**Report of the Portfolio Committee on Trade and Industry on the Departments of Trade and Industry and of Economic Development’s Third Quarter Financial and Non-financial Performance for the 2019/20 Financial Year, dated 12 May 2020**

The Portfolio Committee on Trade and Industry, having assessed the service delivery performance of the Departments of Trade and Industry (DTI) and of Economic Development (EDD), against its mandate and allocated resources, in particular the financial resources for the period 1 October to 31 December 2019, on 3 March 2020, reports as follows:

1. **INTRODUCTION**

The performance of the DTI and the EDD over the period under review was in an economic environment of slower growth specifically within the agricultural, mining and manufacturing sectors, which drive the deepening of industrialisation in South Africa. The contraction in the economy requires an extraordinary effort by the DTI and the EDD to ensure that their initiatives produces the required outcomes. The need to counteract this contraction through appropriate action is critical to stem the negative growth projections going forward. Notwithstanding this, the departments have achieved most of their targets and continue to improve in areas where their targets have not been met.

### Mandate of the Committee

Section 5 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) requires the National Assembly, through its committees, to annually assess the performance of each national department over an 18-month period. This culminates in a committee submitting a report of this assessment known as a Budget Review and Recommendation (BRR) Report. The overarching purpose of the BRR Report is for the committee to make recommendations on the forward use of resources to address the implementation of policy priorities and services, as the relevant department may require additional, reduced or re-configured resources to achieve these priorities and services. This Act gives effect to Parliament’s constitutional powers to amend the budget in line with the fiscal framework.

The current process forms part of ongoing oversight of the DTI and the EDD’s financial and non-financial performance. This will inform the next BRR process. Furthermore, Parliament’s Annual Performance Plan (APP) requires submission of reports on departments’ quarterly performance.

### Purpose of the Report

The purpose of this report is to monitor the financial and non-financial performance of the DTI and the EDD against their predetermined objectives and quarterly milestones as part of the Committee’s ongoing budgetary oversight. This report assesses the non-financial performance for the third quarter of the 2019/20 financial year, namely from 1 October to 31 December 2019; and financial performance up to the third quarter of the 2019/20 financial year, namely from 1 April to 31 December 2019.

### Method

The Committee was briefed by the DTI and the EDD on their third quarter performance reports for the 2019/20 financial year on 3 March 2020.

### Outline of the contents of the Report

Section 1 of the report provides an introduction to the report including its purpose, and method. Section 2 outlines the DTI’s strategic objectives, assesses its financial and non-financial performance against its APP for the 2019/20 financial year from 1 October to 31 December 2019 and outlines the key issues raised by the Committee during deliberations. Section 3 outlines the EDD’s strategic objectives, assesses its financial and non-financial performance against its APP for the 2019/20 financial year from 1 October to 31 December 2019 and outlines the key issues raised by the Committee during deliberations. Section 4 provides the Committee’s concluding remarks followed by a note of appreciation in Section 5. The report then closes with the Committee’s recommendations for the National Assembly’s approval in Section 6.

### DEPARTMENT OF TRADE AND INDUSTRY

* 1. **Strategic Goals**

The DTI’s performance was in line with its strategic objectives, which guided its work and was aligned to its programmes. The strategic goals were as follows1:

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

### Overview and assessment of the financial and non-financial performance for the period 1 October to 31 December 2019

This section provides a comparison between the DTI’s third quarter milestones outlined in its APP against its third quarter report for the 2019/20 financial year, namely its non-financial performance, and outlines its financial performance. Lastly, it highlights the key issues related to the DTI’s performance raised during the Committee’s deliberations.

### Non-Financial Performance2

The DTI had a total of 15 targets for the quarter. Of the 15 targets, 11 had been met or exceeded and four had not been met/fully achieved. Performance highlights for the quarter included:

1 DTI (2019)

2 DTI (2020)

* R133,3 billion in committed investment against a target of R15 billion, this had been due to the 2019 Investment Conference;
* The launch of the Tshwane Auto Special Economic Zone (SEZ); and
* Gazetting of the Dube Trade Port for designation.

Targets that had not been achieved in the quarter were as follows:

* The Industrial Policy Action Plan (IPAP) implementation reports had not been produced. This was due to the change in policy direction from the IPAP to Re-Imagining Industrial Strategy, which focused on the development of Master Plans. Nevertheless, two of the Master Plans, namely for the poultry; and retail clothing, textiles, leather and footwear industries, had been launched in the quarter;
* The value of investments leveraged from approved projects had been less than targeted. R2,8 billion had been leveraged from approved projects against a target of R5 billion due to a lower than expected number of applications received;
* Both the number of jobs created and jobs retained from approved projects had been less than targeted. There had been 751 jobs created against a target of 3 000 and only 812 jobs had been retained against a target of 3 500;
* The number of businesses supported through incentives had only been 135 against a target of 300.

### 2.2.2 Financial Performance

The DTI’s budget/appropriation was R10,08 billion for the 2019/20 financial year. The projected budget up to the end of the third quarter had been R6,2 billion but only R6,18 billion had been spent (R42,6 million less than budgeted).

