# 6. Report of the Portfolio Committee on Trade and Industry on Budget Vote 34: Trade and Industry, dated 10 May 2018

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

1. **Introduction**

The Department of Trade and Industry (DTI) will use its budget of R9.5 billion to accelerate its industrialisation drive to restructure the South Africa’s manufacturing sector to contribute towards a more inclusive, broad-based economy and a more competitively trading country. Bold and decisive action, in line with the National Development Plan (NDP), can expand the value-added industrialization and agro-processing sectors to achieve the employment goals of the country, overcome poverty and cut the income gap.

A higher impact Industrial Policy Action Plan (IPAP) remains central to the DTI which will employ all its policy levers, including the considerable Government procurement spend to leverage the economic capabilities of South Africa through, among other policy interventions, localization using designated products and sectors. The success of this intervention depends upon the public sector and its State-Owned Entities ensuring that they support localization in the industrial and agricultural sectors as well as through the service sector. This budget also recognizes the value of Public-Private Partnerships (PPP), as well as the contribution to social compacts with civil society including the unions. Indeed, all South Africans are invited to join these trade and industry initiatives to grow our economy and take it to a higher trajectory.

South Africa continues to play a prominent role in the regional economic integration of the Africa continent, as it also pursues the Tri-partite Free Trade Area (T-FTA) and Continental Free Trade Area (CFTA) negotiations. Intra-African Trade is increasing with a number of trade missions achieving significant orders for local manufacturers. The latest addition to the Department’s tools is Investment South Africa which is proving itself an asset as a consequence of its one-stop configuration where regional and international trading partners can conduct and conclude all the necessary requirements to undertake productive investment in and trade with South Africa. Furthermore, the technical architecture and regulatory institutions also play a key role in facilitating trade and investment, as it gives confidence in our products but also protects our people.

The Department should be commended for its allocative budget efficiency and its targeted outputs to achieve its contribution to the priority goals of the country, which is simply inclusive economic growth that will expand employment and continue to increase business confidence.

* 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 6 and 20 March and 18 April 2018, 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 2017/18 financial year.

The Committee also considered three entities’ strategic plans and APPs on 27 March and 18 May 2018. The selection was due to their contribution to the SONA priorities of promoting industrial development and economic transformation. The entities were the:

* Broad-based Black Economic Empowerment (B-BBEE) Commission,
* South African National Accreditation System (SANAS), 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 21 February 2018, the Minister of Finance delivered the Budget Speech for the 2018/19 financial year. The DTI was allocated R9.46 billion of the national budget for the financial year.

* 1. **Policy Priorities for the 2018/19 financial year and alignment with national, regional, continental and global development agendas**

The policy priorities for the Department have not changed, instead they have been re-emphasised in recent months and further reiterated by President Matamela Ramaphosa in the State of the Nation Address (SONA) on 16 February. The policy priorities are:

* Re-industrialising the economy/stimulating the manufacturing sector through localisation, the Strategic use of incentives, and other measures.
* Ensuring transformation of the economy through supporting black industrialists including the black youth and women producers which have productive business to build economies of scale and build capacity for both the domestic and international markets.
* Facilitating investment in the development of township and rural enterprises.
  + 1. **National Development Plan**

According to the National Development Plan (NDP), exports (as measured in volume terms) should grow by 6 per cent a year by 2030 with non-traditional exports growing by 10 per cent a year. The NDP further places South Africa’s trade and investment links with the rest of Africa at the centre of South Africa’s economic growth strategy. To this end, the Department is cognisant of the critical role of exports in stimulating increased manufacturing and re-industrialisation of the South African economy. The Department has therefore established a critical link between *industrialisation* and *internationalisation* of South African producers. Internationalisation is pursued through the incentive support for accessing global markets, exporter development programmes and the negotiations for market access opportunities globally.

* + 1. **Sustainable Development Goals (SDGs)**

According to SDG 9 (build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation), “Bridging the digital divide, promoting sustainable industries, and investing in scientific research and innovation are all important ways to facilitate sustainable development”[[3]](#footnote-3). One of the Department’s core mandates is set out in the strategic objective of “facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation”[[4]](#footnote-4) and the implementation thereof would contribute to the achievement of this goal.

* + 1. **Southern African Development Community (SADC) Industrialisation Strategy**

Southern African Development CommunityRegional Infrastructure Development Master Plan (SADC-RIDMP) aims to “catalyze industrial development and reduce current high costs of doing business, including those related to Non-Trade Barriers (NTBs) and local procurement of inputs for infrastructure development”[[5]](#footnote-5). As a Member of SADC, South Africa has to align its national policies and strategies to complement that of the regional community. The National Development Plan (NDP) 2030 and the Industrial Policy Action Plan (IPAP) (the country’s industrialisation plan), are therefore the broad complementing policies to the SADC industrialisation strategy. IPAP is the country’s industrialisation plan which sets out detailed plans of how industrialisation in the country can be achieved. Similarly to the SADC-RIDMP, IPAP aims ensure industrialisation through its interventions, one of which is the developmental tariff reform. In the current budget, the Department continues to provide for the implementation of IPAP.

* + 1. **Agenda 2063**

The work of the Department is aligned to aspiration 1 of Agenda 2063: “*A prosperous Africa based on inclusive growth and sustainable development”.* In line with this aspiration, the African continent committed to "eradicating poverty in one generation and build shared prosperity through social and economic transformation….”. Strategic objectives of the Department include: “Facilitating broad-based economic participation through targeted interventions to achieve more inclusive growth”[[6]](#footnote-6).

Implementing these strategic objectives through programme 3: Special Economic Zones and Economic Transformation in the 2018/19 financial year should contribute to the achievement of Agenda 2063 aspirations. This programme had been allocated a budget amounting to R165.4 million with an increase of 32 per cent in real terms compared to the previous financial year’s appropriation to the programme of R118.4 million.

* + 1. **Nine Point Plan**

Initiatives 2, 3, and 6 in the Nine-Point Plan relate to the Department of Trade and Industry:

**Adding value to our mineral wealth (advancing beneficiation and support to the engineering and metals value chain)** – IPAP encourages and supports beneficiation in various sectors of the economy including mineral resources. Rather than exporting minerals the Department supports the beneficiation of mineral resources in the country for the purpose of servicing the domestic demand of manufactured goods as well as for export. Once of the interventions in the medium term to 2020/21, is to establish new Special Economic Zones (SEZs) in mineral resource beneficiation. Over the medium term the budget for SEZs will increase from R905.4 million in 2017/18 to R1.5 billion in 2020/21.

