# 5. Report of the Portfolio Committee on Trade and Industry on Budget Vote 34: Trade and Industry, dated 19 May 2017

The Portfolio Committee on Trade and Industry, having considered Budget Vote 34: Trade and Industry, reports as follows:

1. **Introduction**

This budget is informed by South Africa’s commitment to create sustainable jobs, and build an inclusive economy in a developmental state, while enhancing its international and regional trade. The Department of Trade and Industry (DTI) is using industrialisation and the deepening of value chains to harness the manufacturing sector, as this has a significant employment multiplier effect. The DTI’s core mandate of industrial development, trade promotion and economic transformation supports the Government’s commitment to improving the lives of all South Africans, especially the most vulnerable. Industrialisation, which is supported by trade, productive investment, and local procurement, is being used to drive job creation. This policy and strategy will ensure full economic participation by all South Africans in the economy.

The largest budget allocation of 62 percent, namely R5.7 billion, goes to the Incentive Development and Administration Programme. Incentives are recognised by the private sector as a critical vehicle to facilitate investment and job creation and retention. In the past two financial years, the DTI’s incentives had assisted in retaining 96 500 jobs and creating 35 900 jobs. Some of these, like the Manufacturing Competitiveness Enhancement programme, have been proven to be so successful that they are always oversubscribed. High impact incentives have benefited agro-processing, clothing, textiles, leather and footwear, automotives, and the original equipment manufacturers (OEMs). The Special Economic Zones (SEZs) and Industrial Parks are two examples of mechanisms which are being used to implement national economic policies and strategies. The Industrial Policy Action Plan (IPAP) underpins government’s overall policy objectives to address the key challenges of slow economic and industrial growth, poverty, inequality and unemployment. The IPAP, which is a key component of the Nine Point Plan, aims to develop a more competitive and diversified economy with a higher global share of manufactured products.

Local public procurement is intended to drive the industrialisation policy to support the local manufacturing sector including small enterprises and black industrialists, as well as the creation of decent jobs in the economy. Local public procurement is a critical tool in driving demand led industrialisation and can contribute positively to economic transformation. However, State-Owned Entities who should be the champions of the industrialisation drive are hampering the process.

South Africa is broadening its economic empowerment strategies to ensure that not only ownership but also management and control of the economy is increasingly in the hands of black people. The Black Industrialist Programme (BIP) is latest measure to accelerate this policy and ensure that by incentivising experienced and black qualified people we can bring about a radical transformation of the economy. In this way, the most marginalized and vulnerable groups will be part of and benefit from an inclusive economy.

* 1. **Constitutional Mandate of the Committee**

Portfolio committees exercise oversight over their respective departments and agencies in line with their Constitutional mandate set out in section 55(2) of the Constitution of the Republic of South Africa, 1996, and section 27(4) of the Public Finance Management Act (No. 1 of 1999). In addition, the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) also requires committees to consider and report on their department and entities’ strategic plans. Portfolio committees may also advise the Standing Committee on Appropriations in the National Assembly regarding possible amendments within a budget vote for its consideration.

* 1. **Purpose**

The purpose of this report is for the Portfolio Committee on Trade and Industry to report on its deliberations and consideration, which is essentially the unpacking and scrutinising, of the DTI’s strategic plan, annual performance plan (APP) and its associated budget vote (Budget Vote 34). Furthermore, to make recommendations regarding the approval, amendment or rejection of Budget Vote 34 and any other recommendation regarding the implementation of the DTI’s strategic plan.

* 1. **Process**

The committee’s consideration of Vote 34 involved a robust engagement with the Minister of Trade and Industry, Dr R Davies, and the Director-General, Mr L October, on 28 February 2017, when they provided the context within which the DTI’s Strategic Plan had been developed and presented its APP. The DTI’s plans were discussed in relation to its mandate, which covers five key intervention areas, namely[[1]](#footnote-1):

* Industrial development.
* Trade, investment and exports.
* Broadening participation.
* Regulation.
* Administration.

During this engagement, the budget was unpacked against the DTI’s strategic plan and the priorities of the State of the Nation Address (SONA) given the prevailing economic climate, as well as against the performance during the 2016/17 financial year. This required the committee to evaluate the alignment of incentives and other instruments of industrial and trade policy objectives to ensure that the stated objectives can be met.

The committee also considered the following entities’ strategic plans and APPs on 28 March, 2 and 9 May 2017:

* Broad-based Black Economic Empowerment (B-BBEE) Commission,
* Export Credit Insurance Corporation (ECIC),
* National Empowerment Fund (NEF), and
* National Metrology Institute of South Africa (NMISA).
1. **Budget Vote 34: Department of Trade and Industry**

The DTI is mandated to create a diverse and globally competitive economy through industrialisation, which is characterised by inclusive growth and development, decent employment and equity for all South Africans. To implement its mandate, the DTI provides financial support in the form of incentives to promote the development of industries and participation of black people in economic activities; develops legislation for the protection of South African consumers and companies; attracts investments; and promotes international and regional trade. The DTI’s mandate is encapsulated in a number of pieces of legislation, including:

* the Companies Act (No. 71 of 2008),
* the Manufacturing Development Act (No. 187 of 1993),
* the Special Economic Zones (SEZ) Act (No. 16 of 2014),
* the Broad Based Black Economic Empowerment Act (No. 53 of 2003),
* the Protection of Investment Act (No. 22 of 2015), and
* the Consumer Protection Act (No. 68 of 2008).

Furthermore, the DTI supports outcome 4 (decent employment through inclusive growth), outcome 7 (comprehensive rural development and land reform) and outcome 11 (create a better South Africa and contribute to a better Africa and a better world) of the National Development Plan (NDP). The strategic goals, which are aligned to and support the NDP outcomes, are to:

* Facilitate the transformation of the economy to promote industrial development, investment, competitiveness and employment creation;
* Build mutually beneficial regional and global relations to advance South Africa’s trade, industrial policy and economic development objectives;
* Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;
* Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner; and
* Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.[[2]](#footnote-2)

To discharge its mandate, the DTI receives funds from the fiscus. On 22 February 2017, the Minister of Finance delivered the Budget Speech for the 2017/18 financial year. The DTI was allocated R9.27 billion of the national budget for the 2017/18 financial year.

**2.1. Policy Priorities for the 2017/18 financial year and alignment with national, regional, continental and global development agendas**

In terms of policy priorities for the DTI, industrialisation has been the main mandate since 2009 and this has been evident and emphasised in the SONAs since and has been reemphasised in the 2017 SONA. For the 2017/18 financial year, the focus is to strengthen the current interventions/initiatives to bring about industrialisation and attract investment into the South African economy. In industrialising the economy, the aim is to do so in a manner than ensures inclusive growth, increases the export of value-added goods, and creates jobs. Evidently, approximately 81.5 percent of the DTI’s budget will be spent on the Industrial Development and Incentive Development and Administration Programmes that are responsible for designing and implementing mechanisms to facilitate development in the manufacturing and related sectors of the economy with the aim of contributing to the creation of decent jobs, adding value to manufactured products and enhancing competitiveness in the domestic and export markets.

The President has also continued to place emphasis on the need to radically transform the economic structure. The Minister has highlighted the DTI’s role in achieving this priority through programmes such as the:

* Industrial Policy Action Plan (IPAP) that seeks to leverage public procurement to stimulate local productions, as well as procuring from black-owned business;
* the amended Broad-based Black Economic Empowerment legislation and the newly established Commission to ensure implementation of the legislation;
* the Black Industrialist Programme (BIP), which seeks to support existing black industrialists to overcome barriers to entry in the manufacturing sector;
* the establishment of SEZs in each provinces, as well as the revitalisation of Industrial Parks to decentralise industrialisation; and
* the implementation of mineral beneficiation to move up the value-chain to reduce the volume of raw materials being exported.

South Africa as a part of the African continent is pursuing regional integration, in particular regional industrial development. South Africa is a member of the African Union (AU) and the Southern African Development Community (SADC) hence policies of both SADC and the AU influence South Africa’s policies and the implementation thereof. One of the policies that have been adopted in recent years is AU Agenda 2063, and the SADC Industrialisation Strategy and Roadmap 2015 – 2063. Agenda 2063 provides "A global strategy to optimize use of Africa's resources for the benefit of all Africans"[[3]](#footnote-3). The SADC Industrialisation Strategy calls for industrialisation of the region as a tool for greater regional integration which has been in implementation for the past decade. As a member of SADC, South Africa has actively encouraged regional integration and incorporated this into its policies, particularly the NDP as “implementing a focused regional integration”[[4]](#footnote-4).

**Figure 1: Alignment between the SADC Regional Industrialisation Strategy, the National Development Plan and the Industrial Policy Action Plan**

IPAP (2016/17 - 2017/18)

IPAP encourages the industrialisation in different sectors in the economy for the purpose of job creation, economic growth, diversified exports - significant investment is required, particularly in the manufacturing (value-adding) sector.