The operational expenditure includes compensation of employees; and payment of goods and services. By the end of the third quarter, approximately 61% of the budget had been spent. This had been as follows:

* 60% of the transfers and subsidies’ budget had been transferred to entities, beneficiaries across the various incentive programmes, and non-profit institutions, as well as international organisations where South Africa is a member;
* 70% of the compensation of employees’ budget had been spent (R38,6 million less than budgeted); and
* 61% of the goods and services’ budget had been spent (R50,8 million less than budgeted).

### Table 1: Third Quarter Expenditure by Programme

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programmes (R’000)** | **2019/20****Adjusted appropriation** | **Actual drawings** | **Expenditure YTD3** | **Variance from actual drawings** | **Available Budget** |
| Administration | 890 976 | 621 601 | 562 282 | 9,54% | 328 694 |
| International Trade andEconomic Development | 130 442 | 78 755 | 80 283 | -1,94% | 50 159 |
| Special Economic Zones andEconomic Transformation | 160 044 | 112 692 | 124 456 | -10,44% | 35 588 |
| Industrial Development | 2 100 814 | 1 938 024 | 1 771 105 | 8,61% | 329 709 |
| Consumer and CorporateRegulation | 339 705 | 302 470 | 294 973 | 2,48% | 44 732 |
| Industrial DevelopmentAdministration | 5 953 330 | 2 759 277 | 2 936 653 | -6,43% | 3 016 677 |
| Trade and Investment SouthAfrica | 440 391 | 373 050 | 369 129 | 1,05% | 71 262 |
| Investment South Africa | 69 025 | 37 984 | 42 351 | -11,50% | 26 674 |
| **TOTAL** | **10 084 727** | **6 223 853** | **6 181 232** | **0,68%** | **3 903 495** |

Source: DTI (2020)

### Table 2: Third Quarter Expenditure by Economic Classification

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **(R’000)** | **2019/20****Adjusted appropriation** | **Actual drawings** | **Expenditure YTD** | **Variance from actual drawings** | **Available Budget** |
| **Current payments** | **1 820 048** | **1 295 398** | **1 205 887** | **6.91%** | **614 161** |
| Compensation of employees | 1 046 769 | 772 132 | 733 446 | 5,01% | 313 323 |
| Goods and services | 773 279 | 523 266 | 472 442 | 9,71% | 300 837 |
| **Transfers and subsidies** | **8 247 241** | **4 924 621** | **4 965 447** | **-0,83%** | **3 281 794** |
| **Payment of capital assets** | **17 435** | **3 834** | **9 894** | **-158,07%** | **7 541** |
| **Payment of financial assets** | **3** | **0** | **3** | **0,00%** | **0** |
| **TOTAL** | **10 084 727** | **6 223 853** | **6 181 232** | **0,68%** | **3 903 495** |

3 Year to date

Source: DTI (2020)

### Issues raised during the deliberations

The following concerns related to the performance of the DTI were raised during the Committee’s deliberations:

* ***Continued increase in trade deficit with BRIC (Brazil, Russia, India and China) countries***: A major concern for the Committee was the sharp increase in the trade deficit with the BRIC countries, which appeared to be driven by manufactured imports. The Committee enquired what steps were being considered by the DTI to stem the widening of the trade deficit. The DTI acknowledged that while South Africa ran a trade deficit with the BRIC countries, the deficit had narrowed over the period from R130,3 billion in 2015 to R113,5 billion in 2019. The deficits with the individual BRIC countries had narrowed as follows: (i) China: from R104,97 billion to R96,1 billion; (ii) India: from R13,12 billion to R4,3 billion; and (iii) Russia: from R2,4 billion to R2,2 billion. However, the DTI informed the Committee that with Brazil, the deficit had widened from R9,8 billion to R10,96 billion. It advised that trade deficits needed to be looked at as an aggregate with surpluses with some countries and deficits with others.

Furthermore, the DTI informed the Committee that the World Trade Organisation (WTO) rules govern the kinds of measures member states may take on trade. The rules prohibit the imposition of import restrictions or quotas against WTO members. South Africa may increase tariff duty levels up to the legal bound rates set out in its WTO commitments but this would be at the behest of the private sector and must be in line with the domestic legislative procedures and criteria set out in the International Trade and Administration Act (Act No. 71 of 2002). Similarly, in cases of unfair trade, trade remedies (such as safeguards, anti-dumping duties, and countervailing duties) can be used if affected industries follow the process and criteria set out in the Act.