**More effective implementation of a higher impact Industrial Policy Action Plan** – industrial development is one of the Department’s core mandates. This was emphasised by the launch of the Industrial Action Plan (IPAP) in 2007. The Industrial Development Programme is the second largest programme by budget for the Department. Approximately 17 per cent (R1.6 billion) of the total budget is set aside for industrial development. It should be noted however that this shows a decline of 15 per cent (R281.3 million) in real terms. The programme comprises of two sub-programmes; the industrial competitiveness and the customised sector programmes. The decrease in the total programme budget is a result of a 28.3 per cent (R266.2 million) decrease in real terms in the customised sector programme. The customised sector programme *“develops and implements high impact sector strategies focused on manufacturing and other value adding sectors to create decent jobs and increase value addition and competitiveness in domestic and export markets, as set out in the annual three-year rolling industrial policy action plan”*[[7]](#footnote-7). The decrease in this programme budget may impact on the Department’s ability to support industrialisation in the country and the creation of jobs in the productive sectors of the economy.

**Encouraging private sector investment** – the Department encourages investment in the country through providing incentives and well as ensuring that it is easier for investors to do business in South Africa. Incentives for investment are a priority of the Department, in the 2018/19 financial year approximately 64 per cent (R6 billion) of the total budget has been set aside for incentives. This is an increase from R5.6 billion in the previous financial year, however, in real terms the incentives budget had increased by a mere 0.38 per cent. One of the decisions taken by investors before investing is the ease with which it can set up a business in South Africa. In the 2016/17 financial year, the Department established a programme as well as a unit dedicated to investment promotion, investment support and aftercare, with the purpose of increasing investment in the country, and providing dedicated specialist support to investors.

To implement this particular mandate, the Department established one-stop shops in three provinces, namely, Gauteng, Western Cape, and KwaZulu-Natal and plans to launch similar offices in other provinces. Contrary to this plan, the budget for the Investment South Africa Programme declines to R53.8 million in 2018/19 from R72.9 million in the previous financial year. The main change in this programme’s budget relates to transfers to Public Corporations and Private Enterprises, which were R22 million in the previous financial year and have been completely eliminated in the current budget. It is not clear how the Department would be able to provide increased investment support services with is budget, in particular how it will be able to roll-out more one-stop-shops in other provinces.

* + 1. **State of the Nation Address**

In the SONA, the President first highlighted positive changes in the country’s economy that would facilitate the processing of addressing the challenges we are currently faced with, including the improvement in commodity prices, the strengthening of the rand, improvement in investor and business confidence. The President, however, emphasised that the government through the Department will work toward strengthening the manufacturing sector, increasing trade (particularly exports), promoting foreign and domestic investment, and improving economic transformation

* 1. **Budget Analysis** **- Overview of the Budget Allocation: 2017/18 – 2020/21**

The Department’s budget has increased to R9.5 billion in 2018/19 from R9.3 billion in the 2017/18 financial year, while the budget has slightly increased by 1.3 per cent in nominal terms, it has decreased by 4 per cent (R373.9 million) in real terms. Therefore, the total budget in real terms is R8.7 billion in real terms. Given the inflation estimates of 5.5 per cent in the 2018/19 financial year and by 5.3 per cent and 5.5 per cent for the next two years respectively, the budget is expected to increase to R9.1 billion in 2019/20 and R9.1 billion in 2020/21 in real terms.[[8]](#footnote-8) Figure 1 below shows the Department’s budget for the medium-term both in nominal and real terms (inflation adjusted).

In terms of the economic classification, the majority of the DTI budget is allocated towards transfers and subsidies, namely 82.7 per cent. This is followed by compensation of employees (10.4 per cent), goods and services (6.5 per cent) and payments for capital assets (0.3 per cent). Since the 2017/18 financial year, the budget share of allocations for compensation to employees and transfers and subsidies increased from 10.1 per cent and 81.9 per cent respectively. The DTI has reduced its goods and services’ share of the allocated budget from 7.7 per cent in the 2017/18 financial year in line with cost-containment measures. There has also been a reduced allocation for transfers to its entities, which may have a negative impact on regulatory bodies and the technical infrastructure institutions being able to fulfil their mandates.[[9]](#footnote-9)

**Figure 1: Overview of the Budget Allocation: 2017/18 – 2020/21**

Source: National Treasury (2018a)

* + 1. **Budget Allocation by Programme**

For the 2018/19 financial year, the Department’s work and budget will be divided among its eight (8) programmes, namely:

* Programme 1: Administration – 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.
* Programme 2: International Trade and Economic Development – The programme focuses on building bilateral and multilateral trade relations, relations that facilitate the building of an equitable multilateral trading system; and promoting New Partnership for Africa’s Development.
* 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.
* Programme 4: Industrial Development – The 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. It is also responsible for ensuring a functional technical infrastructure supported by the National Metrology Institute of South Africa (NMISA), the National Regulator for Compulsory Specifications (NRCS), the South African Bureau of Standards (SABS), and the South African National Accreditation System (SANAS).
* Programme 5: Consumer and Corporate Regulation – The Programme focuses on facilitating easy access to redress and efficient regulation for economic citizens. It is responsible for policy development, promoting compliance with and enforcing these regulatory frameworks in areas such as gambling, liquor manufacturing and distribution, companies, intellectual property, credit, and consumer protection. This mandate is supported and partly implemented through the following DTI entities: 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).
* Programme 6: Incentive Development and Administration – The 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.
* Programme 7: Trade and Investment South Africa – The Programme is aimed at promoting South African products in high growth markets; facilitating access for South African manufactured products and services; and enhancing the ongoing promotion of exports. The Programme is also responsible for building and maintaining trade and investment relationships between South Africa and the rest of Africa; in pursuit of its outward investment-led trade mandate. Furthermore, the programme manages the operations of foreign offices.
* 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”[[10]](#footnote-10).

**Figure 2: Budget Allocation Share by Programme for the 2018/19 Financial Year**

Source: National Treasury (2018a)

In line with the Department’s mandate and strategic objective of “Facilitating transformation of the economy to promote industrial development, investment, competitiveness and employment creation”[[11]](#footnote-11), the two largest programmes in terms of the share of the budget are for the Incentive Administration Programme, at approximately 64 per cent and the Industrial Development Programme with a 17 per cent share of the 2017/18 budget. The rest of the budget is allocated to the six other programmes as follows; Administration (8 per cent), the Trade and Investment South Africa Programme (4 per cent), the Consumer and Corporate Regulation Programme (3 per cent), the Special Economic Zones and Economic Transformation Programme (2 per cent) and the International Trade and Economic Development Programme and Investment South Africa (1 per cent each). Table 1 below depicts the Department’s budget by programme as well as changes from the 2017/18 financial year to 2018/19 financial year.