Sectors with potential growth and job creation include agro-processing, mineral beneficiation, automotives, clothing and textiles, and chemicals

**IPAP Interventions:**

• Public Procurement;

• Industrial Financing;

• Developmental trade policy;

• Innovation and Technology;

• SEZs and Regional Industrial Clusters; and

• Regional integration

**South Africa’s Industrial Policy Action Plan (IPAP)**

Source: SADC (2015), National Planning Commission (2010), and DTI (2016)

South Africa’s industrialisation is important for regional integration, while regional integration and industrialisation efforts of the SADC are critical to the AU’s Agenda 2063 strategy. There is therefore a clear alignment between South Africa’s industrial policy as stated in the IPAP with SADC and AU policies. This is further depicted in the figure above.

In addition to the alignment of IPAP with the SADC Industrialisation Strategy and the AU Agenda 2013, the 9-point plan further supports Africa’s vision to grow the continent through integration which fosters economic development and job creation. The 9-point plan includes the following as drivers of job creation:

* Revitalising agriculture and the agro-processing value chain;
* Adding value to our mineral wealth (advancing beneficiation and support to the engineering and metals value chain); and
* Encouraging private sector investment.[[5]](#footnote-5)

#  Budget Analysis - Overview of the Budget Allocation: 2015/16 – 2018/19

The DTI’s budget has decreased from R10.38 billion in 2016/17 to R9.27 billion in the 2017/18 financial year; however, the budget in real terms is R8.73 billion which is a decrease of R1.6 billion compared to the previous financial year. The DTI’s budget will increase by 16 percent in real terms for the 2018/19 financial year. Given the inflation estimates of 5.7 percent and 5.6 percent for the next two years respectively, the budget is expected to increase to R8.9 billion in 2018/19 then decline to R7.7 billion in 2019/20 in real terms.

The decrease is due to fiscal constraints that the country is faced with. This decrease will have an adverse impact on the employment headcount of the DTI in the medium-term and on the funding allocated to incentives and transfers to the DTI’s entities. The DTI’s budget allocation should take the mandate of the Department into account, in particular two of the mandates are to create a conducive environment for business/attract investment and to create employment. Success in implementing these mandates would in turn have a positive impact on the fiscus through increases in taxes (corporate tax and pay as you earn). It is therefore important to balance the fiscal challenges that are faced by the country with the opportunities that exist with more investment and job creation.

**Figure 2: Overview of the Budget Allocation: 2016/17 – 2019/20**[[6]](#footnote-6)

Source: National Treasury (2017b)

### **Budget Allocation by Programme**

For the 2017/18 financial year, the DTI’s work and budget will be divided among its eight (8) programmes, namely:

* Programme 1: Administration;
* Programme 2: International Trade and Economic Development;
* Programme 3: Special Economic Zones and Economic Transformation;
* Programme 4: Industrial Development;
* Programme 5: Consumer and Corporate Regulation;
* Programme 6: Incentive Development and Incentive Administration;
* Programme 7: Trade and Investment South Africa; and
* Programme 8: Investment South Africa.

In line with the DTI’s core strategic objective of “Facilitating transformation of the economy to promote industrial development, investment, competitiveness and employment creation”[[7]](#footnote-7), the two largest programmes in terms of the share of the budget allocation are the Incentive Administration Programme, at approximately 62 percent and the Industrial Development Programme with a 20 percent share of the 2017/18 budget. The rest of the budget is allocated to the six other programmes as follows: Administration Programme (8 percent), the Trade and Investment South Africa (4 percent), the Consumer and Corporate Regulation Programme (3 percent), the Investment South Africa Programme (1 percent), the Special Economic Zones and Economic Transformation Programme (1 percent) and the International Trade and Economic Development Programme (1 percent).

**Figure 3: Budget Allocation by Programme: 2017/18 Financial Year**

Source: National Treasury (2017b)

At a programme level, the budget of seven of the eight programmes decreased in real terms. Trade and Investment South Africa was the only programme that neither increased nor decreased in real terms. Incentive Development and Administration had the largest decrease in budget with a R1.1 billion or 16.6 percent decrease compared to the previous financial year’s budget. This decrease is a result of the incentive programme being reviewed in the medium term. However, with the available funds under this programme, the DTI will continue to support manufacturing competitiveness, broaden the participation of black industrialists, and support the services industry in increasing investment.

**Table 1: Budget Allocation by Programme: 2016/17 & 2017/18 Financial Year (R million)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2017/18** | **Nominal Percent change in 2017/18 (%)** |
| **2016/17** | **2017/18** |
| Administration |  777.1 |  731.8 | - 45.3 | -5.83  |
| International Trade and Economic Development |  118.7 |  119.8 |  1.1 | 0.93  |
| Special Economic Zones and Economic Transformation |  121.9 |  119.4 | - 2.5 | -2.05 |
| Industrial Development |  1 727.0 |  1 819.3 |  92.3 | 5.34  |
| Consumer and Corporate Regulation |  294.3 |  298.6 |  4.3 | 1.46  |
| Incentive Development and Administration |  6 891.7 |  5 746.5 | - 1 145.2 | -16.62  |
| Trade and Investment South Africa  |  410.9 |  388.5 | - 22.4 | -5.45 |
| Investment South Africa |  47.8 |  50.9 |  3.1 | 6.49  |
| **TOTAL** |  **10 389.5** |  **9 274.8** | **- 1 114.7** | **-10.7**  |

Source: Calculations based on National Treasury (2017b)

### **Programme Analysis**

### **Programme 1: Administration**

The Administration programme is the third largest programme by budget allocation accounting for 8 percent of the total budget for the 2017/18 financial year. The programme is responsible for providing strategic support and management to the DTI and its entities. The programme also ensures successful implementation of the DTI’s mandate. For the financial year, R731.8 million has been set aside for this programme. However, this had decreased by R45.3 million in nominal terms (R88.6 million or by 11.4 percent in real terms).

### **Programme 2: International Trade and Economic Development**

The ITED programme focuses on building bilateral and multilateral trade relations, relations that facilitate the building of an equitable multilateral trading system; strengthening trade and investment relationships; and promoting New Partnership for Africa’s Development. The programme has two (2) sub-programmes, the International Trade Development and the African Multilateral Economic Development sub-programmes. Under this programme, South Africa’s membership in SADC, and in Southern African Customs Union is important and engagements in these groupings are reported on under the programme.

The programme is the third smallest programme based on the DTI’s budget allocations. With a budget of R119.8 million, the programme accounts for 1 percent of the DTI’s total budget. The programme’s budget will increase from R118.7 million in the 2016/17 financial year. The budget has increased nominally by 0.9 percent but decreased by 5 percent in real terms.

### **Programme 3: Special Economic Zones and Economic Transformation**

The purpose of the programme is to promote inclusive economic transformation and to industrialise the economy through developing and funding SEZs, Industrial Parks and Black Industrialists. The focus of this programme is mainly the implementation of two pieces of legislation, the SEZs Act (No. 16 of 2014) and the B-BBEE Act (No. 46 of 2013). The BIP was first implemented in the 2016/17 financial year and had supported 35 black industrialists were approved to receive support. This programme was highlighted by the President in the 2017 SONA as one of the critical programmes for the DTI.

The budget of the programme has been reduced from a budget of R121.9 million in the 2016/17 financial year to R119.4 million for the 2017/18 financial year. However, using the revised budget as a baseline, the programme’s budget for the 2016/17 financial year decreased by 2 percent in nominal terms and 7.8 percent in real terms.

### **Programme 4: Industrial Development**

The Industrial Development Programme is responsible for the design and implementation of policies, strategies and programmes to develop the manufacturing and related sectors of the economy with the aim of contributing to the creation of decent jobs, adding value to manufactured products and enhancing competitiveness in the domestic and export markets. Industrial development is also at the core of the DTI’s work as outlined in the strategic objectives.

The programme receives the second largest budget allocation. It funds two significant sub-programmes: the Industrial Competitiveness and the Customised Sector Programmes, which both assist the manufacturing industry in particular. This programme supports the implementation of the IPAP.

The programme’s budget has been increased from R1.73 billion in the 2016/17 financial year to R1.82 billion in the 2017/18 financial year, an increase of 5.3 percent; however, in real terms a 0.9 percent decrease.

### **Programme 5: Consumer and Corporate Regulation**

The Consumer and Corporate Regulation Programme is aimed at “developing and implementing coherent, predictable and transparent regulatory solutions that facilitate easy access to redress and efficient regulation for economic citizens”[[8]](#footnote-8). The programme is supported and partly implemented through the DTI’s entities, namely: the National Consumer Commission (NCC), the National Credit Regulator (NCR), the National Consumer Tribunal (NCT), the National Gambling Board (NGB), the National Lotteries Commission (NLC), the Companies and Intellectual Property Commission (CIPC), and the Companies Tribunal (CT).