* ***Beneficiation:*** Beneficiation of raw materials remains a panacea for government in addressing the challenge of the export of raw materials. The Committee was of the view that beneficiation could provide the catalyst for the deepening of industrial development and curtailing the decline in the manufacturing sector. Previously, the Minister had

indicated that there had been some progress with regard to beneficiation, especially in relation to platinum, but the Committee enquired what other raw materials were being considered for beneficiation that could contribute to and facilitate the deepening of industrialisation in South Africa. The DTI informed the Committee that a number of minerals and projects were being pursued by government, the Industrial Development Corporation (IDC) and industry. Key focus areas identified were energy storage and fuel cells given the demand for minerals used in green energy solutions which were gaining momentum. This was driven by the global response to Climate Change and Green House Gas commitments. Vanadium, lithium, cobalt, manganese, nickel and rare-earths were sought after metals in the battery materials market, while platinum group metals were used in fuel cell applications. Given South Africa and the region’s resources of these minerals, key projects in development included:

* + Bushveld Minerals planned a 8 million litre vanadium electrolyte manufacturing plant in the East London Industrial Development Zone (IDZ) supported by the IDC.
	+ Thakadu planned a pure nickel sulphate plant supported by the Black Industrialist Programme. The plant would produce 25 000 tons per annum of battery grade material in the North West Province.
	+ Nyanza Light Metals planned titanium dioxide pigment manufacturing in Richards Bay IDZ supported by the DTI’s Critical Infrastructure Programme. At full capacity, Nyanza would produce 80 000 tonnes per year of titanium dioxide pigment for local and export markets.
	+ Chem fuel cells facility planned to produce fuel cells for telecommunications market at the Dube Trade Port.
	+ The Isondo project was supported by both the Critical Infrastructure Fund and the National Industrial Participation Programme for the development of fuel cell membranes. Production was ear-marked at the OR Tambo IDZ.

Furthermore, the IDC, in collaboration with Mintek, was undertaking the Mine-to-Magnet value chain pre-feasibility study for the manufacturing of rare-earth magnets in South Africa for the global automotive market.

* ***Lack of coordination of government policies:*** Coordination of government policies

remained a stumbling block for effective implementation. The provision and the adequate supply of water and electricity by municipalities for the manufacturing sector was critical but challenges still remained in some industrial nodes. The Committee welcomed the announcement by the President around measures that would secure energy supply and ensure supply of electricity at affordable prices for both communities and industries. However, the Committee enquired what measures were being considered to secure supply of water and electricity to industries in the interim. Furthermore, the Committee asked what measures were being considered to address the continual increases in municipal administered prices charged to mitigate against its impact on the country’s manufacturing sector. The DTI informed the Committee that the measures considered by Government to ensure security of electricity supply included the following:

* + An Inter-Governmental Task Team (including the Departments of: Mineral Resources; Energy; DTI; EDD; and Public Enterprises; as well as National Treasury and ESKOM) developed the *Short-Term Framework for Negotiated Pricing Agreements* (STF). The purpose of the STF was to facilitate the provision of incentive pricing; and to enable qualifying consumers to sustain and/or increase their use of electrical energy to support sustained and increasing economic activity in South Africa. The STF was approved on 22 June 2018 by the Minister of Mineral Resources and Energy for a period of two years.
	+ In order to address the continual increases in municipal administered prices, the DTI informed the Committee that the Task Team had since reconvened to develop a Long- Term Framework in order to assist industry that structurally required incentive pricing to compete and remain sustainable. The framework was being developed to retain priority/strategic industries and also to attract new investments. The Department of Mineral Resources and Energy (DMRE), as the lead, was to address the following two critical matters to guide the National Energy Regulator of South Africa (NERSA) on approving negotiated pricing agreements (NPAs):
		- To provide a long-term NPA framework specifying the evaluation criteria and process to enable the analysis and approval of long-term NPAs; and
		- To review the current short-term NPA framework to deal with the short-term NPA applications currently with Eskom.
	+ The DTI informed the Committee that, in the interim, the EDD implemented two main interventions:
		- Engaging with industry and various role-players when infrastructure challenges were raised with it.
		- Participating in structures, such as the Budget Facility for Infrastructure as well as the Infrastructure Fund, through the work that the Technical Units of the Presidential Infrastructure Coordinating Commission did with regard to infrastructure planning and funding.

Two recent cases where the EDD had been involved in supporting the unblocking of water and electricity challenges serve as an example of its practical unblocking role, with its challenges. These were the support given to Goldi in the Lekwa Municipality, Standerton, Mpumalanga, as well as the Cape Gate in the Emfuleni Municipality, Vereeniging, Gauteng.

In the case of Goldi, a chicken processing abattoir, which processes 350 000 chickens a day and is the single largest employer in the town with approximately 3 500 employees, there was an issue of access to water. The abattoir needs 5 million litres of water a day, which they were not receiving from the municipality due to poor infrastructure. At EDD’s initiative, negotiations were undertaken between the municipality, Goldi, the Departments of Cooperative Governance and Traditional Affairs (COGTA) and of Water Affairs and Sanitation. While COGTA and the Municipal Infrastructure Support Agent were assisting the municipality with long-term water infrastructure refurbishment and capacity expansion, in the short term, it was agreed that Goldi would process 3 million litres of its water requirement and the municipality would provide 2 million litres of water. To this end, Goldi installed a water treatment plant and is extracting water from the Vaal River. Goldi made an application for a water user licence – the application was being considered by the Department of Water Affairs and Sanitation.

