the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OFFICE OF THE DIRECTOR-GENERAL

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Ms Joan Fubbs, MP
Chairperson
Portfolio Committee on Trade and Industry
P O Box 15
Parliament
Cape Town
8000

Dear Ms Fubbs,

PRESENTATION ON THE DTI'S 2018/19 APP AS ON 20 MARCH 2018

On 20 March 2018, during **the dti**'s presentation of the APP, questions were raised by the Honourable members and attached herewith is the list of the questions together with our responses.

1. What the department was doing to address the areas of concerns raised by the AG

1.1 The Auditor-General of SA (AGSA) is in the process of finalising the interim audit of the department. Findings raised during the course of the audit are presented to management and the department's audit committee for action and implementation. At the end of each audit cycle, an audit action plan is put together which is tracked and monitored by the department's audit committee. This is to ensure that good corporate governance and financial management is maintained within the department.

1.2 The "Status of Records Review" is a process implemented by the AGSA that aims to highlight possible issues early enough in the audit process. The suggestions as indicated in the AGSA's presentation are taken aboard and internal processes are updated where necessary. The department is at all times mindful and appreciative of the recommendations made by the AGSA.

1.3 On Performance Management the AGSA has completed their review of the department's draft 2018/19 Annual Performance Plan. This is part of the collaborative process in place between the department and the AGSA's office prior to the tabling of the department's Annual Performance Plan. The review covers the "usefulness" of the department's draft 2018/19 Annual Performance Plan with special emphasis on the indicators (i.e. whether indicators are well defined and verifiable) and targets (i.e. whether targets meet the "SMART" principle) on the plan. This review complements the review by the Department of Performance Monitoring and Evaluation who ensures that the department's indicators and targets are aligned to government's objectives as highlighted in the National Development. Both reviews are important in ensuring the overall quality of the plan.

1.4 The "Status of Records Review" has highlighted internal audit findings on the accuracy of the 2017/18 reported performance for Quarter 1 and Quarter 2. The internal audit function performs quality reviews on the department's quarterly reported performance and highlights areas/ concerns for management's attention. These reviews have assisted management in ensuring that the department reports accurately on its Performance Plans.

2. The impact of incentives on job retention and/or creation including the cost per job and the monitoring of the sustainability thereof

The incentive support is mainly for investment in machinery and equipment to assist SA firms to be globally competitive. As part of eligibility for incentive where applicable, job retention and /or creation is a requirement to access support.

3. **A comprehensive list of incentive beneficiaries along with their B-BBEE scores, number of permanent and temporary jobs retained and created and ownership**

   The 2017/18 incentive report will be produced once an external audit by the Auditor General has been completed and it will detail list of beneficiaries, overall number of jobs created and retained as well overall B-BBEE levels of companies that received support.

4. **An independent study on the benefit of incentives to the economy**

   Department of Planning, Monitoring and Evaluation (DPME) is currently reviewing all business incentives in order to assess their benefit to the economy.

5. **An update on the interventions made in relation to the BI programme, as well as the beneficiaries thereof, the ratio of public spending to private spending and the projected contribution to GDP**

   This information will be detailed in the 2017/18 incentive report once the AG completes the 2017/18 external audit.

6. **In terms of Special Economic Zones (SEZs) - the cost per cost benchmarked against other countries, the rationale for an SEZ per province, the ratio of public spending to private spending within the SEZ's, the ratio of staff costs in relation to operational costs, the impact on and contribution to transformation, and the challenges experienced within SEZ**

   The SEZ Act was signed into law in 2014, with some of the old Industrial Development Zones (IDZs) transitioning from the Manufacturing Act No. 187 of 1993.

Whilst cost per cost comparative studies have not been ascertained in any detail, practice in other developed countries (China, Japan, USA, etc.) indicates that the establishment of these zones requires large capital outlay from government. At this stage, no studies have been undertaken by government in South Africa to specifically quantify the costs associated with the development of each of these zones. International benchmarks however, suggest that the costs differ as per the following factors:

a) Size and location of the SEZ;
b) Level of development of the host region;
c) Type of industries/clusters targeted by the SEZ;
d) Private sector involvement in the development of the SEZ; and
e) Level and type of human resource available.

7. Rationale for an SEZ per province

7.1 The identification of SEZs per province was informed by the resolution taken in 2012 by Economic MINMEC, which resolved to invite the provinces to submit proposals or concepts concerning new SEZs. In line with the MinMEC directive, **the dti** refined the criteria for assessing the proposals for new special economic zones, and used the following criteria:

a) Long-term economic viability in order to ensure that proposed economic activities are affordable and sustainable in the host regions over the long-term;
b) Policy fit especially in relation to government's economic and industrial policies as outlined in the New Growth Path, IPAP and provincial strategies;
c) Equity especially in relation to contribution to industrial decentralisation; and
d) Economic impact in relation to job creation, investments, industrial value chains, and general development in the host regions.

7.2 A total of 29 proposals were received, with majority of provinces submitting two or three proposals, eventually the list was reduced to 10 proposals, leaving each province with one proposal, with an exception of Limpopo having two proposals. The reason for that was that, there were two platinum beneficiation proposals, one for Rustenburg and the other one for Tubatse. MINMEC resolved that feasibility studies will determine which one is viable between the two.