Within this programme there are three sub-programmes, namely (i) Policy and Legislative Development; (ii) Enforcement and Compliance; and (iii) Regulatory Services. The Regulatory Services sub-programme remains the largest of the three sub-programmes in terms of budget allocation as it comprises of transfers to the regulatory entities.

The programme’s budget for the 2017/18 financial year will be R298.6 million. The budget decreased by R4.3 million or 4.5 percent in real terms.

### **Programme 6: Incentive Development and Administration**

TheIncentive Development and Administration Programme is responsible for improving the DTI’s incentive administration through designing and implementing incentives and programmes that support investment, competitiveness, employment creation and equity. This programme captures the core mandate of the DTI; this is evident in the share of the budget that is allocated to the programme.

For the 2017/18 financial year, the programme received R5.7 billion. The programme has seen the largest decrease in the budget of over R1.1 billion (21.5 percent in real terms). The manufacturing incentives and the infrastructure investment support funding have been consequently significantly reduced. This is of concern particularly as the economy is expected to grow at only 1.3 percent and these incentives are intended to stimulate growth in the economy while creating and retaining jobs.

In terms of the economic classification, 97 percent of the budget will be transfers and subsidies primarily to public corporations, such as subsidies to the SEZs, and incentives to private enterprises, 2.2 percent will be spent on compensation to employees and 0.7 percent on goods and services.

In terms of the Manufacturing Competitiveness Enhancement Programme (MCEP), the DTI and National Treasury have indicated that this was being reviewed and possibly redesigned before additional funds can be secured. Agro-processing has been one of the sectors where there was a significant demand for support and in response the DTI will be piloting an agro-processing incentive using the additional R1.35 billion secured for MCEP in the 2018/19 financial year. It will also be looking at a general incentive to enhance its existing incentive suite.

### **Programme 7: Trade and Investment South Africa**

The Trade and Investment South Africa Programme is aimed at promoting South African products in high growth markets; facilitating markets for South African manufactured products and services; and enhancing the ongoing promotion of exports. Furthermore, the programme supports the operations of foreign offices.

With a programme budget of R388.5 million for the 2017/18 financial year, the Trade and Investment South Africa Programme accounts for 4 per cent of the DTI’s total budget.

### **Programme 8: Investment South Africa**

The purpose of the programme is to “support foreign direct investment flows and domestic investment by providing a one-stop shop for investment promotion, investor facilitation and aftercare support for investors”[[9]](#footnote-9). While the programme is fairly new, the activities aligned to it had already been implemented by the DTI. In the last financial year, the national One-Stop Shop facilitated investment to the value of R58.6 billion. In the 2017 SONA, the President announced the roll-out of the one-stop shops to the KwaZulu-Natal, Gauteng and Western Cape provinces during the 2017/18 financial year.

The programme is allocated R50.9 million for the 2017/18 financial year, translating to 1 percent of the total budget. The Investment Support and After Care sub-programme which specifically deals with the activities of the One-Stop Shop has a budget of R4.2 million for the financial year. Investment promotion activities have been allocated R42.6 million.

### **Budget Allocation by Economic Classification**

In terms of the economic classification, the majority of the DTI budget is allocated towards transfers and subsidies, namely 83.4 percent. This is followed by compensation of employees (9.7 percent), goods and services (6.6 percent) and payments for capital assets (0.3 percent). All categories have declined from the 2016/17 financial year allocations, including compensation to employees. This will require the DTI to reduce its employee headcount over the MTEF period and optimise the organisational structure to ensure efficient service delivery with fewer resources. The DTI estimated that it would reduce the number of posts from 1 416 in the 2016/17 financial period to 1379 in the 2017/18 financial period. This will be further reduced over the outer years of the MTEF period.[[10]](#footnote-10)

**Table 2:** **Overview of the Budget Allocation: 2016/17 – 2019/20 by Economic Classification (R million)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Revised estimate 2016/17** | **Medium-term expenditure estimate** | **Average growth rate (%)****(2016/17-2019/20)** | **Share of Total Budget (%)** |
| **2017/18** | **2018/19** | **2019/20** |
| Compensation of employees | 930.3 | 902.4 | 927.8 | 998.6 | 2.4 | 9.7 |
| Goods and services | 651.9 | 609.3 | 632.7 | 661.2 | 0.5 | 6.6 |
| Transfers and subsidies | 8 774.0 | 7 735.1 | 8 377.5 | 7 420.4 | -5.4 | 83.4 |
| Payments for capital assets | 33.3 | 28.0 | 27.9 | 35.8 | 2.4 | 0.3 |
| **Total** | **10 389.5** | **9 274.8** | **9 965.9** | **9 116.0** | **-4.3** | **100.0** |

Source: Calculations based on National Treasury (2017b)

* 1. **Key issues raised by the committee during its deliberations**

During its deliberations, the committee raised a number of concerns:

* ***State Owned Enterprises (SOEs) acting as barriers to the objectives of the IPAP:*** During its recent oversight visit, the Committee condemned the practices where government and public entities are not fully complying with the procurement of designated products, which undermines the localisation drive and job creation. The Committee enquired what measures were being considered by the DTI to ensure that the barriers to industrial development are remove to ensure economic transformation and growth. The DTI concurred with the Committee’s position with respect to the SOEs. In other developed and developing countries, SOEs were at the forefront and acted as champions for their industrialisation programmes. South African SOEs needed a changed mind-set to understand their role as the champions of the industrialisation drive. Pre-1994 Eskom and Transnet were established to supply electricity and locomotives respectively, but with the onset of a democratic South Africa they curtailed their development component. The DTI was of the view that the designation of industries, sectors and products for local procurement in the public sector should act as a catalyst for SOEs championing industrialisation.
* ***Status of the African Growth and Opportunity Act (AGOA):***Recent changes in the administration in the United States of America has raised certain concerns about the future status of AGOA. The Committee enquired whether the concessions achieved as a result of the recent extension of AGOA to South Africa would be retained. The DTI informed the Committee that with the change in the administration, the US trade policy appeared to be fluid. During a recent G20 meeting, the US representatives were not in a position to definitively express the trade policy of the new administration, specifically on AGOA. Currently, the DTI with other African countries were developing strategies to ensure that Africa retains the benefits derived under the recently renewed AGOA and to ensure that Africa was not adversely affected. For South Africa, its key priority would be to ensure that it maintains its access.
* ***Development funding:*** The Committee enquired whether the government is considering exploring the option of seeking funds from the Development Bank of China in order to finance aspects of IPAP. The DTI informed the Committee, that since the financial crisis, the People’s Republic of China had emerged as one of the biggest global investors. The DTI’s meeting with the Bank of China was to establish a stronger partnership with the Chinese banking industry. It had recently signed a Memorandum of Understanding (MOU) on Strategic Cooperation with the Bank of China that would facilitate cooperation in investment promotion and facilitation, trade promotion and projects support.
* ***Awarding of contracts as part of the BIP:*** The Committee recognised the challenges facing the BIP. It was concerned that SOEs were awarding contracts to entities supplying imports that were more expensive than locally procured products, and, that if Black Industrialists do receive a contract it is short-term in nature. The Committee enquired to the measures being considered to ensure that the BIP achieved it objectives of economic transformation. The DTI acknowledged the challenges facing suppliers in that they do not receive long-term contracts from SOE or government. In order for these suppliers to invest in the necessary infrastructure, they were required to spend millions in buying machinery and equipment, contracts for 5 to 10 year periods would justify this type of investment and ensure sustainability. A good example was the automotive sector where suppliers were given long-term contracts and they retained suppliers during difficult period. A concern for the DTI was that Transnet had dropped its small suppliers during times of financial crisis.
* ***Criteria for companies within the SEZs:*** The Committee raised their concerns around companies located within the SEZ not using local labour and suppliers. The DTI informed the Committee that although there had been cases reported of companies in other international jurisdictions bringing their own labour force, it would not be allowed in South Africa. It was made clear to all investors that they must use local labour and suppliers. For example, the Beijing automobile plant in the Coega Industrial Development Zone is required to use local labour and suppliers. The DTI had set out clear terms for any investors located within the SEZ.
* ***The DTI’s incentive programme:*** The Committee welcomed the objectives of the DTI’s incentive programme to ensure development of sustainable, competitive enterprises by ensuring accessible funding. However, it enquired how many of these incentives were awarded to black-owned companies and how the DTI contributed to the BIP and economic transformation. What measures were in place to ensure that economic transformation was prioritised in the incentive programme? With regard to the incentives scheme, the DTI informed the Committee that there must be compliance with the B-BBEE principles before an incentive is granted. Some incentives clearly state the level of compliance in order to qualify for any incentives, companies must have at least a level four B-BBEE score. Developments within the auto and steel industries had seen the emergence of black suppliers as qualifying companies supporting local suppliers as it would also facilitate transformation.
* ***Long-term commitments for incentives***: The Committee was of the view that the DTI should develop a long term incentive strategy and National Treasury should make a long-term financial commitment to support this to ensure policy certainty for investors. In addition, it called for the development of new sector-specific incentives. This should be done in consultation with business to ensure that these are responsive to the sectors’ needs. The DTI confirmed that in conjunction with National Treasury and the Department of Performance, Monitoring and Evaluation, it is currently reviewing incentives, in particular the impact of the Manufacturing Competitiveness Enhancement Programme. It will be refining general and sector-specific incentives based on the outcome of this review.
1. **Entities reporting to the Minister of Trade and Industry**