With regard to Cape Gate, the largest single user of electricity in the town (100 MW) and

also the largest employer (1 500 direct jobs), the EDD had engaged with (i) the Municipal Manager of Emfuleni, (ii) Eskom, (iii) the Gauteng Premier's office, (iv) the provincial COGTA and provincial Treasury and (v) the Department of Public Enterprises. The EDD was informed that getting an energy tariff reduction for Cape Gate would require regulatory approval from NERSA for which the municipality would have to formally apply. Cape Gate provided the required technical information to Emfuleni Municipality and the municipality made a formal application to NERSA; however, NERSA required further information which the municipality had never supplied. NERSA called a public meeting on 2 March 2020, including the Cape Gate tariff reduction request on its agenda. However, Emfuleni Municipality did not attend the meeting and the matter was deferred to a later date still to be finalised. Deputy Minister, Mr F Majola, had since spoken to the Municipality and Cape Gate, they were working together on a revised application for the tariff review. These unblocking examples illustrate that there is a strong need for centralised coordination of these practical challenges, as the solutions lie with various entities playing their part.

* ***Investment versus jobs created:*** The DTI reported that it had been receiving a R3,61 return on every R1 invested through incentives. However, the Committee was of the view that this was not generating the requisite number of jobs to address unemployment. It enquired what mechanisms could be implemented to boost the return on investment to ensure value for money. According to the DTI, the amount of R3,61 was calculated by taking the total projected investment for all incentives in Quarter 3 and dividing it by the total value of approvals for all incentives. However, across most incentives, job projections were based on direct jobs projected by beneficiaries. However, assuming macro-economic stability, the general theory underlying incentives was that incentives generate investment, which will result in jobs created directly by the beneficiary, as well as indirectly through business linkages over the longer term.
* ***Uptake of the 12i tax incentive and the Automotive Incentive Scheme (AIS)***: With respect to the 12i tax incentive uptake, the Committee was not convinced that the rationale provided for the slow uptake during the period under review was accurate, as delays had been experienced with respect to the approval process for the AIS as well as the 12i tax incentive. This appeared to have been related to the steering committee not meeting for some time to

consider incentive applications; hence this could have been a factor with the slow uptake. The Committee requested the DTI to clarify what the reasons were for failure of the steering committee to meet during this period. The DTI informed the Committee that due to the 12i tax incentive having a limited allocated budget to commit, as well as companies not investing at the extent initially anticipated, it should be noted by the Committee that the number of applications had declined, which has had a direct result on most targets, including jobs. With regards to the failure to meet as a steering Committee, the DTI informed the Committee that there had been delays experienced with adjudication meetings, as the appointment of members had been in progress for the AIS and for 12i, some meetings had not quorated.

* ***Support for Black Industrialists:*** The Committee welcomed the support given to Black Industrialists especially within the automotive sector. However, it enquired how many Black Industrialists had been funded that locally manufactured components for the automotive sector relative to other component manufacturers within the sector. Furthermore, it would like to ascertain their performance or competitiveness in relation to other component manufacturers to ensure the effective transformation of the industry through the integration/assimilation of the previously disadvantaged. According to the DTI, it had approved ten black-owned component manufacturers in the Aerospace, Rail and Automotive sectors for expansion of their businesses with support from the Black Industrialist Programme.
* ***Measures to address the decline in the manufacturing sector:*** The Committee noted with concern the continual decline of the manufacturing sector. The Committee enquired what other factors, besides imports and under-invoicing, contributed to this. In addition to incentives, the Committee enquired what other measures of support could the DTI provide to the declining manufacturing sector. The DTI informed the Committee that a number of factors contributed to the decline in the manufacturing sector, which were as follows:
	+ Lower global demand that has negatively affected the basic iron and steel sector in general recently, and the motor industry, in particular.
	+ Lower domestic demand that stifles investment causing the economy to shed jobs.
	+ Low consumer confidence index (-7 index points at the end of 2019).
	+ Higher production costs fuelled by increasing energy costs, driving small, medium and micro enterprises (SMMEs) out of business and some large corporates had been forced to reduce output to maintain some level of profitability.
	+ Load shedding was also aggravating the situation.
	+ Investor confidence was hampered.
	+ Capacity-utilisation in the last quarter of 2019 was 81% for the manufacturing sector, mainly driven by insufficient demand. The clothing, textiles, footwear and leather sector had the lowest demand with capacity utilisation of 23%.
	+ Hence the contraction in manufacturing value-added in three out of the four quarters in 2019.

The DTI was of the view, that the manufacturing sector has both strong forward and backward linkages, rendering it a pivotal sector in the economy. Therefore, when the demand for natural resources (the primary sector) and services (tertiary sector) declines, it negatively impacts on the manufacturing sector. Besides the incentives-driven supply strategy, the manufacturing sector has to produce highly competitive goods which would compete in both the domestic market against imports and in international markets. Other measures of support that the DTI could provide to the declining manufacturing sector, included:

* + Developing and implementing Master Plans which are effectively social compacts with social partners on identifying and implementing critical interventions to grow the manufacturing sector. In this regard, Master Plans were being developed for a number of sectors such as the automotive; steel and metals fabrication; clothing and textiles; digital economy and Information and Communication Technology; poultry; sugar; oceans economy; chemicals; and plastics amongst others. Government resources, financial and otherwise would be directed towards the implementation of these Master Plans.
	+ In response to weak domestic demand, intensifying its localisation programme by identifying more products for designation for local public procurement and strengthening compliance by ensuring improved local public procurement from the already designated products.
	+ Leveraging the designation of SEZs and the revitalisation of industrial parks to improve the spatial spread of our manufacturing footprint.
	+ Tapping into international markets for domestically produced products, given South Africa’s relatively small domestic market. The launch of the African Continental Free Trade Area in June 2019 is a great opportunity to increase manufactured exports to the continent beyond just the Southern African Development Community.
	+ Government-wide, there is a need to address the skills mismatch; introduce interventions to exploit opportunities and mitigate the risks that emanate from the fourth industrial revolution (4IR); address the electricity constraint both the cost and supply; and address the cost of logistics amongst others. This required investing more in Research and Development (R&D), specifically R&D to enhance manufacturing complexity to drive diversification to the production of high tech goods. Furthermore, initiatives to neutralise as far as possible the negative impact of the 4IR on the manufacturing sector, namely upskilling, reskilling and job rotation, should be introduced. Upskilling of the current labour force, in the advent of 4IR is very crucial, for current and future skills needs. This would see productivity improvement thus increasing output and ensuring the sustainability of the manufacturing sector. The government should venture into collaboration with training institutes to drive the upskilling project.
* ***Job losses and status of closed sugar mills:*** A major concern for the Committee was the continual job losses reported. Notwithstanding the development of Master Plans for specific industries, South Africa is facing a number of economic challenges. A number of sugar mills have recently closed down, and the Committee asked what measures were being considered by government to revive these sugar mills. The DTI informed the Committee that due to the nature of the immediate crisis facing the sugar industry, one that threatened significant job losses in some of the most vulnerable areas of the country, the Master Plan was required to deliver a social compact that both commits all parties to a radically different future, while at the same time having to secure agreement amongst all stakeholders on a short-term intervention plan to pull the industry back from the precipice of collapse. Therefore, the Sugar Master Plan was being developed to help create conducive conditions for industries to grow including assisting companies to improve their industrial capacities and sophistication, focusing more on export orientation, and reclaiming the domestic market share lost to imports. Key measures would be pronounced at the conclusion of the Master Plan. Other measures to date included the following:
	+ Cabinet approved the South African Biofuels Regulatory Framework and the DTI was working closely with the DMRE and the Department of Agriculture, Rural Development and Land Reform to develop guidelines for support measures for the sector. This was critical for the longer term restructuring of the sector and to address the decline.
	+ In August 2018, the International Trade Administration Commission of South Africa (ITAC) ruled that the Dollar-based Reference Price trigger for import duties be increased from $560 per ton to $680 per ton. This measure provided additional protection from deep-sea imports but did not mitigate the impact of low-cost imports from Eswatini, which is a member of the Southern African Customs Union.
	+ The South African Sugar Association (SASA) had set aside R1 billion over five years (R200 million per year) towards industry transformation, namely to provide additional support to small growers over and above the existing supplementary payment fund. This was part of commitments made by the industry when applying for additional tariff protection.
	+ The industry had also recently reached important agreements with regard to new regulations that transform the governance of SASA through the inclusion of small-scale cane growers as equal partners in the formal governance structures of the Association.
* ***Status of Masterplans:*** Furthermore, the Committee enquired what the status of the Masterplans were and when would these come into effect. The DTI informed the Committee that the Sugar Master Plan had almost been completed. The Minister was engaging various role players to agree on key issues that would drive the sector forward. The process was expected to conclude by end March, with final sign-off by April 2020. With regard to steel, the social compacting process, including securing the reciprocal commitment at the Ministerial level was underway. The Master Plan was expected to be concluded and signed by the end of June 2020. In respect of furniture, the DTI informed the Committee that a comprehensive industry consultation processes took place in February 2020 which resulted in a draft framework being developed. The final framework would be used for the compacting process, which was a facilitated process led by Minister of Trade and Industry. The Chemicals Master Plan, according to the DTI, was at the early stages of development and a three-phased approach would be implemented focusing on three sub- sectors. For each sub-sector, a report with key strategic actions agreed upon by all

stakeholders would be tabled. The first-phase report was expected to be completed by the end of July 2020, while the broader Master Plan was expected in 2021. The Plastic Master Plan was at the early stages of development with preliminary industry consultations underway. These consultations would inform the framework to be used for the social compacting process.