8. Ratio of public spending to private spending within the SEZ's

8.1 The Programme is still at its infancy stage with SEZs still setting up their administrative systems in order to acclimatise themselves to the stipulations of proper reporting. Thus no empirical study has been done yet. The following table indicates the total value of investments in the 4 operational SEZs. These are not inclusive of pipeline investors but only include those that are currently operating in the SEZs.

INVESTMENTS IN THE 4 OPERATIONAL SEZs			
Name of the SEZ	**Value of Operational Investments**	**Operational Investors by Sector**	**Direct Jobs Created**
Coega SEZ	R 6.256 Billion	(12) Automotive, (10) Logistics, (5) Agro-processing, (5) Energy Generation, (3) Chemicals, (2) BPO, (1) Ferrous/Non Ferrous Metals Fabrication, (1) Industrial Minerals, (1) Health services	7 953
East London SEZ	R 1.6 Billion	(17) Automotive, (5) Logistics, (2) General Manufacturing, (2) Aquaculture, Renewable Energy, (1) Agro-Processing	3 600
Richards Bay SEZ	R 320 Million	(2) General Manufacturing	63
Dube Tradeport SEZ	R 1.2 Billion	(3) Logistics, (2) Electronics, (8) General Manufacturing & Services, (2) Agro-processing	2 837
Total	R 9,376 Billion	84	13 948

8.2 The disbursements to the various SEZs, made from the time of inception till the 2017/2018 financial year is shown in the following table. The bulk of the funding is committed to infrastructural development (bulk infrastructure, roads, storm water drainage, parameter fencing, top infrastructure, etc.) inside the zones and over time, is expected to reduce the overall capital costs to the zones. The costs reflected in the table also include the disbursements for the development of top infrastructure for new investors that are not yet operational. Coega SEZ has received the bulk of the funding at R5.965 billion, with a total private investment value of R6.256 billion. This is followed by the ELIDZ with R2.587 billion transferred to the zone, with a total private investment value of R1.6 billion. Dube TradePort has received R206 million from **the dti**, with a private investment value of R1.2billion. Richards Bay IDZ has an investment value of R320 and has been transferred R711 million. Direct comparisons on the SEZs disbursements cannot be made given the differing sizes of the zones, the different infrastructural requirements and the diverse needs of the investors.

Transfers to the IDZ'operators under the IDZ Progamme and SEZ Programme, since inception of the IDZ's up to the end of the 2017/18 financial year.

FINACIAL YEAR	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
IDZ	R'000 000																
Coega IDZ	R 58	R 123	R 55	R 59	R 250	R 726	R 718	R 860	R 714	R 384	R 418	R 308	R 286	R 259	R 428	R 319	R 5,965
ELIDZ	R 0	R 38	R 38	R 18	R 188	R 125	R 154	R 373	R 198	R 171	R 150	R 245	R 125	R 22	R 0	R 742	R 2,587
RBIDZ	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 68	R 20	R 61	R 42	R 163	R 59	R 153	R 77	R 68	R 711
SBIDZ	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 160	R 151	R 50	R 385	R 0	R 746
OR Tambo IDZ	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 116	R 157	R 206	R 479
MAP IDZ	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 26	R 90	R 178	R 48	R 342
Dube TradePort	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 27	R 0	R 179	R 206
Total	R 58	R 161	R 93	R 77	R 438	R 851	R 872	R 1,301	R 932	R 616	R 610	R 876	R 647	R 717	R 1,225	R 1,562	R 11,036

Notes

ELIDZ : East London Industrial Development Zone

RBIDZ : Richard's Bay Industrial Development Zone

SBIDZ : Saldanah Bay Industrial Development Zone

MAP : Maluti-A-Phofung Indusrial Development Zone

8.3 International benchmarking however, shows that public sector funding tends to be higher in relation to enabling (bulk) infrastructure such as fencing; roads; electricity supply; water treatment; sewer etc. The private sector tends to invest more on the "industrial" infrastructure such as factories; research and development facilities; innovation; technical skills training etc. Similarly, **the dti** has, and continues to be a major contributor towards bulk infrastructure requirements and other related feasibility studies. Provincial government is also contributing to the operational costs of running the SEZs.

8.4 In some instances, public spending involves non-financial incentives like accelerated building plans approval (local government) and electricity rebates.

9. Ratio of staff costs in relation to operational costs

9.1 The ratio of staff costs in relation to operational costs varies from SEZ to SEZ and is influenced by a number of factors, such as:

a) The size of the SEZ;

b) Number of investors located in a specific SEZ;

c) Sectorial focus of the SEZ – some sectors have high labour absorption rate; and

d) The stage of growth of the SEZ- matured SEZs tend to have high staff and costs especially those related to the investor "aftercare" and retention.

9.2 Currently our SEZs differ in size and the trend is that the biggest ones (Coega and East London) tend to have high staff and operational costs when compared to other SEZs. The foregoing is in line with the number of investors that are located within these SEZs. Consequently, it is challenging to come up with a definite and uniform ratio, as each SEZ is unique in many aspects.