In terms of its core functions, the DTI is responsible for overseeing 14 entities. Of the 14 entities, three are fully self-funded, these are the CIPC, the NEF, and the NLC[[11]](#footnote-11). Other entities include the newly established B-BBEE Commission. For the 2017/18 financial year, the DTI spent 11.9 percent of its budget on transfers to its entities. These are as follows:

**Table 3: Transfers to Entities (R thousand)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Entities** | **Adjusted appropriation****2016/17** | **Medium-term expenditure estimate** | **Percentage change (%) (2016/17-2017/18)** | **Share of Total DTI Budget (%)** |
| **2017/18** | **2018/19** | **2019/20** |
| B-BBEE Commission | –  | 20 000 | 20 000 | 20 000 |  –  | 0.2 |
| Export Credit Insurance Corporation | 171 566 | 177 644 | 187 947 | 198 472 | 3.5 | 2.3 |
| NMISA: Operations  | 101 400 | 106 470 | 112 645 | 118 953 | 5.0 | 1.4 |
| National Regulator for Compulsory Specifications | 86 418 | 128 745 | 135 683 | 143 281 | 49.0 | 1.5 |
| South African Bureau of Standards | 212 365 | 285 494 | 280 693 | 296 412 | 34.4 | 3.3 |
| South African National Accreditation System | 22 208 | 30 313 | 31 828 | 33 610 | 36.5 | 0.4 |
| Companies Tribunal | 15 069 | 15 822 | 16 740 | 17 677 | 5.0 | 0.2 |
| National Consumer Commission  | 56 643 | 52 614 | 55 865 | 58 993 | -7.1 | 0.7 |
| National Consumer Tribunal | 46 151 | 48 459 | 51 270 | 54 141 | 5.0 | 0.6 |
| National Credit Regulator  | 69 577 | 73 056 | 77 293 | 81 621 | 5.0 | 0.9 |
| National Gambling Board  | 30 121 | 31 627 | 33 461 | 35 335 | 5.0 | 0.4 |

Source: National Treasury (2017b)

In addition to these transfers, during the financial year, NMISA will receive funding to the value of R146.3 million towards its infrastructure recapitalisation project, as further discussed in section 3.4 below.

For this budget process, the Committee agreed to consider the strategic plans and APPs of four entities. The Committee based this decision on the frequency that it had overseen these entities and their contribution to economic transformation and/or industrialisation.

## **Broad-based Black Economic Empowerment Commission**

In 2013, the B-BBEE Act (No. 53 of 2003) was amended. The amended Act provides for the establishment of the B-BBEE Commission, an entity that would monitor compliance with and enforce implementation of the Act. Section 13B of the Act provides for the establishment of this Commission “as an entity within the administration of the Department”[[12]](#footnote-12). According to the amended Act, the functions of the Commission are as follows:

* To oversee, supervise and promote adherence to the Act in the interest of the public;
* To strengthen and foster collaboration between the public and private sector in order to promote and safeguard the objectives of B-BBEE;
* To receive complaints relating to B-BBEE in accordance with the Act;
* To investigate, either on its own initiative or in response to complaints received, any matter concerning B-BBEE;
* To promote advocacy; access to opportunities and educational programmes and initiatives of B-BBEE;
* To maintain a register of major B-BBEE transactions, above a threshold determined by the Minister in the Gazette;
* To receive and analyse such reports as may be prescribed concerning B-BBEE compliance from organs of state, public entities and private sector enterprises;
* To promote good governance and accountability by creating an effective environment for the promotion and implementation of B-BBEE;
* To exercise such other powers which are not in conflict with the Act as may be conferred on the B-BBEE Commission in writing by the Minister; and
* Increase knowledge of the nature and dynamics and promote public awareness of matters relating to B-BBEE by implementing education and awareness measures, providing guidance to the public and conducting research on matters relating to its mandate and activities.

The amended Act further determines how the entity is to be funded and handle its finances as well as the Commission’s reporting structures.

* + 1. **Strategic Goals**

In line with its legislative mandate, the Commission published the following strategic goals and objectives:

* Safeguarding the outcomes of an inclusive economy by: (i) guiding the implementation of the Act, and (ii) assessing B-BBEE Transactions and provide advice.
* Implementing corrective enforcement to achieve compliance by: (i) conducting both proactive and reactive investigations, (ii) encouraging and guiding resolution to disputes, and (iii) initiating prosecution when necessary.
* Researching, analysing and reporting on the state of transformation by: (i) collecting and analysing real time data by economic sectors, and (ii) reporting on National Status and Transformation Trends.
* Collaborating with relevant stakeholders to advance transformation by building mutual relationships with selected partners.
* Developing capability and capacity of the Commission to deliver on its mandate by: (i) developing an ICT (Information Communication Technology) strategy and infrastructure, (ii) developing and maintaining support systems, and (iii) staffing the Commission and developing a talent pipeline with capability capacity ahead of demand.[[13]](#footnote-13)
	+ 1. **Annual Performance Plan**

The Commission’s mandate is mainly focused on its core strategic objective of implementing corrective and enforcement measures to achieve compliance. Therefore the bulk of the Commission’s financial resources, and staff should continue to be allocated towards this Strategic Objective to ensure that the Commission undertakes its mandate. The alignment between programmes and strategic objectives are shown in the table below. Since the Commission is relatively new, and this is its first APP tabled in Parliament, there is no comparison available for previous years.

**Table 4: Performance indicators by programme for the 2017/18 Financial Year**

|  |  |  |
| --- | --- | --- |
| **Programme** | **Strategic Objective** | **Number of PIs[[14]](#footnote-14)** |
| **Programme 1:** Compliance | Safeguarding the outcomes of an inclusive Economy | 8 |
| **Programme 2:** Investigations and enforcement | Implementing corrective enforcement to achieve compliance | 3 |
| **Programme 3:** Research, analysis and reporting | Researching, analysing and reporting on the state of transformation | 6 |
| **Programme 4:** Relationship Building/Stakeholder Relations | Collaborating with relevant stakeholders to advance transformation | 1 |
| **Programme 5:** Administration | Developing capability and capacity of the Commission to deliver on its mandate | 7 |
| **Total** | **25** |

Source: B-BBEE Commission (2017b)

To discharge its mandate, the Commission proposed a total of 113 permanent employees and 10 trainees/interns for the 2017/18 financial year. Over the outer years of the MTEF, this number is expected to increase by 5 permanent employees taking total employees to 118 while the number of trainees will remain unchanged.

* + 1. **Medium Term Budget Analysis**

The Act prescribes that the Commission is funded through (i) money that is appropriated by Parliament for the Commission; and (ii) money lawfully received from any other source.

The Performance of the Commission both financially and non-financially are to be audited by the Auditor-General (AG). While the Act provides for this, the AG did not analyse the Commission’s APP, as it currently forms part of the DTI’s APP, budget and auditing processes. The Commission has not yet been formally listed in the Public Finance Management Act (No. 1 of 1999); once this legislative process has been completed, the Commission will have its own budget and will be subject to formal governance and auditing processes.

For the 2017/18 financial year, the National Treasury through the Estimates of National Expenditure notes that the Commission has been appropriated an amount of R20 million for the financial year. However, the B-BBEE Commission in its APP and Strategic Plan estimates that it would require R112 million to effectively implement intended activities under priorities. There was an indication that they may be receiving an additional allocation mid-year, upon it being listed as an entity. In the meantime, it will be using the DTI’s internal ICT, human resource and financial systems to reduce costs. Furthermore, the Commission had relocated to the National Gambling Board’s premises in Centurion, which would also alleviate some of the financial pressure on the Board in the short term.

In the 2017/18 financial year proposed budget, expenditure mainly comprises of compensation for employees, which accounts for 59 percent of total expenditure. Goods and services for the financial year will be 23 percent and expenditure on capital assets will amount to 18 percent of total expenditure.