* ***Status of legislation:*** In the fifth Parliament, the Committee processed a number of pieces of legislation relating to the credit market and intellectual property. The Committee enquired what the status of the Copyright (CAB) [B13-2017] and the Performers’ Protection Amendment Bills (PPAB) [B24-2016] were. In addition, the Committee asked what the status of readiness was to implement the National Credit Amendment Act (Act No. 7 of 2019). The DTI informed the Committee that the CAB and the PPAB currently awaited Presidential assent. The Bills had been passed by Parliament, the National Assembly on 5 December 2018 and the National Council of Provinces on 28 March 2019. The CAB was currently the subject of a review by the United States Trade Representative (USTR) under the Generalised System of Preferences (GSP) because of a petition that had been submitted against the CAB by the International Intellectual Property Alliance (IIPA) representing US-based organisations in the creative industry including film producers, sound recording companies, etc. The GSP is a trade-related scheme that has benefits for trade for developing countries and governs the extension of the African Growth Opportunity Act. IIPA has recommended to the USTR to withdraw the trade benefits from South Africa because of inadequate intellectual property enforcement protection. They raised concerns with the Bills particularly on the fair use provision and ineffective enforcement on online piracy, inadequate technological protection measures and cyber- related crimes and the lack of capacity of the country to combat these violations of intellectual property and a few other concerns with the CAB. The DTI has responded in a written submission in January 2020, attended the hearings in Washington D.C. on the CAB, submitted a post-hearing submission on 28 February 2020 and the USTR had been in South Africa to engage stakeholders from 9-12 March 2020. They were gathering information on the review.

With regard to the credit legislation, the DTI reported that the planning for the implementation of the National Credit Amendment Act was underway. The DTI was

currently in consultations with industry role players to ensure an effective and efficient implementation. The National Credit Regulator and the National Consumer Tribunal were working together to ensure the required infrastructure was put in place to enable the implementation.

* ***Conditionalities attached to incentives:*** The Committee enquired how transformation was being incorporated into incentive schemes and whether there was any collaboration with the Broad-based Black Economic Empowerment (B-BBEE) Commission to ensure that approved companies complied with any B-BBEE conditionalities. In particular, what conditionalities were attached to the AIS in respect of B-BBEE and local content. The DTI was of the view that transformation is being incorporated into the incentive schemes through a stipulation of a minimum B-BBEE level, based on the BEE Codes of Good Practice, that applicants must meet. The B-BBEE level stipulated in a scheme takes into account the average B-BBEE level of companies in the sector(s) being targeted for support and specifies to applicants a strengthened B-BBEE level to adhere to in order to access the incentive scheme.

Furthermore, B-BBEE compliance has been introduced to the AIS where applicants have to demonstrate B-BBEE compliance through a valid B-BBEE certificate of compliance.

With regards to local content, applicants are evaluated on whether the project will invest in Tooling, Value-addition and Strengthening of the automotive supply chain. In addition, Original Equipment Manufacturers are encouraged to further localise their value chain to South African component manufacturers when applying for support for a new model under the AIS.

* ***Skills development model in SEZs:*** The Committee sought clarity on whether the pilot model for SEZs demonstrated that a similar model of skills development used at the BMW plant should be rolled out into other SEZs. The DTI informed the Committee that the respective operational SEZs currently espouse Skills Development Programmes that were varied. This is largely attributable to the fact that the value propositions, and the affected value-chains differ across the different SEZs. Moreover, the nature of the zones’ respective investment profiles is different. Consequently, the adopted Skills Development

Programmes are usually tailored to respond to the Zones’ specific needs and intended socio- economic outcomes.

In correspondence to the above, the Coega SEZ, Tshwane Auto SEZ and East London SEZ skills development models are mainly anchored around improving localisation or import substitution through supplier development and incubation programmes. Newly designated SEZs have skills development programmes embedded in their business plan delivery models, to assist to meet targets for broader participation of local SMMEs, incubation businesses and new technology ventures.

* ***Rural and township development:*** Rural and township development had been a cornerstone of government’s attempts to promote economic transformation in order to enable meaningful participation of black people in the economy. The Committee asked how the DTI intended to balance development between urban and rural areas, given the rise in urban migration. Furthermore, what measures were being considered to mitigate the impact of the establishment of malls on SMMEs within townships. The DTI informed the Committee that it has introduced the Industrial Parks Revitalisation Programme (IPRP) as a tool to promote the decentralisation of industrial development and promote sustainable jobs in the townships and rural areas. The IPRP promotes investments in the industrial parks that have been prioritised for revitalisation. These Industrial Parks are based in the townships many of them being former homelands. The DTI is supporting manufacturing through the promotion of access to support such as the Black Industrialist Scheme.
* ***Staff allocation for the new Department of Trade, Industry and Competition (DTIC):*** The Committee enquired what the staff allocation would be with the establishment of the new reconfigured DTIC. The DTI reported that the proposed functional structure of the new Department comprises of 10 branches and 1 356 posts of which 1 258 posts are filled. All staff from the DTI and the EDD were accommodated in the proposed structure and therefore the DTI did not anticipate any supernumerary staff. The proposed structure is depicted in Figure 1 below.



### Figure 1: Proposed organisational structure for the new DTIC

1. **ECONOMIC DEVELOPMENT DEPARTMENT**
	1. **Strategic Objectives**

The EDD’s strategic objectives are as follows4:

* Promoting productive investment, industrial financing and entrepreneurship for jobs and inclusive growth;
* Co-ordinating jobs drivers and the implementation of the New Growth Path economic strategy in support of the National Development Plan;
* Facilitating social dialogue and the implementation of social accords;
* Coordinating infrastructure development and strengthening its positive impact on the economy and citizens; and
* Ensuring good governance in the administration of the Department.