**Table 1: Budget Allocation by Programme: 2017/18 and 2018/19 Financial Year**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase/ Decrease**  **2018/19** | **Real Increase/ Decrease**  **2018/19** | **Nominal Percent change in 2018/19** | **Real Percent change in 2018/19** |
| **R million** | **2017/18** | **2018/19** |
| Administration | 814,6 | 760,6 | - 53,9 | - 93,6 | -6,62 per cent | -11,49 per cent |
| International Trade and Economic Development | 119,8 | 124,9 | 5,1 | - 1,4 | 4,27 per cent | -1,16 per cent |
| Special Economic Zones and Economic Transformation | 118,4 | 165,4 | 47,0 | 38,4 | 39,69 per cent | 32,41 per cent |
| Industrial Development | 1 819,3 | 1 622,6 | - 196,7 | - 281,3 | -10,81 per cent | -15,46 per cent |
| Consumer and Corporate Regulation | 298,6 | 314,6 | 16,0 | - 0,4 | 5,34 per cent | -0,15 per cent |
| Incentive Development and Administration | 5 674,4 | 6 009,0 | 334,6 | 21,3 | 5,90 per cent | 0,38 per cent |
| Trade and Investment South Africa | 425,2 | 411,6 | - 13,6 | - 35,1 | -3,20 per cent | -8,25 per cent |
| Investment South Africa | 72,9 | 53,8 | - 19,0 | - 21,8 | -26,10 per cent | -29,95 per cent |
| **TOTAL** | **9 343,2** | **9 462,6** | **119,4** | **- 373,9** | **1,3 per cent** | **-4,00 per cent** |

Source: National Treasury (2018a)

The Department’s overall budget will decrease by 4 per cent in real terms for the 2018/19 financial year. At a programme level, the budget of six (6) programmes (Administration, International Trade and Economic Development, Industrial Development, Consumer and Corporate Regulation, Trade and Investment South Africa, and Investment South Africa) decreased by 11.5 per cent, 1.2 per cent, 15.5 per cent, 0.15 per cent, 8.25 per cent and 29.9 per cent in real terms respectively. Budgets of two (2) programmes increased, these are the Special Economic Zones and Economic Transformation programme which increased by 32.4 per cent and Incentive Development and the Incentive Development and Administration programme with an increase of 0.38 per cent in real terms. The over 30 per cent increase in the Special Economic Zones and Economic Transformation programme is in line with the President’s declaration during SONA that “the special economic zones remain important instruments we will use to attract strategic foreign and domestic direct investment and build targeted industrial capabilities and establish new industrial hubs”[[12]](#footnote-12). To fulfil this declaration R47 million (R39.7 million in real terms) more than the previous financial year will be appropriated to the programme in the 2018/19 financial year.

Shown in the table above is the budget allocation by programme from the 2017/18 financial year to the 2018/19 financial year.

* + 1. **Transfers to Entities**

In terms of its core functions, the Department is responsible for overseeing 14 entities. Of the fourteen (14) entities, three (3) are fully self-funded, these are the Companies and Intellectual Property Commission (CIPC), the National Empowerment Fund (NEF) and the National Lotteries Commission (NLC). Other entities include the newly established Broad-Based Black Economic Empowerment (B-BBEE) Commission.

**Table 2: Transfers to the Department’s entities**

| **Entity** | **Adjusted appropriation** | **Medium-term expenditure estimate** | | | **Average growth rate (%)** | **Average: Expenditure/**  **Total (%)** |
| --- | --- | --- | --- | --- | --- | --- |
| **R thousand** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **2017/18-2020/21** |
| Broad-Based Black Economic Empowerment Commission | – | 59 500 | 61 700 | 65 093 | – | 0,6% |
| Companies Tribunal (CT) | 15 822 | 16 740 | 17 677 | 18 649 | 5,6% | 0,2% |
| Export Credit Insurance Corporation (ECIC) | 177 644 | 183 248 | 193 511 | 204 153 | 4,7% | 2,3% |
| National Consumer Commission (NCC) | 52 614 | 55 865 | 58 993 | 62 238 | 5,8% | 0,7% |
| National Consumer Tribunal (NCT) | 48 459 | 49 988 | 52 787 | 55 691 | 4,7% | 0,6% |
| National Credit Regulator (NCR) | 73 056 | 75 361 | 79 580 | 83 957 | 4,7% | 1,0% |
| National Gambling Board | 31 627 | 32 624 | 34 452 | 36 346 | 4,7% | 0,4% |
| National Metrology Institute of South Africa (NMISA) | 106 470 | 109 698 | 115 841 | 122 212 | 4,7% | 1,4% |
| National Regulator for Compulsory Specifications (NRCS) | 128 745 | 132 104 | 139 501 | 147 173 | 4,6% | 1,7% |
| South African Bureau of Standards (SABS) | 285 494 | 275 931 | 291 384 | 307 411 | 2,5% | 3,5% |
| South African National Accreditation System (SANAS) | 30 313 | 31 032 | 32 770 | 34 573 | 4,5% | 0,4% |

**Source**: National Treasury (2018a)

In the previous financial year, the B-BBEE Commission had not been allocated its own funds, and it operated under the DTI. For the 2018/19 financial year, transfers to the Department’s entities are illustrated in the table below.

In addition to these transfers, during the financial year National Metrology Institute of South Africa will receive funding to the value of R123.1 million for capital expenditure. In the previous financial year, NMISA received R146.1 million.

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

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

* + 1. ***Concerns raised by the Office of the Auditor-General***: In its report to the Committee, the Office of the Auditor-General (AGSA) highlighted areas of concern it had raised with the DTI. This related to certain performance indicators in the DTI’s draft Annual Performance Plan and its interim findings regarding the status of the DTI’s records in terms of governance controls for the first two quarters of the 2017/18 financial year. The Committee was concerned by the findings and requested the DTI to indicate what measures were being implemented to address these matters. The DTI responded that the AGSA considers the usefulness of the performance indicators and targets, namely whether the indicators are well-defined and verifiable and the targets meet the “SMART” principles. The DTI had factored in the AGSA’s comments before finalising its Annual Performance Plan. In terms of the status of records review, these findings are to alert departments of possible issues that may arise during the audit process, for the departments to be able to address these issues before the financial year ends. The DTI takes the issues and the AGSA’s recommendations on board and updates its internal processes where necessary. The DTI also has an internal audit function, which conducts quality reviews of its quarterly reported performance and highlights areas/concerns for management’s attention. Finally, any findings raised during the AGSA’s interim audit are presented to management and the DTI’s audit committee for action and implementation. This is captured in an audit action plan, which is tracked and monitored by the DTI’s audit committee.
    2. ***Impact of incentives on jobs***: The Committee enquired what the impact of incentives is on job retention and/or creation. The DTI clarified that the incentive support was mainly to assist firms to become globally competitive. Thus, it focused on investment in machinery and equipment and used commitments related to job retention and/or creation as one of the criteria to access support where applicable. Furthermore, a comprehensive list of beneficiaries of incentives, overall number of jobs created and retained and overall B-BBEE levels of companies will be published in the 2017/18 incentive report after AGSA’s audit has been completed.
    3. ***Update on the Black Industrialist Programme***: The Committee requested an update on interventions under the Black Industrialist Programme, detailing the beneficiaries, the ration of public spending to private spending and the projected contribution to GDP. The DTI indicated that this information would also be captured in the 2017/18 incentive report mentioned above.
    4. ***An update on the SEZ programme***: The Committee requested an update on the SEZ Programme, in terms of the comparative cost in relation to other countries, the rationale for establishing an SEZ per province, the ratio of public spending to private spending within the SEZs, the ratio of staff costs against total operating expenses, the impact on and contribution to transformation, and the challenges experienced within SEZs. The DTI indicated that there has not been any detailed comparative cost study conducted or a study on the costs associated in South Africa to develop each of these zones; however, practice in other developed countries revealed that the establishment of these zones requires a large state capital outlay. Internationally, costs were determined by: (i) the size and location of the SEZ; (ii) the level of development of the host region; (iii) the type of industries/clusters targeted by the SEZ; (iv) private sector involvement in the development of the SEZ; and (v) the level and type of human resources available.