**Table 5: Projected expenditure by economic classification for the 2017/18 financial year (R thousands)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **2021/22** |
| Compensation of Employees | 66 000 | 70 000 | 75 000 | 81 000 | 87 000 |
| Goods and services | 26 000 | 27 000 | 29 000 | 31 000 | 33 000 |
| **Total operational expenditure**  | **92 000** | **97 000** | **104 000** | **112 000** | **120 000** |
| Payment for capital assets | 20 000 | 10 000 | 6 000 | 7 000 | 8 000 |
| **Total expenditure**  | **112 000** | **107 000** | **110 000** | **119 000** | **128 000** |

Source: B-BBEE Commission (2017b)

* + 1. **Key issues raised by the committee during its deliberations**

During its deliberations, the committee raised a number of issues which are captured below:

* ***Lack of political buy-in for B-BBEE implementation:*** The Committee was concerned with the assertion by the Commissioner that one of the threats to it achieving its performance targets was a lack of political buy-in. The Committee was of the view that for the successful implementation of B-BBEE, political buy-in from government and its agencies were critical. The Committee enquired to the reasons for the absence of political buy-in. The Commissioner informed the Committee that since it first started engaging stakeholders and government departments it became clear that there has been inconsistent communication around B-BBEE, which has created policy uncertainty in the marketplace. The Commission further deduced that government itself was not serious about B-BBEE as it continued to allow the undermining of its implementation with no serious consequences. The conflicting message by government made implementation of the Act and the B-BBEE mandate extremely difficult. Unless the political leadership expresses a positive and consistent message around B-BBEE, it would continue creating policy certainty. Failure to have a consistent message around B-BBEE would provide the market with reasons not to implement it.
* ***Status of fraudulent B-BBEE certificates:*** The Committee noted that fronting practices was a major issue for the Commission to monitor and address. Furthermore, poor verification processes and the gap in the regulations pertaining to verifiers resulted in the issuing of fraudulent B-BBEE certificates. The Committee enquired to the measures in place or being considered to address this. The Commissioner informed the Committee that it initiated an investigation into the verification space to ascertain the reasons behind the issuing of fraudulent B-BBEE certificates. Where the Commission discovered a fraudulent certificate, it had requested companies to provide the information as to how they obtained it. Verification agencies were then asked to withdraw the certificates and informed their clients in writing. The Commissioner informed the Committee that where clear acts of fraud were committed by companies, it would recommend prosecution.
* ***Non-compliance by SOEs and the lack of transformation:*** The Commissioner highlighted significant resistance from stakeholders, including government entities, as a major threat to economic transformation. The Committee enquired to the measures being considered by the Commission to ensure compliance. The Commissioner informed the Committee that SOEs were of the view that it was not possible to implement the legislation. With the amendment of regulations to the Preferential Public Procurement Framework Act (No. 5 of 2000) implementation should no longer be a problem. A concern was the limitations within the B-BBEE legislation, but the Commission has provided the SOEs with the necessary guidelines to ensure compliance. The Commissioner informed the Committee that the recent extension of the contract by the South African Social Service Agency to Cash Paymaster Services had not used B-BBEE as a consideration. According to section 10 of the B-BBEE Act, all SOEs should in their procurement of goods and services apply B-BBEE legislation.
* ***Budget of the B-BBEE Commission:*** The Commissioner highlighted the financial and human resource constraints as significant threats to it fulfilling its mandate. The Committee sought clarity on the actual budget for the Commission. The Commissioner informed the Committee that due to the current financial constraints, only R20 million was allocated. The Commission was currently funded by the DTI but outlined its financial requirements over the MTEF period. Currently, with its limited resources it was not in a position to operate optimally. The Commissioner informed the Committee that a plan had been developed which would ensure that the Commission was listed as a separate entity with a budget allocation effective from September 2017, subject to National Treasury approval. This would be aligned to its mandate and strategy.
	1. **Export Credit Insurance Corporation of South Africa**

The ECIC was established in 2001 and is one of two Development Finance Institutions (DFIs) of the DTI. The entity was established under the Export Credit and Foreign Investments Insurance Act (No. 78 of 1957). The ECIC is a public entity, established in terms of the Companies Act (No. 71 of 2008). It is mandated to facilitate export trade and cross-border investments between South Africa and the rest of the world.

* + 1. **Strategic Goals**

For the 2017/18 financial year, the ECIC’s strategic objectives are as follows, to:[[15]](#footnote-15)

* Improve knowledge and skills: To develop a competent and competitive workforce that is able to deliver on the business strategy and the achievement of ECIC’s objectives.
* Improve product offerings: Increase ECIC’s product range to cover customer needs, address market gaps and remain competitive in light of dynamics and market conditions.
* Increase strategic partnerships: To access new markets through collaboration by leveraging its local and international network of strategic partners; public and private sectors with the view of advancing its business reach.
* Improve business processes: Improve business processes to promote efficiencies in the delivery of services and products cost effectively.
* Improve communication and stakeholder/customer management: To create awareness and understanding of ECIC’s mandate to unlock business opportunities in line with Government priorities by communicating effectively.
* Improve business development: Proactively attract business from new and existing customers to facilitate more exports and cross border investments.
* Decrease cost/revenue ratio: Maintain an acceptable cost to income ratio consistent with industry benchmarks and the specific objectives of the ECIC.
* Increase revenue: Increase revenue to achieve business growth and a stronger capital base.
* Increase capital base: To increase the capital base of the ECIC that supports the growth and sustainability of the business.
* Increase stakeholder/customer satisfaction: Maintain required levels of stakeholder and customer satisfaction.
	+ 1. **Annual Performance Plan**

The ECIC articulates 12 performance indicators in its 2017/18 Strategic Plan aligned to its ten programmes/strategic objectives. A number of performance indicators/targets have either been removed from the APP or revised. There was one new performance indicator/targets for the 2017/18 financial year, namely to “achieve 90% of budgeted Net profit before tax (NPBT)”.

Performance targets that were removed since the 2016/17 financial year were: (i) 90% of all vacancies filled within 90 days, (ii) develop the Black Industrialists framework and revise underwriting criteria to support Black Industrialists projects, (iii) conduct customer survey, and (iv) engage with key government stakeholders.[[16]](#footnote-16)

The revised performance targets are depicted below:

**Table 6: Revision of certain performance targets**

|  |  |  |
| --- | --- | --- |
| **Strategic Objective** | **2016/17 Performance Targets** | **2017/18 Performance Targets** |
| Increase Strategic Partnerships | Develop a draft framework structure to establish arrangement with financier to increase deal flow | Number of knowledge sharing initiatives |
| Improve Communication and Stakeholder/Customer Management | 3 marketing initiatives12 engagement sessions with key government stakeholders | Implement 80 - 100% of 2017/18 marketing and communications campaigns |
| Improve Business Development | 100% Implementation of the Business Development Plan | 2 research reports to identify new opportunities |
| Increase Capital Base | 10% increase in basic own funds/equity | 5% increase in basic own funds/equity |

Source: ECIC (2016 and 2017)

It should also be noted that the conversion of the ECIC into a fully-fledged export-import bank is being considered. If approved, this will require new enabling legislation. In addition, the ECIC may take equity in the African Export Import Bank to promote expansion and diversification of Africa’s trade. Pending Ministerial approval, a US$40 million paid-up equity investment will be made in this regard.

* + 1. **Medium Term Budget Analysis**

The ECIC is primarily self-funded and earns an income from the premiums it charges and investment income, as well as salvages recovered after claims are paid. However, it also receives a transfer from the DTI to subsidise interest make-up (IMU) claims subject to National Treasury approval but not for its operations.

According to the ECIC, the projected growth in its capital base will enhance its capacity to underwrite more insurance and pursue its mandate. This expansive approach in the budget, such as the increase in operating costs and staff complement, is to fund and enhance capacity to implement the corporate strategy and support the expansion of product offerings.

The projected average annual gross premium over the next three years of the strategic plan is R537 million. Operating expenses will average R189 million per annum, which represents a growth of 18 percent over the budget period. Claims incurred is anticipated to fall by 122 percent mainly due to a positive claims outlook. Total assets is expected to increase by 7 percent to R10.3 billion.

Its planned capital expenditure amounts to R2.5 million over the budget period. This is mainly on IT infrastructure to modernise business processes and enhance operational effectiveness and efficiency. It is looking for new premises that will cater for its growth over the next five years and may opt to purchase an office building during the 2018/19 financial year. However, in the current budget, the ECIC has continued with the rental lease option and the option to buy the building and relocation costs will be considered as part of the budget revision exercise next year.

