of R77.7 million from the previous financial year. The decrease is as a result of the Presidential initiative - Social Employment Fund, not being extended beyond the 2023/24 financial year and was part of the COVID-19 ERRP interventions.

*Programme 8: Transformation and Competition* seeks to develop and roll out policy interventions that promote transformation and competition issues through effective economic planning, aligned investment and development policy tools. The allocation for the 2023/24 financial year is R1.7 billion which accounts for 15.8 percent of the total budget and is the second largest programme of the Department according to budget allocation.

*Programme 9: Research,* seeks to undertake economic research, contribute to development of trade and industrial policies and guide policy, legislative and strategy processes to facilitate inclusive growth. For the 2023/24 financial year, this programme received an allocation of R60.4 million and accounts for 0.55 percent of the total budget, this is an increase of R9.8 million from the previous financial year.

**8. Transfers to entities**

**Summary of Departmental Transfers to Entities**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Entities** | **2019/20 (R'000)** | **2020/21 (R'000)** | **2021/22 (R'000)** | **2022/23 (R'000)** | **2023/24 (R'000)** |
| Companies Tribunal | 17 352 | 20 752 | 20 313 | 24 529 | 28 202 |
| Competition Commission | 295 438 | 302 586 | 439 550 | 449 518 | 453 195 |
| Competition Tribunal | 36 172 | 32 342 | 36 970 | 42 286 | 42 703 |
| Export Credit Insurance  Corporation of South Africa | 233 511 | 162 710 | 208 078 | 150 000 | 172 783 |
| International Trade Administration  Commission | 111 428 | 95 998 | 112 478 | 108 559 | 121 427 |
| National Consumer Commission | 58 304 | 51 530 | 58 505 | 59 388 | 73 566 |
| National Consumer Tribunal | 56 639 | 47 492 | 53 515 | 54 756 | 55 295 |
| National Credit Regulator | 86 580 | 71 272 | 82 632 | 83 241 | 84 060 |
| National Gambling Board | 33 797 | 31 027 | 35 928 | 36 477 | 36 836 |
| National Metrology Institute of South Africa: Operations | 115 057 | 103 550 | 121 061 | 122 832 | 124 041 |
| National Regulator for Compulsory Specifications | 139 501 | 126 126 | 144 099 | 147 560 | 154 012 |
| South African Bureau of Standards | 420 384 | 270 421 | 328 819 | 361 248 | 379 471 |
| South African National Accreditation System | 31 669 | 28 748 | 32 967 | 33 820 | 34 153 |
| **Industrial Development Corporation** | |  |  |  |  |
| Regional Industrial Development | – | – | – | 15 000 | 21 000 |
| Sector programmes | 838 399 | 637 029 | 487 363 | 599 483 | 564 050 |
| Industrial financing | 700 000 | 892 000 | 1 997 500 | – | – |
| Social employment fund | – | – | 800 000 | 861 566 | 787 941 |
| Tirisano construction fund trust | 61 250 | 36 279 | 46 222 | 64 375 | 53 750 |
| Downstream steel industry competitiveness fund | 35 000 | 29 449 | 37 727 | 39 550 | 39 939 |

*Source: National Treasury*

The Department has16 entities**,** of which, three are self-funded, these are the Companies and Intellectual Property Commission (CIPC), the National Empowerment Fund (NEF), and the National Lotteries Commission (NLC). Transfers to most of the entities will not increase during the financial year compared to the previous financial year. Entities whose transfers will increase include National Consumer Commission (24 per cent increase), Export Credit Insurance Corporation of South Africa (15 percent increase), Companies Tribunal (15 percent increase), International Trade Administration Commission (12 per cent increase), South African Bureau of Standards (5 percent increase), and National Regulator for Compulsory Specifications (5 percent increase).