The Economic MINMEC in 2012 resolved that each province would be invited to submit proposals or concepts concerning new SEZs. The criteria for assessing these were: (i) long-term viability (affordability and sustainability for the host regions); (ii) economic and industrial policy fit; (iii) equity in terms of contributing to industrial decentralisation; and (iv) economic impact for the host regions. A total of 29 proposals were received and reduced to 10 proposals with each province having one with the exception of the Limpopo province. MINMEC resolved that a feasibility study would be conducted to determine, which of the two proposals for platinum beneficiation would be more viable.

The DTI has designated eight (8) SEZs in five of the nine provinces in the country, four are fully operational at this stage, with other establishing their administrative systems. The four operational SEZs are Coega, East London, Richards Bay and Dube Tradeport. Other designated SEZs are the Saldanha Bay IDZ in the Western Cape, Maluti-a-Phofung SEZ in the Free State and the Musina Makhado SEZ in Limpopo. Accumulatively, they have 84 operational investors, with an investment value of R9.736 billion and have created 13 948 direct jobs. From 2002/03 until the end of the 2017/18 financial year, the DTI had invested about R11 billion into 7 Industrial Development Zones (now SEZs) mostly for infrastructural development, such as bulk infrastructure, roads, storm water drainage, perimeter fencing and top infrastructure; and other related feasibility studies.

The proportion of staff costs to total operational costs varied among SEZs and were dependent on the size of the SEZ, the number of investors, its sectorial focus, and the stage of growth of the SEZ. The DTI also highlighted that the SEZ program positively contributed to transformation by integrating local SMMEs into the SEZ’s value chain, technology and skills transfer to semi-skilled and unskilled workers from the host regions, job creation in and around the SEZ and inclusion of black industrialists, black suppliers, and women and people with disabilities into SEZ value chains.

The DTI also listed the main challenges reported by investors and SEZ management. These included:

* The need to invest in large scale processing, reticulation and storage facilities within the SEZs and adjoining municipalities to meet environmental requirements regarding water use from return effluent rather than potable water.
* The lack of predictability for future electricity costs for large energy intensive investment projects.
* The need for incentives to curb deindustrialisation.
* There is currently no state funding to maintain and upgrade physical infrastructure, especially for older SEZs.
* Uncertainty among investors due to delays in operationalisation of tax incentive benefits. This also negatively affects the credibility of the programme.
  + 1. ***Update on the investigation at the NGB***: The Committee enquired what the outcome of the investigation on the board of the NGB was and whether anyone had been charged in relation to this. The DTI responded that the investigation had been conducted in 2015 following the submission of a protected disclosure to the Executive Authority on 26 August 2014. On 26 and 29 August 2014, the Minister informed the board members of his intention to temporarily remove them and invited them to make representations within five days and the temporary removal was initiated on 9 September 2014. Subsequent to this, the Minister appointed two DTI employees as co-administrators. Following deliberations between the DTI and the NGB’s Audit and Risk Committee, the recommendations were implemented but no action was taken against the board members as they had already been removed and it would not be cost effective to pursue the matter further. **The DTI also reported that it was reviewing the legislation to establish the NGB as a regulator, as its mandate did not necessitate a board.**
    2. ***Filling the position of Chief Information Officer***: The Committee sought clarity on why the acting Chief Information Officer had been acting for more than 12 months uninterruptedly, which was in contravention of the Public Service Regulations, 2016. The DTI clarified that the position of the Chief Information Officer is currently filled; however, the incumbent is suspended and the matter has not yet been finalised.

1. **Entities reporting to the Minister of Trade and Industry**

For this budget process, the Committee agreed to consider the strategic plans and APPs of three 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**

The Broad-Based Black Economic Empowerment (B-BBEE) Commission was established by the B-BBEE Amendment Act, 2013 (Act No. 46 of 2013) and became operational in the 2017/18 financial year. Section 13B of the Act provides for the establishment of this Commission “as an entity within the administration of the Department”[[13]](#footnote-13). The B-BBEE Commission’s core mandate is to monitor the implementation of and compliance with the B-BBEE Act. The functions of the Commission are set out in Section 13F of the Act as:

* 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 broad-based black economic empowerment;
* To receive complaints relating to broad-based black economic empowerment in accordance with the Act;
* To investigate, either on its own initiative or in response to complaints received, any matter concerning broad-based black economic empowerment;
* To promote advocacy; access to opportunities and educational programmes and initiatives of broad-based black economic empowerment;
* To maintain a register of major broad-based black economic empowerment transactions, above a threshold determined by the Minister in the Gazette;
* To receive and analyse such reports as may be prescribed concerning broad-based economic empowerment 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 broad-based black economic empowerment;
* 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 broad-based black economic empowerment.

This core mandate falls within the Department’s strategic objective of “facilitating broad-based economic participation through targeted interventions to achieve more inclusive growth”. The B-BBEE Commission, therefore, has a critical role to play in creating a transformed, empowered and an inclusive economy.

* + 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.[[14]](#footnote-14)
  + 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 a large share 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 Commission is going on its third year of operations in this 2018/19 financial year, since the last financial year a number of its Performance Indicators have been refined, some removed from the previous year’s Performance Indicators. Performance Indicators have therefore decreased from 25 in the previous financial year to 18.

To perform its functions in the financial year, the B-BBEE Commission projects a total of 115 employees, of which 113 permanent employees and 2 trainees/interns. Over the outer years of the MTEF, the number of interns is expected to increase to 10 therefore total employees is projected to increase to 123.

**Table 3: Performance indicators by programme**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Strategic Objective** | **Number of PIs[[15]](#footnote-15)**  **2017/18** | **Number of PIs**  **2018/19** |
| **Programme 1:** Compliance | Safeguarding the outcomes of an inclusive Economy | 8 | 5 |
| **Programme 2:** Investigations and enforcement | Implementing corrective enforcement to achieve compliance | 5 | 5 |
| **Programme 3:** Research, analysis and reporting | Researching, analysing and reporting on the state of transformation | 6 | 2 |
| **Programme 4:** Relationship Building/Stakeholder Relations | Collaborating with relevant stakeholders to advance transformation | 1 | 1 |
| **Programme 5:** Administration | Developing capability and capacity of the Commission to deliver on its mandate | 7 | 3 |
| **Total** | | **25** | **18** |

Source: B-BBEE Commission (2017b) & (2018)

* 1. **Medium Term Budget Analysis**

The Act prescribes two sources of funding for the Commission, namely: (i) money that is appropriated by Parliament for the Commission; and (ii) money lawfully received from any other source.