**Table 7: Projections of revenue, expenditure and borrowings for the 2016/17 – 2019/20 financial years (R thousands)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Premiums Written |  201 985  |  441 925  |  949 214  |  221 479  |
| Change in Unearned premiums  |  324 398  |  241 559  |  -300 579  |  334 520  |
| Change in Concentration risk |  -35 178  |  213 310  |  -  |  -  |
| Change in Unexpired risk & Risk margin |  832  |  1 669  |  191  |  183  |
| **Earned Premiums**  |  492 037  |  898 463  |  648 826  |  556 182  |
| **Claims Incurred**  |  -33 121  |  -120 799  |  75 593  |  26 127  |
| Claims Paid  |  -  |  -  |  -  |  -  |
| Salvages Recovery  |  92 344  |  71 424  |  66 845  |  66 788  |
| Change in outstanding claims reserve provision  |  -125 465  |  -192 223  |  8 748  |  -40 662  |
| Change outstanding claims |  -  |  -  |  -  |  -  |
| Change in incurred but not reported reserve  |  -125 465  |  -192 223  |  8 748  |  -40 662  |
| Assessment fees |  770  |  910  |  868  |  1 095  |
| Operating expenses |  -155 064  |  -174 189  |  -187 135  |  -205 409  |
| Commission Paid |  -481  |  -364  |  -280  |  -178  |
| Investment Income |  203 007  |  295 239  |  302 876  |  315 337  |
| Investment management expense |  -20 881  |  -22 580  |  -24 353  |  -24 999  |
| IMU income |  -  |  177 644  |  187 947  |  -  |
| IMU expenses |  -2 054 414  |  -72 013  |  -65 543  |  -60 158  |
| Foreign Exchange gain/(Loss) |  16 223  |  -93 617  |  -13 244  |  16 408  |
| Other income |  -  |  -  |  -  |  -  |
| Interest expense |  -1  |  -  |  -  |  -  |
| Profit Before Tax (before CSI) |  -1 551 925  |  888 694  |  925 555  |  624 405  |
| Corporate Social Investment (CSI) (3%) |  -21 239  |  -22 552  |  -23 131  |  -19 715  |
| Profit Before Tax |  -1 573 165  |  866 141  |  902 424  |  604 689  |
| Taxation |  440 486  |  -242 520  |  -252 679  |  -169 313  |
| **Profit/(Loss) After Tax** |  **-1 132 678**  |  **623 622**  |  **649 745**  |  **435 376**  |
| Source: ECIC (2017: 29) |  |  |  |  |

* + 1. **Key issues raised by the committee during its deliberations**

During its deliberations, the committee raised a number of concerns relating to the ECIC which are captured below:

* ***Rationale for the removal and revising of performance indicators:*** During its engagement with the ECIC, the Committee highlighted the removal of and the revising of certain indicators. The Committee enquired to whether this would have an impact on its budget and if it compromised it delivering on its mandate. The ECIC informed the Committee that the setting of performance indicators were a collaborative process. As a result of the auditing process, it reviewed the outcomes and implemented performance indicators that would comply and measure performance more accurately.
* ***The impact of the volatile of the exchange rate:*** The Committee noted that the current global and domestic financial situation could have a detrimental effect on the currency. The Committee enquired whether the volatility of the currency could have an impact on the budget, and the ability of the ECIC to implement its mandate. The ECIC acknowledged the impact of the volatility of the currency on its budget but informed the committee that the bulk of ECIC policies are denominated in US Dollars which offers a natural hedge against currency movements.
* ***The re-configuration of the ECIC as an export-import bank:*** The ECIC’s mandate is to facilitate international trade by providing commercial and political risk insurance to South African exporters. The ECIC is exploring the expansion of its mandate to include the addition of capital raising and funding activities in line with recent international developments among similar agencies. The committee noted that the ECIC was considering converting into a fully-fledged South African Export Import Bank. Although the matter was still under consideration by the DTI, the Committee enquired to how such a bank would be funded. The ECIC informed the Committee that National Treasury was not expected to capitalise the new bank. The ECIC would be looking at other sources for funding.
	1. **National Empowerment Fund**

The mandate of the NEF is to promote and facilitate the participation of black people in economic activities. Furthermore, the NEF encourages the creation of wealth for black people through the promotion of savings and investment. This mandate is aligned to the country’s aim of promoting the participation of black people in the economy and creating jobs.

The NEF achieves this mandate by giving financial and non-financial support to black-owned and managed businesses. The NEF offers a range of products and services aimed at assisting black-owned businesses. These include financial support through various funds targeted at starting new businesses, expansion and acquisition purposes; and non-financial support such as entrepreneurial training, incubation, mentoring, an online business planning solution, as well as risk monitoring and mentorship support.

* + 1. **Strategic Goals**

The NEF’s strategic outcome oriented goals are to:

* Provide finance to business ventures established and managed by black people.
* Invest in black-owned businesses that have high employment-creating potential.
* Support the participation of black women in the economy.
* Facilitate investment across all provinces in South Africa.
* Encourage and promote savings, investment and meaningful economic participation by black people.
* Advance black economic empowerment through commercially sustainable enterprises.
* Establish the NEF in the South African economy as a credible and meaningful DFI.
* Establish the NEF as a sustainable DFI.
	+ 1. **Annual Performance Plan**

The NEF’s 2016/17–2018/19 APP was tabled in Parliament in 2016. This document had performance targets for the three years to 2019. A new APP was tabled in 2017, the section below outlines the changes in the performance targets of the NEF as stated in the 2017/18–2019/20 APP compared to the 2016/17–2018/19 APP.

Due to the unrealised recapitalisation, the NEF adjusted the following performance indicators down since the 2016/17 APP:

* Value of deals approved from R1.4 billion to R950 million**.**
* Value of new commitments from R1.1 billion to R745 million.
* Value of disbursements from R984 million to R660 million.
* Support for new or existing job opportunities from 6 055 to 5 629.

In addition, it reviewed the targeted disbursements based on provincial spread to improve access to finance to the poorer provinces, namely the Eastern Cape, Free State, Limpopo, Mpumalanga, Northern Cape and North West provinces. Historically, the majority of its applications were received from Gauteng, KwaZulu-Natal and the Western Cape provinces. The Committee has continuously raised concerns about the concentration of economic power in these provinces to the detriment of the other. To address this concern, the NEF has moved from allocating a specific amount for disbursements to these provinces, namely R246 million for the 2016/17 financial year) to allocating 25 percent of all disbursements to be invested in the poorer provinces.

The NEF uses the following funds to target different sectors of the economy:

**Table 8: Description of NEF Funds and their 2017/18 Targets**

|  |  |  |  |
| --- | --- | --- | --- |
| **Fund** | **Focus** | **Investment Threshold** | **2017/18 Targets** |
| **iMbewu Fund (SME)** | SME Fund providing entrepreneurship, procurement and franchise finance | R250 000 – R10 million | Approvals: R219 millionNew commitments: R174 millionDisbursements: R154 million |
| **Women Empowerment Fund** | Achieve minimum 40% of enterprises owned and managed by black women | R250 000 – R75 million | Approvals: R238 millionNew commitments: R186 millionDisbursements: R165 million |
| **Rural & Community Development Fund** | Supporting rural economic development through new ventures, acquisition, expansion & greenfields finance | R1 million – R50 million | Approvals: R93 millionNew commitments: R74 millionDisbursements: R64 million |
| **uMnotho Fund** | Funding of new ventures, acquisition, project finance, expansion, capital markets, liquidity & warehousing | R2 million – R75 million | Approvals: R326 millionNew commitments: R236 millionDisbursements: R210 million |
| **Strategic Projects Fund** | Early-stage investment in industrial/manufacturing transactions | Up to R75 million | Approvals: R75 millionNew commitments: R75 millionDisbursements: R68 million |

Source: NEF (2017: 50-69)

* + 1. **Medium Term Budget Analysis**
			1. **Income**

The main sources of income for NEF for the 2017/18 financial year will be interest income from investments as well as dividends. For the 2017/18 financial year, this is expected to be R470.6 million which is less than the 2016/17 forecast of R476.1 million.

**Table 9: Financial Projections**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Estimated****2016/17** | **Budget** | **Percentage change (%)****2016/17-2017/18** |
| **2017/18** | **2018/19** | **2019/20** |
| Dividends | 100 384 038 | 110 000 000 | 115 000 000 | 115 000 000 | 9.58 |
| Interest received from banks | 76 357 492 | 14 677 246 | -58 546 446 | -135 032 021 | -80.78 |
| Interest from investments | 251 821 135 | 293 970 864 | 385 781 006 | 499 714 209 | 16.74 |
| Fees | 6 592 000 | 11 028 800 | 11 653 120 | 12 627 968 | 67.31 |
| Enterprise Development Fund | 40 000 000 | 40 000 000 | 40 000 000 | 40 000 000 | 0.00 |
| Bad debts recovered | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 | 0.00 |
| **Total income** | **476 154 665** | **470 676 910** | **494 887 680** | **533 310 156** | **-1.15** |
| Goods and services | 78 707 444 | 68 840 419 | 73 220 928 | 77 714 943 | -12.54 |
| Compensation to employees | 179 975 480 | 200 552 818 | 228 871 455 | 240 584 121 | 11.43 |
| Depreciation | 1 983 637 | 2 916 240 | 3 723 034 | 4 316 297 | 47.01 |
| Projects/Non-financial support | 18 337 888 | 14 474 837 | 15 328 853 | 16 187 268 | -21.07 |
| Impairment provision and write-offs | 53 879 737 | 183 555 434 | 173 455 919 | 193 924 469 | 240.68 |
| **Total expenditure** | **332 884 186** | **470 339 748** | **494 600 189** | **532 727 098** | **41.29** |
| **Operational surplus/(deficit)** | **143 270 479** | **337 162** | **287 491** | **583 058** | **-99.76** |

Source: National Empowerment Fund (2017: 123)

For the past three years, the NEF has requested recapitalisation to ensure that it continues to implement its mandate and to respond to the considerable demand for funding by black entrepreneurs. In February 2017, the Department of Trade and Industry jointly with the Department of Economic Development announced that the NEF will become a wholly-owned subsidiary of the Industrial Development Corporation (IDC) to ensure that the NEF continues to support an increasing demand for funding by black entrepreneurs.[[17]](#footnote-17)

For the 2017/18 financial year, the NEF requires a cash injection of R500 million. According to the NEF, a number of initiatives are taking place to ensure that the required funds are available for its operations, those include a bridging facility from the IDC of R500 million, and a Public Investment Corporation (PIC) facility of R1 billion. It has also applied for subsidies for non-financial support of R50 million from the Unemployment Insurance Fund’s Labour Activation Programme.