**9. Issues Arising from Engagement**

The following are the key issues raised by Members and responses from the Department during deliberations:

1. The Committee welcomes the Department’s new approach and revised APP, particularly how it translates to outputs.
2. In response to concerns by Members that the focus on outputs would compromise audit compliance, the Minister indicated that previously, in order to meet audit targets the outputs were simplified (SMART targets) and focussed on factors that were within the control of the Department. This was done at the expense of output which are impacted by external factors. The revised way of work takes some degree of risk, however, it was noted that there is a strong connection between what is happening in the economy and the work of the Department. Outputs could no longer only focus factors within the control of the Department and its internal environment just meet performance targets. This old way of working usually compromised impact for the attainment of targets. However, the Minister expressed confidence that this better framework would enhance impact and performance whilst not compromising audit compliance.
3. Members raised concerns regarding the high number of acting positions, particularly in senior administration.
4. Members raised concerns that the temporary ban on scrap metal exports had no impact on reducing theft and vandalism of public infrastructure and queried the interventions the Department had in place to address this. In response to concerns raised by Members regarding the impact of the temporary scrap metal ban, it was reported that the Department is constantly monitoring its effectiveness however noted that export permits granted prior to the application of the ban were not cancelled.
5. Members raised concerns that with 12 months left in the Sixth Administration, the degree to which the new framework of working and revised APP would be carried forward by the next administration.
6. In response to concerns from Members regarding interventions with the European Union (EU) stringent regulations on citrus imported from South Africa and the Department’s interventions in this regard. It was reported that the new measures require South African farmers to apply extreme cold treatment to all Europe-bound oranges and to keep fruits at temperatures of 2 degrees or lower for 25 days. This has damaging implications for cold storage costs for citrus farmers and is meant to address phyto-sanitary and new plant health and safety requirements. South Africa has continuously argued that regulation is inappropriately applied and unjustifiable. The Department highlighted the success of South African citrus exports which has grown to be the second largest global exporter of citrus, of which approximately 40 percent is destined for the EU. The Department reported that South African’s government approach for a resolution on the matter is to intensify bilateral engagements with the EU at various levels:
   * Political: The President met with the EU Council President in July 2022 and with the Spanish Prime Minister in October 2022. DTIC and DALRRD Ministers also raised it with their EU counterparts, including at the 15th SA-EU Ministerial Political Dialogue Partnership held in January 2023.
   * Legal: A WTO dispute settlement process was initiated in July 2022 by way of a letter to the EU requesting formal WTO consultations. Formal WTO Consultations were held in September 2022. The next step is a request by South Africa for the establishment of a dispute settlement panel in the WTO if an amicable solution can’t be found.
   * Technical: Meetings during 2022 and 2023 of SA-EU agriculture and trade technical officials.
7. Members raised serious concerns regarding the lack of progress regarding SEZs and Industrial Parks, in particular, the Nkomazi SEZ in Mpumalanga which has seen little progress to date.
8. In respect of the SEZ’s, the Department submitted that this has highlighted the weaknesses in the SEZ model. Currently, spatial industrial development interventions are a provincial responsibility with limited managerial input from national government. This approach has not yielded the desired results. In addressing this, the Department introduced a new approach wherein business plans for SEZ’s are rechecked, proper governance arrangements are put in place and there is more is being done by provinces and municipalities to co-fund the SEZ’s as well as investment by the private sector. Announcements will be made by the Minister in the coming weeks regarding the SEZ’s that will be prioritized for the 2023/24 financial year.
9. In response to queries from Members regarding the Energy Action Plan, the Department responded that its work would support that of the Energy Minister and Output 23 (Investor Facilitation) was aligned to the energy initiatives and the 2023 State of the Nation Address policy priorities. Work is being done to unlock opportunity for job creation and localizing job opportunities as the country builds new energy infrastructure. Furthermore, the Department is working towards facilitating investment in energy and is working towards the creation of a one-stop-shop for private energy producers to assist them in managing regulatory challenges and improving energy efficiency.
10. Members raised concerns regarding the ongoing changes to the organisational structure of the Department and the high potential for anxiety this can create for personnel.
11. The Department submitted that measures in place to assist small businesses in respect of red tape and are working in conjunction with the Department of Small Business Development in this regard and working with vulnerable small businesses- criteria in this regard will be announced shortly.
12. In respect of economic diplomacy and navigating the complexities of a polarizing world, particularly in relation to the Russia-Ukraine conflict, it was highlighted that South Africa remains committed to the non-alignment global affairs mission. Further, AfCTA present trade opportunities within the African region.
13. The Department reported that the *Companies Amendment Bill* will be processed for Cabinet, and focussed on ease of doing business, indicators on wage differentials and where necessary, measures to combat money laundering and terrorism. The amendments will further give effect to the President’s Zondo Commission Report:

*“The recommendation to amend the Companies Act so as to permit applications for a director to be declared delinquent to be brought after two years is accepted and will form part of the review of the Companies Act”*

xv. The Department reported that as part of the *Re-Imagined Industrial Strategy*, localisation is key and must be rooted in building dynamic firms and an inclusive economy. A localisation social compact was reached at NEDLAC that identified a number of key value chains, where opportunities exist. Sector Master Plans developed and implemented in partnership with business and unions contain details on how actions plans will be executed.

1. In relation to AGOA, the Department reported that South Africa remains a beneficiary country under African Growth and Opportunities Act (AGOA) and also under the Generalised System of Preferences (GSP). The two programs provide duty-free quota-free access into the US market. South Africa, together with other AGOA-eligible countries are lobbying US Congress to consider renewing AGOA beyond 2025 for another 10 years. South Africa will be hosting the AGOA Forum later this year. The Forum will bring together Ministers from Africa AGOA-beneficiary countries, the US Trade Representative and other high-level US Administration officials, Members of US Congress, private sector, civil society and organised labour. The programme will include, among others, a “Made in Africa” trade exhibition aimed at showcasing the industrial capacity of countries in the continent to major US buyers.
2. South Africa’s exports enter the United States market under three regimes: most favoured nation (MFN) clause of the World Trade Organisation (WTO), AGOA and GSP:

* South Africa’s AGOA exports equalled US$2 billion in 2021, up from US$1.2 billion in 2020 and US$1.2 billion in 2019. The share of AGOA exports in total SA exports to the US experienced a downward trend: 31 percent in 2013; 16 percent in 2019; 10 percent in 2020, and then increased to 13 percent in 2021.
* South Africa’s GSP exports equalled US$625 billion in 2021, down from US$714 billion in 2020 and US$755 billion in 2019. The share of GSP exports in total SA exports to the US also experienced a downward trend: 13 percent in 2013; 10 percent in 2019; 6 percent in 2020 and 4 percent in 2021.
* South Africa’s MFN exports enter the US under terms no more favourable that those accorded by the US to all other WTO members. These exports from SA equalled US$12.7 billion in 2021, up from US$9.3 billion in 2020 and US$5.6 billion in 2019. The share of MFN exports in total SA exports to the US enjoyed an upward trend: 56 percent in 2013; 74 percent in 2019; and remained at 83 percent in 2020 and in 2021.

**10. Recommendations**

Following the engagements with the Department, the Committee proposed the following recommendations to the Minister to be implemented *over the 2023 medium term*:

1. Committee emphasised that organisational health and capability is critical in the execution of government strategic economic policies. By the end of the 2023 financial year, the Minister through the Department, should design and execute a plan that would ensure that critical posts are filled.
2. Over the 2023 medium term, the Committee urged the Minister with the support of Minister of Finance in collaboration with the Minister Cooperative and Traditional Affairs, that it should establish the *National Regional Economic Development Fund* to support economic growth, investment, enterprise development and employment in provinces that lag behind in terms of economic development.
3. The Minister should over the medium term ensure that all planned SEZs in other provinces are operational. To this end, the Committee would expect the Minister to submit annually a mid-term progress report in relation to the implementation of the SEZs.
4. Over the 2023 medium term, the Minister in collaboration with other spheres of government must design strategy and action plans that would spur regional economic growth by creating investment-friendly conditions and streamlining regulations to accelerate investments.
5. The Committee reiterate that *Research, Development* *and Innovation* remains a pivotal element in efforts to boost productivity and competitiveness of the economy. Over the medium term, the Minister, working jointly with the Minister responsible for Science and Innovation, should develop an action plan with necessary funding requirements to boost investment in research, development and innovation in the provinces, in particular those which are lagging in terms of economic development. The Committee expects the receipt of the report by the end of the 2023/24 financial year.

***Report to be considered.***