For the 2018/19 financial year, the National Treasury through the Estimates of National Expenditure notes that the Commission has been appropriated an amount of R50 million for the financial year. However, the B-BBEE Commission in its APP and Strategic Plan notes that the Department has committed to R70 million while its estimates its funding requirements for the financial year to total R123 million. It is not clear how the Commission will acquire the rest of the required funding for its operations.

In the 2018/19 financial year proposed budget, expenditure mainly comprises of compensation for employees, which accounts for 64 per cent of total expenditure (accounted for 59 per cent in the previous financial year). Goods and services for the financial year will be 29 per cent (accounted for 23 per cent in the previous financial year) and expenditure on capital assets will amount to 7 per cent of total expenditure (accounted for 18 per cent in the previous financial year).

**Table 4: Projected expenditure by economic classification for the 2018/19 financial year (R thousands)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
| Compensation of Employees | 78 500 | 83 0000 | 88 000 | 94 000 | 99 000 |
| Goods and services | 36 000 | 38 000 | 40 000 | 43 000 | 45 000 |
| **Total operational expenditure** | **114 500** | **121 000** | **128 000** | **137 000** | **144 000** |
| Payment for capital assets | 8 500 | 3 000 | 5 000 | 3 000 | 3 000 |
| **Total expenditure** | **123 000** | **124 000** | **133 000** | **140 000** | **147 000** |

Source: B-BBEE Commission (2018)

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

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

* + - 1. ***Lack of legislative certainty with respect to B-BBEE legislation***: The Committee raised concerns around the ineffectiveness of provisions within the B-BBEE legislative framework. According to the Committee, it would appear that current legislation does not provide the Commission with effective provisions to address non-compliance. The B-BBEE Commission concurs with the Committee in that the Act only addresses criminal offences, that once investigated by the Commission and evidence of misconduct is found, the matter should be referred to the South African Police Services (SAPS). The current Act excludes administrative provisions that would brand fronting practices and misrepresentation as criminal. The Committee is of the view that the Act should include fronting practices and misrepresentation as criminal offences in line with the Competition Act, the Consumer Protection Act, the National Credit Act and the Companies Act, which were amended between 2005 and 2010 specifically to include administrative processes to complement criminal procedure. The Committee was further of the view that a review of the Act should include provisions that would permit the Commission to search and raid entities under investigation.
      2. ***The absence of a specialised tribunal to deal effectively with B-BBEE matters***: The Committee was concerned that the current Act does not make provision for a speedy resolution of cases of abusive and fronting practices through a specialised tribunal. The Commission informed the Committee that currently all cases were referred to the courts which proved to be lengthy and costly. They further informed the Committee that the effective parties only have recourse through civil action against persons and companies found guilty. The Commission was of the view that provisions could be considered for the establishment of such a special tribunal with the power to issue consent orders. This could include financial compensation after a specialised tribunal found a company had engaged in prohibitive practices. However, the Commission was of the view that the Companies Tribunal should hear B-BBEE matters, which would eliminate the need for the establishment of another special tribunal.
      3. ***The ineffectiveness of the Act to hold state organs and public entities accountable for non-compliance***: The Committee raised concerns around the high level of non-compliance of state organs and public entities with respect to the Act. According to the Commission, the current Act does not have any effective mechanisms that would make it an obligation for state organs and public entities to comply. The lack of enforcement mechanisms renders the Commission ineffective in dealing with state organs and public entities. This may compromise Government’s drive to ensure compliance within the private sector, and further undermine the principles of the B-BBEE legislation.
      4. ***The need for an integrated approach in dealing with non-compliance***: The Committee highlighted the need for an integrated approach when dealing with non-compliance with the provisions of the B-BBEE Act. The Commission informed the Committee that it had recently concluded Memorandums of Understanding (MOU) with the Competition Commission, the CIPC, the Commission for Employment Equity, the NGB, and the SANAS in dealing with B-BBEE violations. Currently, MOUs with the National Prosecuting Authority (NPA) and the South African Revenue Service (SARS), had been finalised but were awaiting signature, with negotiations with the SAPS yet to commence. The Committee welcomed the approach taken to deal with non-compliance.
      5. ***The need for the development of a new IT system***: The Committee expressed its concern with regard to the development of a new IT system. The Commissioner informed the Committee that where possible it uses IT systems such as Human Resource and financial systems available within government. The Commission did not need to develop systems where information would be held by other Government agencies such as the CIPC, Departments of Home Affairs and of Labour. However, the Commissioner informed the Committee that, because of new processes which should be automated to increase the efficiencies of the Commission, a new IT infrastructure had to be developed that would enable these functionalities. The Commissioner informed the Committee that New Zealand had developed a single platform, e-commerce, where all IT systems of government link to this to avoid duplication.
      6. ***Human resource constraints that compromises the effectiveness of the B-BBEE Commission***: The Committee raised concerns around the ability of the B-BBEE Commission to effectively fulfil its mandate given its current human resource constraints. The Commissioner concurred that more investigators, analysts and assessors should be appointed and informed the Committee that the Commission had a staff complement of 14 people out of a projected staff complement of 113 people. The Commission had not yet been allocated a budget that could implement its Strategic Plan and Annual Performance Plan, which severely compromises the ability of the Commission to fulfil its mandate.
      7. ***Referral of complaints of non-compliance with B-BBEE legislation***: The Committee welcomed the complaint lodged by one of its Members regarding Trillion’s deal with Eskom. The complaint alleged that Trillion misrepresented its B-BBEE status by classifying itself as an exempted micro-enterprise. The Commissioner informed the Committee that it welcomed such information and had initiated an investigation into the matter and would report to the Committee once the investigation was concluded.
      8. ***The number of cases that led to prosecution under B-BBEE legislation***: The Committee enquired to the number of cases or individuals that had been prosecuted under the B-BBEE legislation. The Commissioner informed the Committee that it is not in a position to provide such information as it is constrained by provisions in the B-BBEE legislation.

## **National Metrology Institute of South Africa (NMISA)**

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 for South Africa’s technical 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 Oriented Goals**

NMISA published its APP for the 2018/19 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**

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 and the Green Economy
* Energy Efficiency
* Manufacturing Competitiveness
* Advanced Measurement Solutions
* Regional and International Integration
* Redefinition of the Revised SI
* Quality of Life
* Commercial Services

NMISA has 15 performance indicators for the 2018/19 financial year compared to 21 performance indicators in the 2017/18 financial year. In order to demonstrate competence and excellence in measurement through science outputs, NMISA has introduced two new indicators, namely:

* the number of refereed and/or peer-reviewed publications, and
* the number of articles, application, conference proceedings or technical notes published.