* + - 1. **Expenditure**

In terms of expenses, compensation of employees will account for the largest share of expenditure. Compensation of employees is budgeted at R200.5 million and accounted for 43 percent of total expenditure including impairments and write-offs of R470.3 million. This proportion of expenditure is due to the services provided by the NEF to its beneficiaries.

* + 1. **Key issues raised by the committee during its deliberations**

During its deliberations, the committee raised a number of concerns relating to the NEF which are captured below:

* ***Slow pace of economic transformation:*** The Committee welcomed the forthright assessment by the NEF of the lack of economic transformation as the economy was still controlled by companies that were non-compliant with the B-BBEE legislation.The NEF agreed with the Committee that it should express an opinion of the slow pace of economic transformation. A concern for the NEF was the financial support provided by government and the SOEs to companies that were non-compliant with the B-BBEE legislation to the amount of approximately R50 billion per annum. Funding provided to the NEF to support economic transformation was inadequate.
* ***Status of support for cooperatives:*** Notwithstanding that cooperatives fall under the Department of Small Business Development, the Committee alluded to the fact that support for cooperatives appeared to be limited. The Committee enquired whether the NEF provided support to cooperatives. The NEF stated that it supports B-BBEE entities, such as Community and Workers Trusts including Cooperatives, to take ownership in projects that are based in their locality through its Rural Development and Community Fund. The NEF further stated examples of cooperatives supported such as Richmond Opkomonde (Northern Cape); Jozini Tiger Lodge (KwaZulu-Natal) and Imbaza Mussels based in the Western Cape.
* ***Feedback on progress with regard to the issues raised by companies supported by the NEF:*** During its recent oversight visit, the Committee visited companies supported by the NEF. These companies raised a number of concerns which resulted in the Committee scheduling a meeting with SOEs to address these challenges. The Committee enquired whether the NEF had any feedback on the complaints that were raised by the companies during both engagements. The NEF advised that it recently approved second round funding totalling R8 million to Smith Capital to enable the company to execute a contract from Eskom. Further, the NEF is assisting Smith Capital in its engagements with the Ekurhuleni Metropolitan Municipality to acquire additional adjacent land to its operations for expansionary purposes.
* ***Skewed allocation of financial support:*** The Committee raised a concern that the allocation of resources remained skewed towards the wealthier provinces. The Committee enquired to how the NEF would address this and ensure that the poorer provinces also benefit from the support provided by the NEF. The NEF informed the Committee that it had made significant improvements in supporting poorer provinces but was of the view that there was still room for improvement. A challenge for the NEF was that with the limited human and financial resources available it was not able to provide the critical support in all provinces. Hence partnerships with local development entities, as well as other Government departments was key. The NEF also stated that Gauteng now comprised 44 percent of its total invested portfolio, which is an improvement from it accounting for the lion’s share at over 60 percent.
* ***Support for small, medium and micro enterprises (SMMEs):*** The Committee acknowledged the vital role the NEF played in changing the economic landscape. In terms of SMMEs, the Committee enquired to the initiatives in place to provide the necessary support with respect to capacity building, particularly marketing skills, to ensure the sustainability of the business. The NEF informed the Committee that it provided the necessary support to SMMEs in terms of capacity building and training. The NEF pre-investment division acts as the first point of contact between the NEF and its target market. This division provided new applicants with a product advisory service, assists with an online business planning solution and facilitates entrepreneurial training and incubation support, as well as mentorship. The NEF had identified business planning as a market failure, which led to the development of the online business planning toolkit.
* ***Support for private health care:*** The Committee raised a concern that support provided in the private health care sector were in contradiction to the principles of the national health insurance policy. The NEF informed the Committee that government took a decision three years ago not to investment in the private healthcare sector. The NEF’s investment in BUSAMED started six years ago and going forward the NEF would not provide support for any new businesses in this sector. The NEF expressed support for the national policy decision regarding health care, but was of the view that in the long run the policy stance would be harmful to black entrepreneurs as the health care sector was one of the fastest growing sectors in the South African economy dominated by non-BEE owners. The NEF also stated a concern in that the provincial departments of health across the country on one hand continue to issue private hospital licences to black entrepreneurs yet on the other hand government discourages DFI investment in private healthcare sector. Currently, the return on investment earned by the NEF was one of the highest achieved in the sector. The NEF was of view that all business sectors should be open to black entrepreneurs.
	1. **National Metrology Institute of South Africa**

NMISA was established through the Measurement Units and Measurement Standards Act (No. 18 of 2006). NMISA is one of four technical infrastructure institutions in South Africa. The institution plays an underpinning role in this infrastructure as it is the custodian of metrology or measurement standards. It maintains primary scientific standards of physical quantities, certifies reference materials and performs “referee analysis” in cases of measurement disputes to ensure accurate measurement in South Africa. It also provides internationally recognised measurement standards and measurement services, which provide for the local use of measurement and derived units of the International System of Units (SI). Therefore, it plays a critical role in maintaining the country’s ability to ensure that trade, industrial, and safety measurements, among others are accurate and comparable internationally.

NMISA provides the following products, namely national measurement standards, reference measurements, and certified reference materials; and services, namely calibrations, certification of reference materials, measurement, testing and analysis, and training.

* + 1. **Strategic Goals**

NMISA published its APP for the 2017/18 financial year. It has identified seven outcome-oriented strategic goals, namely:

* Strategic Goal 1: Keep, maintain and develop the national measurement standards and provide for the use of the national measurement units.
* Strategic Goal 2: To ensure that the South African measurement system is internationally comparable, by participating in the activities of the International Committee for Weights and Measures as per the Mutual Recognition Arrangement (CIPM MRA).
* Strategic Goal 3: To modernise NMISA’s infrastructure and equipment through recapitalisation.
* Strategic Goal 4: Provide measurement knowledge and expertise as a key component of the Technical Infrastructure with regard to public policy objectives measurement compliance issues in terms of health, safety and the environment.
* Strategic Goal 5: Provide an integrated human capital development programme for metrology.
* Strategic Goal 6: Provide essential support to South African public and private enterprises through dissemination of the national measurement standards, units and expertise.
* Strategic Goal 7: Adhere to the regulatory requirements of a type 3A public entity and sound corporate governance.
	+ 1. **Annual Performance Plan**

Most performance indicators for NMISA have not changed, except for one indicator under strategic objective three, which had been replaced, and another under strategic objective seven, which had been revised. The new key performance indicator linked to modernising NMISA’s infrastructure and equipment through recapitalisation (strategic objective 3) is the “number of tenders awarded for modernisation of NMISA”. The 2017/18 target is 50 tenders awarded. This replaced “percentage of budget spent” for the recapitalisation project, as payment often occurred outside the financial year even when an order had been placed due to the nature of the equipment, which often has to be customised. The key performance indicator linked to adhering to the regulatory requirements of a type 3A public entity and sound corporate governance (strategic objective 7) is the “100% completed Annual Audit Plan”, which was revised to include follow-up audits as approved by the Audit and Risk Committee.

Over the MTEF period, NMISA is focusing on a number of projects that supports national priorities, such as improving manufacturing competitiveness, agro-processing, and regional integration. These are:

* Reference Materials Programme
* Green Economy Measurement Tools
* Energy Efficiency
* Advanced Manufacturing Competitiveness
* Advanced Measurement Solutions
* Shortening the Traceability Chain for Africa (ShoTCAf)
* Quality of Life
* Commercial Services
* Regional Integration

NMISA requires state-of-the-art equipment and buildings that are able to technically support the growing demands of metrology. Its buildings at the CSIR campus have reached their technical limit for modification and thus a new building is necessary. A feasibility study for new buildings had been submitted to National Treasury, but affordability had been raised as a barrier. To overcome this challenge, it will need to pursue the option of a public-private partnership to fund its recapitalisation project.

* + 1. **Medium Term Budget Analysis**

For the 2017/18 financial year, NMISA’s budget allocation is R252.8 million. This transfer comprises of R106.5 million for its operations and R146.3 million as capital works (infrastructure and equipment) upgrades. In the previous financial year, NMISA received R101.4 million and R162.8 million for operations and infrastructure upgrades respectively. Other income for the entity, as shown in the table below, include income from services rendered and investment income. However, transfers from the DTI still constitute the largest share of income for the entity, namely 94 percent of total income.