4 EDD (2019)

### Overview and assessment of the financial and non-financial performance for the period 1 October to 31 December 2019

This section provides a comparison between the EDD’s third quarter milestones outlined in its APP against its third quarter report for the 2019/20 financial year, namely its non-financial performance, and outlines its financial performance. Lastly, it highlights the key issues related to the EDD’s performance raised during the Committee’s deliberations.

### Non-Financial Performance5

The EDD had 16 annual key performance indicators (KPIs) for the 2019/20 financial year, of which 15 had targets for the third quarter, which were expected to result in 43 products being delivered. KPI 4, implementation of the green economy accord, had no target for the third quarter. While the EDD had delivered 54 products, three of the KPIs had not been achieved.

The three KPIs that had not been achieved were:

* KPI 7: One of the two targeted reports on Social dialogue interventions to save and create jobs and reports on implementation of Social Accords had not been submitted. One report on the session with Chief Executive Officers of businesses trading in Africa had been submitted.
* KPI 11: There had been no coordination actions to drive the implementation of Strategic Integrated Project 5, the Saldanha-Northern Cape Development Corridor, of the National Infrastructure Plan.
* KPI 16: Two of the three targeted reports on the work of the economic regulators had not been submitted.

### Financial Performance6

The EDD’s budget for the 2019/20 financial year had been R1,1 billion. The budget was adjusted during the financial year to an allocation of R989,6 million. This adjustment resulted

5 EDD (2020)

6 Ibid

from adjustments in programme budgets. The Administration Programme budget had been adjusted downwards from R90,3 million to R85,0 million; the Growth Path and Social Dialogue Programme had been adjusted slightly down from R37,0 million to R36,3 million; and the Investment, Competition and Trade Programme including transfers and subsidies had been adjusted down from R918,0 million to R868,3 million.

### Table 3: Third Quarter Expenditure by Programme

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme (R’000)** | **2019/20****Budget** | **Year-to-date****Expenditure** | **% Budget****available** |
| Administration | 85 014 | 62 190 | 27% |
| Growth Path and Social Dialogue | 36 335 | 24 110 | 34% |
| Investment, Competition and Tradeincluding Transfers and Subsidies | 868 294 | 684 200 | 21% |
| **Total** | **989 643** | **770 500** | **22%** |

Source: EDD (2020)

By the end of the third quarter of the 2019/20 financial year, the EDD had spent R770,5 million or 78% of the adjusted annual budget. The largest proportion (87,7%) had been spent on transfers and subsidies; while 8,2% had been spent on compensation of employees and 4,1% on goods and services.

In terms of programmes, the Investment, Competition and Trade Programme spent the largest amount (R684,2 million or 88,7% of third quarter expenditure). This was mainly due to it managing the transfers to the Competition Commission, the Competition Tribunal, the ITAC, and the IDC, as well as the Small Enterprise Finance Agency, a subsidiary of the IDC. The transfers were R675,4 million or 98,7% of the Investment, Competition and Trade budget allocation. The table below shows the EDD’s expenditure for the third quarter by programme.

### Issues raised during the deliberations

The following concerns were raised related to the performance of the EDD during the Committee’s deliberations:

* ***Job creation:*** In spite of a significant number of investment projects underway, the

Committee noted with concern that the labour force had increased by 487 000 people and that the number of jobs had decreased by 108 000 during the period under review. The Committee enquired what measures could be implemented that would ensure that large investments into the South African economy translated into significant job creation. The EDD acknowledged that for the 2019 calendar year, jobs had decreased by 108 000, while the labour force7 had increased by 487 000. As a result, the unemployment rate had increased from 27,1% to 29,1% and there had been 587 000 more unemployed people at the end of 2019 compared to the end of 2018. The total number of the people within the labour force now stood at 16,4 million and the total number of unemployed at 6,7 million.

The EDD informed the Committee that the poor 2019 job creation performance paralleled the weak economic growth for the year, as measured by real gross domestic product (GDP), which came in at 0,2% for 2019. Prior to 2019, the South African job creation performance had in fact been strong, despite weaker growth, though it had not been strong enough to accommodate the large, sustained increases in the labour force over the same period.

South Africa had seen substantial increases in the size of its labour force over the last decade, due to both demographic factors and increased economic participation rates. The labour force had grown by 4,9 million, an annual average increase of 2,7%. The EDD was of the view that the overall growth rate of the economy was essential to enable an economic recovery. However, it must be recognised that economic growth by itself would not ensure an economic recovery given the structural disparities in the South African economy. In an unequal, insufficiently diversified, still exclusionary economy such as South Africa’s, there is no automatic mechanism to ensure that growth creates jobs, promotes innovation, participation and industrial diversification, and thus lays the foundation for sustained future growth. New partnerships between the public and private sectors were necessary to change the current trajectory. In the master plans, which are an important part of the reimagined industrial strategy, emphasis falls on all stakeholders (government, business, and unions) to pursue shared commitments that are bold but realistically achievable, that aim at sectoral structural change, competitiveness and job creation by addressing current constraints, and that lay the groundwork for higher and more inclusive growth.