It had also removed a number of indicators linked to the recapitalisation project (namely the number of tenders awarded for modernisation of the national metrology system); participation in and contribution to national technical infrastructure institutions; bursaries for post-graduate and undergraduate students; and the financial performance indicators, which were replaced by a single indicator (namely actual expenditure to budget).

NMISA requires state-of-the-art equipment and buildings that are able to technically support the growing demands of metrology. Its buildings at the Centre for Scientific and Industrial Research (CSIR) campus have reached their technical limit for modification and thus a new building is necessary. The feasibility study for the new buildings to be built as a public-private partnership (PPP) had been completed and submitted to National Treasury for approval, but this was not approved due to affordability. National Treasury had indicated that the recapitalisation project should be financed through the DTI’s budget allocation. NMISA is in the process of securing the land for development and will develop its campus in a phased in approach. It estimated this to cost R1.7 billion based on a PPP. The DTI is currently able to commit R130 million per annum over a 25-year period for the project.

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

For the 2018/19 financial year, NMISA’s budget allocation from the DTI is R232.8 million for its operations (R109.7 million) and towards its infrastructure and equipment upgrades (R123.1 million). In the previous financial year, NMISA received R106.5 million and R146.3 million for operations and infrastructure upgrades respectively.[[16]](#footnote-16) Other income for the entity, as shown in the table below, includes income from services rendered and investment income. However, transfers from the DTI still constitute the largest share of income for the entity, namely 85.2 per cent of total income. NMISA has been looking at expanding its external revenue earnings to counter the reducing budget allocation due to fiscal constraints.

In the Committee’s 2015 and 2017 Budget Vote Reports, it had been recommended that the Minister should engage the Minister of Finance to secure the necessary financial resources for NMISA’s recapitalisation programme given the entity’s strategic importance to the economy and the well-being of South Africans[[17]](#footnote-17). Although the budget for capital works/infrastructure had increased in the 2017/18 financial year, this had once again been cut to R123.1 million in the 2018/19 financial year and would increase to R130 million in the 2019/20 financial year and R137.1 million in the 2020/21 financial year. to ensure that NMISA[[18]](#footnote-18).

**Table 5: Budget 2018/19 Financial Year (R thousands)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018/19** | **2019/20** | **2020/21** |
| **Revenue** | **273 156** | **288 453** | **304 318** |
| Transfer received | 232 784 | 245 820 | 259 340 |
| Rendering of services | 31 561 | 33 328 | 35 161 |
| Investment income | 8 811 | 9 304 | 9 816 |
| **Expenditure** | **273 156** | **288 453** | **304 318** |
| Administrative and operating expenditure | 68 558 | 72 397 | 76 379 |
| Employee cost | 122 653 | 129 522 | 136 645 |
| Repairs and maintenance | 8 312 | 8 777 | 9 260 |
| Recapitalisation project | 72 753 | 76 827 | 81 053 |
| Audit fees | 880 | 929 | 980 |

Source: National Metrology Institute of South Africa (2018: 10)

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

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

* + - 1. ***Human Resources***: The Committee sought clarity on NMISA’s current vacancy rate, in particular the Chief Financial Officer’s position. It also requested information regarding NMISA’s skills development and retention policies. NMISA indicated that it recruited through partnership with most universities and filled its positions with PHD and MSc students who are work on joint research with NMISA through their universities. NMISA noted that it can take up to five years to fully train a metrologist but they have managed to shorten this to 6 months once someone is a specialist in their field. To retain employees, they have a career ladder process for specialist scientists and managers. They also focus on creating an environment to retain metrologists but other areas like human resources and financial management tend to get poached. NMISA qualified that the existing critical vacancy was for a director in the Chief Executive Officer’s office and not the Chief Financial Officer.
      2. ***Ageing Technical Infrastructure***: The Committee remained concerned about the slow process and lack of funding being made available to develop a new building and procure appropriate equipment to ensure that NMISA is able to keep up to date with constantly changing metrology standards. Failure to do so posed a risk to the economy and health and safety of citizens and the environment. NMISA indicated that thus far they had identified land owned by the Department of Public Works for the new building and were working on acquiring this land. Other phases would include geotechnical analyses to ensure that the design of the building will be suitable for its purpose. The DTI assured the Committee that NMISA’s recapitalisation was being taken seriously and it was in continuous engagements with National Treasury to secure further funding. In the meantime, it had committed to extending the annual grant over the next 25 years for this purpose from its baseline. This would amount to R130 million annually. However, the Committee was of the view that this would be grossly insufficient to meet the needs of such a crucial institution.
      3. ***Scope to increase revenue***: The Committee enquired what NMISA’s plans were to increase its external revenue. NMISA responded that they were engaging with industry on further ways to partner with them. They also noted that in the past they had not actively marketed their services and would be placing more emphasis on this in future.
      4. ***Fourth Industrial Revolution***: The Committee enquired what role NMISA could play in preparing for the Fourth Industrial Revolution. NMISA indicated that the metrology world was working on digitisation and were looking at requirements in this regard. The main area was ensuring the accuracy of sensors as measuring tools. They were developing a strategy to move from a conformity based quality system to an input based one and were one of three national metrology institutions developing the standards for 3D printing.
  1. **South African National Accreditation System (SANAS)**

SANAS is the sole National Accreditation Body in South Africa and its mandate is set out in the Accreditation for Conformity Assessment, Calibration and Good Laboratory Practice Act (No. 19 of 2006). It provides an internationally recognised and effective accreditation and monitoring system for the Republic of South Africa by:

* Accrediting or monitoring organisations falling within its scope of activity for good laboratory practice compliance purposes;
* Promoting accreditation as a means of facilitating international trade and enhancing South Africa’s economic performance and transformation;
* Promoting the competence and equivalence of accredited bodies; and
* Promoting the competence and equivalence of good laboratory practice-compliant facilities.

The areas falling under SANAS’s mandate include calibration laboratories and proficiency testing schemes; testing laboratories; pharmaceutical laboratories; inspection bodies; legal metrology verification laboratories; certification bodies; blood transfusion facilities; forensic laboratories; and B-BBEE verification agencies.

In addition, SANAS is the official Good Laboratory Practices (GLP) Compliance Monitoring Agency for the Organisation for Economic Cooperation and Development (OECD) on behalf of South Africa. Furthermore, in any legal proceedings, SANAS certificates issued is upon its production evidence of the facts contained therein.