10. Impact on and contribution to transformation

The SEZ program contributes to the transformation of the host region and the country as a whole in a number of ways, such as:

a) Integration of local SMMEs into the SEZ's value-chain thus enabling them to access global value-chains;

b) Technology and skills transfer to semi-skilled and unskilled workers from the host regions thus expanding the region's skills' base;

c) Incubating local enterprises in strategic industries such as renewable energy, chemicals and technology;

d) Creation of direct and indirect jobs within and outside the SEZ, which further improves the industrial capabilities of the host region; and

e) Inclusion of black industrialists, black suppliers, women and people with disabilities into SEZ value-chains; and act as a catalytic enclave for betterment of socio-economic conditions in the host region.

11. Challenges experienced within the SEZs

11.1 Challenges experienced within SEZs vary and some are exogenous whilst some are endogenous. The following main challenges have been reported by investors and SEZ management:

11.1.1 ***Water***

Environmental records of decision (RoDs) require use of return effluent for industrial purposes instead of potable water, the result being a requirement for investment in large scale processing, reticulation and storage facilities within the SEZs and adjoining municipalities. Done effectively, this could well be the most potent weapon in our value proposition and competitiveness.

11.1.2 ***Electricity***

While supply fears are no longer as pronounced, the predictability of costs into the future remains a concern and a deal-breaker for large energy intensive investment projects, amplified in part by the huge last mile/point of use installations for green-fields projects.

11.1.3 ***Incentives to curb de-industrialisation***

A consequence of globalisation is deindustrialisation, which also affects established SEZs – there is therefore a need for the State to be innovative and more interventionist in its approach to evade the threat of deindustrialisation.

11.1.4 ***Legacy infrastructure***

The SEZ Fund does not provide funding for maintenance and upgrade of physical infrastructure that has passed its useful life. This becomes a serious challenge as older SEZs will have to contend with diverting investment promotion funds to upgrade and maintain ageing infrastructure.

11.1.5 ***Delays in the operationalisation of SEZ Incentive Benefits***

The minister of finance, in his recent budget speech, announced that six SEZs have been approved for tax incentive benefits. However, to date no feedback the implementation has not started. This creates a lot of uncertainties amongst the investors in SEZs; it also affects the reputation and the credibility of the programme in its entirety.

12. Brief overview of the OR Tambo SEZ

12.1 During December 2010, the Gauteng IDZ Development Company SOC Limited was awarded an Operator Permit to develop and operate the IDZ at OR Tambo International Airport, in terms of Regulations 57(e) and 17(d)(2) of the IDZ Programme approved under the Manufacturing Development Act, 1993.

12.2 Award of the Permit to the Gauteng IDZ (or GIDZ) followed earlier designation of land located at OR Tambo International Airport for the purposes of developing an IDZ - approved in terms of Notice No. 152 of 2002, Government Gazette No. 23084.

12.3 Pursuant to issuance of the Permit, the Gauteng Provincial Government proceeded to support operationalisation of the Company with the necessary resources required to oversee the conceptualisation, design, investor attraction and infrastructure development of the Zone.

12.4 In line with its approved focus and mandate, the Company was required to conceptualise and plan for development, an Industrial Development Zone at Africa's largest and busiest airport, also known as OR Tambo IDZ.

13. Investment within Industrial Parks and the use of their business plans to determine the number of companies and jobs attracted as a measure of success

13.1 The implementation of the Industrial Parks Revitalisation Program has focused on the infrastructure refurbishment of state owned industrial parks. The program involves the provincial agencies who are the owners of the industrial parks. They offer development finance to SMME's as well as investment promotion.

13.2 Parallel to this **the dti** in collaboration with the African Development Bank has appointed a service provider UWP Consulting (Pty) LTD who are currently in the process of developing of a marketing plan and implementation model for the industrial parks.

14. An update on the investigation on the National Gambling Board and whether anyone had been charged

14.1 An investigation on the National Gambling Board was conducted in 2015 following the submission of a Protected Disclosure to the Executive Authority on 26 August 2014. Upon receipt of the Protected Disclosure the Minister wrote to the Board members on 26 and 29 August 2014 informing him of his intention to temporarily remove them and invited them to make representations within five (5) days. On 9 September 2014 the Minister informed the board members of their temporary removal and he reported same to Parliament in a letter dated 21 September 2014. Subsequent to this the Minister appointed two dti employees as Co-Administrators.

14.2 Following deliberations between **the dti** and the Audit and Risk Committee of the NGB, the recommendations were implemented by the NGB but no action was taken against the board members as they had already been removed and the cost benefit analysis dictated it would not be in the interest of **the dti** to pursue the matter.

15. Measures to fill the position of Chief Information Officer

The position of the Chief Information Officer (CIO) is currently filled. The incumbent is currently on suspension.

16. What is the National Lotteries Commission being called for

No meetings have been scheduled between the National Lotteries Commission and **the dti**.

Yours sincerely,

Lionel October
Director-General
Date: 12 / 04 / **2018**