The increase in NMISA’s budget for capital works/infrastructure is in line with the Committee’s recommendation in its 2015 Budget Vote Report. In this report, the Committee had recommended that the Minister considers “Increasing the financial resources to NMISA, from the 2017/18 financial year, due to its strategic importance to the economy*”*[[18]](#footnote-18). This particularly related to the capital budget of the entity.

**Table 10: Budget 2017/18 Financial Year (R thousands)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017/18** | **2018/19** | **2019/20** |
| **Revenue** | **270 216** | **254 363** | **281 271** |
| Transfers received | 252 803 | 235 731 | 248 932 |
| Rendering of service | 14 466 | 15 912 | 17 026 |
| Investment income | 13 375 | 14 311 | 15 313 |
| **Expenditure** | **270 216** | **254 363** | **281 271** |
| Administrative and operating expenditure | 75 316 | 80 588 | 86 230 |
| Employee cost | 95 742 | 102 444 | 109 615 |
| Repairs and maintenance | 4 957 | 5 304 | 5 675 |
| Recapitalisation project | 109 586 | 82 922 | 85 426 |
| Audit fees | 856 | 916 | 967 |

Source: National Metrology Institute of South Africa (2017: 26)

In terms of expenditure, the recapitalisation project and compensation of employees are the largest expenditure items respectively. However, in the outer years of the MTEF, employee cost will become the largest expenditure item.

In addition, NMISA will receive additional funding from 2017/18 to 2019/20. This additional funding for its thematic projects mentioned above is as follows: R180 million (2017/18); R71 million (2018/19); and R74.5 million (2019/20)[[19]](#footnote-19).

* + 1. **Key issues raised by the committee during its deliberations**

During its deliberations, the committee raised a number of concerns relating to NMISA, which are captured below:

* ***Upgrading equipment in lieu of current budgetary constraints:*** The Committee acknowledged that the current budgetary constraints could potentially compromise the national measurement standards. The Committee enquired whether NMISA had considered only upgrading its equipment as an option given the current financial constraint. NMISA informed the Committee that it viewed the national measurement standards in a holistic manner. New equipment and machinery was needed but it should also operate within the right environmental conditions. Upgrading of equipment is an option, but would be dependent on a number of variables because equipment procured are designed to fit specific premises.
* ***Recapitalisation and modernisation of NMISA:*** NMISA informed the Committee that its premises had reached its technical limit of modification. If not addressed it would compromise the national measurement standards supporting international trade, health, environmental and safety requirements. The Committee enquired to the measures needed to ensure that the integrity of the national measurement standards was not compromised. NMISA informed the Committee that it was imperative that it secures the necessary funding for new premises in order to develop new national measurement standards. Its current infrastructure was not supportive of new technologies because the stringent requirements makes it more challenging to achieve the necessary measurement. Currently, maintenance of equipment and infrastructure constitutes a high proportion of the budget to mitigate the situation.
1. **Conclusions**

Having considered the information shared and reports from the DTI and its entities with respect to their strategic and annual performance plans, the committee has reached the following conclusions:

* 1. The Committee condemned government and public entities that were not complying with the procurement of designated products, which undermined the localisation drive and job creation.
	2. The Committee was of the opinion that the necessary monitoring and enforcement measures should be introduced to ensure that barriers to industrial development were removed to facilitate economic transformation and growth.
	3. A major concern for the Committee was that state-owned enterprises, which should be champions of the industrialisation drive, appeared to be impediments to its progress. The Committee strongly condemns the non-compliance with the Preferential Public Procurement Framework and the Broad-Based Black Economic Empowerment regulations by state-owned enterprises which curtailed the objectives of the localisation and transformation drives.
	4. Trade remains one of the vehicles through which economic transformation could be accelerated. The impact of the recent political changes in the United Kingdom of Great Britain and Northern Ireland, and the United States of America on South Africa’s trade relations remains a concern for the Committee. The Committee was of the view that South Arica should maintain the benefits derived from the African Growth and Opportunity Act, and negotiate new trade agreements post-Brexit that would further benefit South Africa.
	5. The Committee welcomed the approach by the DTI that all investors located within the Special Economic Zones, and Industrial Parks should give preference when employing local labour and procuring from domestic suppliers.
	6. The Committee endeavours that in dealing with the DTI’s budget it will engage all relevant spheres of government to ensure that implementation of DTI’s policies impacts positively on all South Africans.
	7. The Committee acknowledged the contribution of the Manufacturing Competitiveness Enhancement Programme towards industrialisation and job creation. However, the Committee was of the view that longer term incentives should be introduced to ensure improved policy certainty for investors.
	8. The perception that there is a lack of political support regarding the implementation of, and compliance with, the Broad-Based Black Economic Empowerment Act remains a concern for the Committee. Support from Government and state-owned enterprises is critical and that an unambiguous position on the matter must be communicated. Failure to do so would compromise the objectives of the legislation as well as delay economic transformation.
	9. There is a need for the DTI and its entities to roll out further provincial public awareness campaigns on the products and services offered. The DTI should also encourage provincial and local government officials from poorer provinces to proactively promote and facilitate access to the DTI family’s services and offerings.
	10. The Committee welcomed the measures introduced by the Broad-Based Black Economic Empowerment Commission that would curtail the issuing of fraudulent Black Economic Empowerment certificates and ensuring compliance with legislation. The baseline study that will be conducted during this financial year will be critical to monitor and enforce the implementation of the B-BBEE legislation. The DTI and the Commission is encouraged to closely monitor transformation and use the necessary measures to ensure compliance.
	11. The Committee welcomed the initiative by the Export Credit Insurance Corporation in exploring establishing a South African Export Import Bank.
	12. The Committee agreed with the assertion by the National Empowerment Fund that economic transformation has been negligible.
	13. The Committee welcomed the announcement that the National Empowerment Fund will become a subsidiary of the Industrial Development Corporation and the additional funding facilities it had secured, as this would ensure its sustainability.
	14. The Committee recognised the challenges facing National Metrology Institute of South Africa in relation to its infrastructure recapitalisation project as it is critical to ensure that the national measurement standards are able to support industrialisation.
1. **Acknowledgements**

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1. **Recommendations**

The Portfolio Committee on Trade and Industry, having considered the 2017 proposed Budget Vote 34: Trade and Industry, recommends that the House adopts Budget Vote 34: Trade and Industry.

The Committee further recommends that the House request that the Minister of Trade and Industry should consider:

* 1. In conjunction with the relevant Minister(s), developing stronger enforcement measures that would ensure that local procurement policies as reflected in the Preferential Procurement Framework and the Broad-Based Black Economic Empowerment legislation are implemented by all government departments, provincial and local government spheres, as well as State-Owned Enterprises as these are instruments to facilitate economic development, localisation and employment creation.
	2. Engaging National Treasury to ensure that National Metrology Institute of South Africa receives the necessary funding for its recapitalisation programme due to its strategic importance to the economy, as well as the health and safety of South Africans.
	3. Engaging National Treasury to ensure that the Broad-Based Black Economic Empowerment Commission receives the appropriate funding to ensure that it is able to fulfil its mandate.
	4. In consultation with the Minister of Finance, securing additional funds to continue with the Manufacturing Competiveness Enhancement Programme over the Medium Term Expenditure Framework.

Report to be considered.

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1. DTI (2014a) [↑](#footnote-ref-1)
2. Department of Trade and Industry (2016) [↑](#footnote-ref-2)
3. African Union Commission (2015) [↑](#footnote-ref-3)
4. National Planning Commission (2010) [↑](#footnote-ref-4)
5. Zuma, J.G. (2015) [↑](#footnote-ref-5)
6. Inflation estimates based on the Consumer Price Index are 6.3%, 5.7% and 5.6% for the 2017/18, 2018/19 and 2019/20 financial years respectively (National Treasury 2017a: 29). [↑](#footnote-ref-6)
7. Department of Trade and Industry (2016) [↑](#footnote-ref-7)
8. National Treasury (2017b) [↑](#footnote-ref-8)
9. National Treasury (2016) [↑](#footnote-ref-9)
10. National Treasury (2017b: 636, 641) [↑](#footnote-ref-10)
11. Previously known as the National Lotteries Board. [↑](#footnote-ref-11)
12. B-BBEE Amendment Act (No. 46 of 2013) [↑](#footnote-ref-12)
13. B-BBEE Commission (2017a: 18, 20, 22, 24 and 25) [↑](#footnote-ref-13)
14. Performance Indicators (PIs) [↑](#footnote-ref-14)
15. ECIC (2017: 12) [↑](#footnote-ref-15)
16. ECIC (2017) [↑](#footnote-ref-16)
17. DTI (2017b) [↑](#footnote-ref-17)
18. Portfolio Committee on Trade and Industry (2015) [↑](#footnote-ref-18)
19. NMISA (2017: 27) [↑](#footnote-ref-19)