* + 1. **Strategic Outcome-oriented Goals**

In its 2018/19 Annual Performance Plan, it outlines its strategic objectives as follows, to:

* Improve SANAS’s operational efficiency to deliver services with a spirit of excellence;
* Contribute to industrial development and the protection of health, safety and the environment;
* Promote acceptance of SANAS-accredited results among global partners to advance South Africa’s trade and industry development objectives; and
* Support regional integration and relations to advance South Africa’s trade, industrial policy and economic development objectives.
  + 1. **Annual Performance Plan**

SANAS has four programmes responsible for performing its mandate and has developed 11 performance indicators for the 2018/19 financial year, namely:

* Administration Services (responsible for policy development, financial management, legal and administrative support):
  + Processing eligible creditor payments within 18 days.
* Corporate Services (responsible for human resource management, quality management, information and communication technology, and communication and marketing):
  + Reducing the vacancy rate to 7% of budgeted positions.
  + Automating the online processing process for the online accreditation application, completing the development of the procurement process and developing automated email templates.
  + Holding and participating in 18 communication events.
  + Providing 95% inputs into the international accreditation requirements of the International Laboratory Accreditation Cooperation and the International Accreditation Forum.
* Strategy and Development Services (responsible for research and development of new accreditation programmes, knowledge transfer[[19]](#footnote-19), and regional and international development):
  + Providing secretariat support to four SADC Cooperation in Accreditation meetings.
  + Providing secretariat support to four intra-African Accreditation Cooperation meetings.
* Accreditation Provision (responsible for accreditation services and GLP monitoring):
  + Expanding the total number of accredited facilities from 1 540 to 1 550.
  + Assessing 1 418 facilities.
  + Issuing certificates after completing the approval process within 16 days.
  + Increasing the number of registered previously disadvantaged assessors from 270 to 280 in the pool of 500 assessors.
    1. **Medium Term Budget Analysis**

For the 2018/19 financial year, SANAS’s budgeted income is R104.5 million[[20]](#footnote-20). The transfer received from the DTI is R31 million (29.7% of total budgeted income) compared to R30.3 million in the 2017/18 financial year[[21]](#footnote-21). Other budgeted income to be earned by the entity is from services, namely accreditation provision and knowledge transfer, as shown in the table below. In terms of accreditation provision, which is its core mandate, it is budgeting R60.3 million or 57.7% of total budgeted income. For knowledge transfer, it has budgeted an income of R11.1 million. [[22]](#footnote-22)

**Table 6: Thematic Budget for the 2018/19 Financial Year (R thousands)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018/19** | **2019/20** | **2020/21** |
| **Income** | **104 526.5** | **110 086.8** | **117 998.2** |
| Accreditation provision | 60 260.5 | 65 081.3 | 70 287.8 |
| Knowledge transfer (research and development) | 11 124.0 | 10 007.3 | 10 786.7 |
| Transfer from the DTI | 31 032.0 | 32 770.0 | 34 573.0 |
| Utilisation of the approved reserve | - | - | - |
| Interest | 2 000.0 | 2 112.0 | 2 228.2 |
| Sundry income | 110.0 | 116.2 | 122.5 |
| **Expenditure** | **104 526.5** | **110 086.8** | **117 998.2** |
| Administration | 41 785.4 | 44 382.9 | 47 241.6 |
| Accreditation provision | 49 019.4 | 51 985.8 | 55 106.8 |
| Marketing and communication | 2 919.0 | 3 082.5 | 3 252.0 |
| Regional development | 445.6 | 470.6 | 496.4 |
| International trade facilitation | 1 815.1 | 1 916.7 | 2 022.1 |
| Research and development | 8 538.0 | 8 244.4 | 9 875.0 |

Source: South African National Accreditation System (2018b)

In terms of expenditure, SANAS will spend R53.1 million on compensation to employees (or 50.8% of budgeted expenditure) during the 2018/19 financial year; while R51.4 million will be spent on goods and services. SANAS is also in the process of completing its new office building in Pretoria East and intends relocating by May 2018. In light of this, it has budgeted R74.6 million for payments of capital assets in the 2018/19 financial year.[[23]](#footnote-23)

In its presentation, SANAS provided a thematic breakdown in terms of its expenditure. This relates to the core services it offers (see table above). As mentioned above, the core service offered is accreditation provision, where 46.9% of the budgeted expenditure was allocated to. The second largest budgeted expense is for administration, 40% of the budget.

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

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

* + - 1. ***Risk to Human Resources***: The Committee noted that SANAS had identified the retention of current critical staff as a possible risk and sought further clarity on this. SANAS informed the Committee that this was a probable risk, particularly if a senior management position became vacant. In order to mitigate this risk, they had employed permanent lead assessors to allow for succession planning.
      2. ***Non-availability of assessors***: SANAS had highlighted a further risk of assessors not being available for assessments. The Committee enquired about the reason for this non-availability and why there was a reliance on external assessors. SANAS indicated that they currently had 76 full-time staff members and 8 lead assessors. Their intention was to reach 82 staff members. However, this had not been possible due to their space constraint. They clarified that they sourced external technical assessors, as these needed to have current technical skills and to be working in the industry; therefore, they never employ technical assessors. Lead assessors, on the other hand, were responsible for standards and were responsible for the overall assessment. External technical assessors are normally identified through advertisements or by ear and new assessors must be found when there is a new area that requires assessment. Technical specialists are then taught assessment techniques before being qualified to perform assessments. Project 500 has been concluded recently to recruit 500 demographically representative assessors to address this risk.
      3. ***Automation of the accreditation system***: The Committee questioned the timeframes for developing the automated accreditation system. SANAS responded that it had set out a five-year window to develop and test various modules for its automated accreditation system. It was busy with the final phase of the process.
      4. ***The role played by SANAS on health matters***: The Committee enquired what SANAS role was in relation to the recent listeriosis outbreak. SANAS explained that it had been part of the advisory group in relation to laboratories. However, as listeriosis was not a notifiable disease, at the time of the outbreak, this was not subject to compulsory reporting. In spite of this, most laboratories cooperated. SANAS noted that every manufacturer should be obliged to comply with certain standards. SANAS/Government will be looking at a new system to handle and prevent similar instances in future.

1. **Conclusions**

Having considered the information shared and reports from the Department of Trade and Industry and its entities with respect to their strategic and annual performance plans, the Committee has reached the following conclusions:

* 1. The Committee welcomes the achievements by the Department of Trade and Industry despite the budget constraints. However, it also recognizes the challenges that the Department continues to face and the mechanisms developed to address these.
  2. The continued focus on beneficiated industrialisation and the creation of an inclusive economy to promote employment by the Department of Trade and Industry and its entities is evident in the budget allocations and targeted expenditure. This is particularly evident in the significant budget share allocation to the highly successful Incentive Development and Administration, Industrial Development and Investment South Africa Programmes. The Committee is of the view that the new proposed Film Production Incentive should comply with the differentiated needs of the local and international audio-visual production industry to ensure increased investment and the growth of the local film, television and general audio-visual production industries.
  3. The Committee welcomes the integrated approach adopted to deal effectively with non-compliance with the Broad-Based Black Economic Empowerment Act using established relationships with other government entities. This is reflected in the conclusion of the Memorandums of Understanding (MOUs) with the Competition Commission, the Companies and Intellectual Property Commission, the Commission for Employment Equity, the National Gambling Board, and the South African National Accreditation System. However, the Committee would like to encourage the conclusion of MOUs with the National Prosecuting Authority, South African Revenue Service and the South African Police Service.
  4. The proposal by the Broad-Based Black Economic Empowerment Commission that the Companies Tribunal should hear Broad-Based Black Economic Empowerment matters, as this is cost-effective and more importantly could streamline service delivery, is welcomed. However, this may require amendments to existing legislation.
  5. The Committee welcomed the additional funding of R27 million committed by the Department of Trade and Industry to the Broad-Based Black Economic Empowerment Commission. This should directly contribute to addressing its ability to effectively discharge its mandate by alleviating current capacity constraints.
  6. The Committee acknowledged that the Broad-Based Black Economic Empowerment Commission is expected to play and important role in monitoring compliance with transformation targets. Furthermore, the Committee is of the view that given the transformation challenges such as sophisticated fronting, there is a need to review the Broad-Based Black Economic Empowerment Act including how effective its implementation has been to ensure that transformation is meaningful and authentic.
  7. The Committee remains concerned with the significant number of public and private institutions and companies’ continued failure to comply with provisions of the Broad-Based Black Economic Empowerment Act.
  8. Efforts to create an economically inclusive South Africa by designating Special Economic Zones in all provinces the country are welcomed by the Committee. Indeed, the impact on the local economy as evidenced in the enhanced value chain for dairy farmers in the areas surrounding the Coega Special Economic Zone. However, the Committee noted with concern that some of the Special Economic Zones, in particular the Saldanha Bay Special Economic Zone, are experiencing delays in becoming operational. These delays compromise their ability to contribute to expanding the strategic industrial base in a decentralised manner. The Committee would welcome the acceleration of the designation of more Special Economic Zones across the country so to encourage investment and job creation.
  9. The Committee welcomed the decision by the Department of Trade and Industry to review legislation that would address the challenges facing the National Gambling Board and lead to the board becoming a regulator, however, this process should be fast-tracked.
  10. The completion of the South African National Accreditation System’s new premises is welcomed which should enable the entity to expand their staff complement, and overcome the impediments of capacity constraints. The Committee also welcomed the conclusion of Project 500 which recruited 500 specialists that were more demographically representative to be trained in a period of 6 months as technical assessors on the job by the South African National Accreditation System to address the capacity shortages in this area.
  11. The Committee welcomed the proactive decision of the National Metrology Institute of South Africa to supplement its budget through the provision of service to industry players. However, the ageing technical infrastructure at National Metrology Institute of South Africa remains a challenge, which should be urgently addressed.
  12. The Department should ensure that the capacity of the National Metrology Institute of South Africa, the South African National Accreditation System and related institutions, like the National Regulator for Compulsory Specifications and the South African Bureau of Standards, is improved to ensure appropriate standards for technical instruments and products are created and complied with. This is essential to ensure that importation, manufacture and use of instruments and products without compliance does not take place and are safe for use.
  13. The future iterations of the Industrial Policy Action Plan or any other policies should take cognisance of the nature and effect of the Fourth Industrial Revolution to ensure that it plans to ameliorate the negative effects thereof and uses the positives to leverage enhanced economic growth and job creation.
  14. The Committee supports the work done to develop the Continental Free Trade Area framework thus far and encourages all efforts to strengthen intra-African trade.
  15. The Committee continues to support the need to ensure government compliance with the procurement of designated products and sectors, as this is a fundamental leverage of the Industrial Policy Action Plan to ensure the success of the localisation drive. Failure to comply significantly diminishes the demand for locally manufactured products, and impacts on job creation, transformation of the economy, the establishment of deeper value chains and ultimately the trade deficit.

1. **Acknowledgements**

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1. **Recommendations**

The Portfolio Committee on Trade and Industry, having considered the 2018 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. Engaging with other Ministers to ensure the adoption of a coordinated approach to overcome the impediments that have arisen with respect to tenders related to designated products and sectors being awarded but not followed through with the related orders.
  2. Engaging with the Auditor-General to ensure the finalisation of the audit outcomes by the Auditor-General for local public procurement.
  3. Additional funding for the Manufacturing Competitive Enhancement Programme and the tabling of a long-term plan in the current financial year.
  4. Finalising the South African Automotive Master Plan and the Automotive Industrial Development Plan.
  5. Capitalising on the positive business environment to accelerate the productive investment initiatives and promoting increased competitiveness particularly in South Africa’s comparative advantages.
  6. Amending the Broad-Based Black Economic Empowerment legislation to ensure that the Broad-Based Black Economic Empowerment Commission is able to effectively monitor and enforce the provisions of the Act.
  7. Strengthening public-private partnerships as well as developing constructive social compacts with civil society so that the country sustains its economic development.

The Democratic Alliance abstained.

Report to be considered.

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1. Department of Trade and Industry (2018a) [↑](#footnote-ref-1)
2. Department of Trade and Industry (2018a) [↑](#footnote-ref-2)
3. African Union Commission (2015) [↑](#footnote-ref-3)
4. Department of Trade and Industry (2017) [↑](#footnote-ref-4)
5. Southern African Development Community (n.d) [↑](#footnote-ref-5)
6. Department of Trade and Industry (2017) [↑](#footnote-ref-6)
7. National Treasury (2018a) [↑](#footnote-ref-7)
8. Inflation estimates are 5.5%, 5.3% and 5.5% respectively for the next three years from 2018/19 to 2020/21 (National Treasury 2018b). [↑](#footnote-ref-8)
9. National Treasury (2018:692) [↑](#footnote-ref-9)
10. National Treasury (2018: 708) [↑](#footnote-ref-10)
11. Department of Trade and Industry (2017) [↑](#footnote-ref-11)
12. M. Ramaphosa (2018) [↑](#footnote-ref-12)
13. B-BBEE Amendment Act (No. 46 of 2013) [↑](#footnote-ref-13)
14. B-BBEE Commission (2017a: 18, 20, 22, 24 and 25) [↑](#footnote-ref-14)
15. Performance Indicators (PIs) [↑](#footnote-ref-15)
16. National Treasury (2018: 702) [↑](#footnote-ref-16)
17. Ibid [↑](#footnote-ref-17)
18. Portfolio Committee on Trade and Industry (2015 and 2017) [↑](#footnote-ref-18)
19. Knowledge transfer involves delivering national and international accreditation courses, lead and technical assessor training and development courses for existing and new accreditation fields supporting IPAP. [↑](#footnote-ref-19)
20. SANAS (2018b) [↑](#footnote-ref-20)
21. National Treasury (2018: 702) [↑](#footnote-ref-21)
22. SANAS (2018b) [↑](#footnote-ref-22)
23. SANAS (2018a) [↑](#footnote-ref-23)