7 The labour force is defined as those who have jobs together with those who look for work but cannot find any.

The EDD was of the view that these new partnership efforts, together with the Presidential investment drive and other endeavours, seek to create a context of trust and optimism in the recovery of the economy that will help unlock private sector investment spend, which has been a key reason for poor growth. To attain higher growth rates, and sustain them, the EDD was of the view that South Africa needs to increase investment spend as a share of GDP. In 2018, the investment shortfall was around R235 billion to attain a 23% actual investment spend share of GDP.

While some public projects will directly create jobs, others may contribute to indirect job creation that ultimately has a much larger multiplier effect. It is, after all, factors such as the failure to sufficiently diversify South Africa’s economy; its concentrated market that impede new entrants and constrain innovation; its spatial legacies that impose massive costs on households; and its comparatively low skills base, that perpetuate the unemployment crisis. Given these realities, government investments must steer a nuanced path between focusing on direct job creation, for which there are limited resources, and enabling an economic transformation that generates accelerated jobs in the broader economy.

The EDD informed the Committee that the IDC has some useful lessons about financing industrialisation successfully. It operates in a wide range of sectors and uses a variety of financing instruments, namely debt, equity, guarantees, trade finance, and venture capital, to further industrial development. The IDC does not, however, ‘give money away’. Nor has it, in the course of its history, received a transfer from the National Revenue Fund: it has been entirely self-financed through its investment activities. It has remained financially sound; notwithstanding an increased willingness to drive and support more innovative and inclusionary projects, in keeping with its role as a development finance institution. In principle, it must take on the transformatory risks that individual firms in a sector would be unable or unwilling to take on.

Given its mandate to develop industrial capacity, the IDC focuses on a number of development outcomes, including job creation, through its funding activities. The number of jobs created vary depending on the sector, the purpose of the funding, as well as the type

and stage of the project/transaction. Funding for start-up or expansionary phases are likely to result in more jobs per Rand value compared to a mature company, which might require working capital or modernisation of their processes. In addition, the IDC utilises a conservative method of recognising jobs for performance purposes which includes only direct jobs. There are also sectors that are capital-intensive in nature, for example machinery and equipment, that do not necessarily result in significant direct jobs but in indirect jobs as well as other development outcomes such as competitiveness, localisation and transformation of the sector.

* ***Rationale for over-expenditure:*** The Committee enquired whether an investigation had been launched to determine the reasons for the over-expenditure of 78% for the period ending 31 December 2019. The EDD informed the Committee that it had spent 78% due to transfers which had not been paid on a straight line basis. There had been an additional allocation to the Presidential Infrastructure Coordinating Commission during the financial year which had been fully transferred in the first quarter. There had also been additional unplanned expenditure relating to the forensic investigation for the Competition Commission regarding relatively high levels of irregular expenditure related to the use of professional consultants. The forensic investigation had been requested by the National Treasury.
* ***Challenges facing the steel industry:*** The uptake on the Downstream Steel Industry Competitiveness Fund (DSICF) had been slow. The EDD had indicated that this was mainly due to the stringent application criteria as it relates to B-BBEE as well as the high pricing of steel products. A view had been expressed within the Committee that this highlighted that there was over-regulation of the economy and that the protection of individual foreign-owned companies was compromising the downstream steel industry. The Committee asked what measures the EDD was considering to address the challenges in the steel industry. The EDD informed the Committee that various measures were used to address the challenges in the steel industry. Key among them have been adjustments to the DSICF, as well as tackling illicit trade of scrap metal. With regard to the DSICF, adjustments have been made to the B-BBEE requirements and pricing discount in order to allow uptake of the DSICF. The Fund was established to assist qualifying enterprises in the downstream steel sectors to improve their competitiveness as well as to assist companies

that were in distress but had a feasible turnaround plan.

Furthermore, the EDD co-chaired an Inter-agency Working Group on Illicit Trade, along with the South African Revenue Service. Various entities, such as the Companies and Intellectual Property Commission, the ITAC and the National Treasury, sit on this Working Group, and coordinate actions with regard to tackling illicit trade in scrap metal, among other inputs. This work will help to ensure that input costs are reduced for the downstream industries through the availability of scrap metal. This will also contribute to the utilisation of less energy within the steel industry.

* ***The Social Economy Policy Framework:*** The policy seeks to provide a coherent framework for township and rural economic development through effective coordination of all critical stakeholders in their pursuit of social and economic justice. In light of the above, the Committee enquired about the role of municipalities and provinces in developing this policy. The EDD informed the Committee that the Social Economy Policy Framework was currently in Draft Green Paper form. All nine provinces formed part of the consultation process on the Draft Green Paper during 2019, with two municipalities per province being visited, as advised by the provincial economic development administration. The process was going through a second round of consultations, again with provinces and municipalities.

To that end, the draft policy has been presented to the South African Local Government Association in Gauteng. Further consultations were planned in the City of Ekurhuleni and Johannesburg in the next month. The EDD informed the Committee that the Deputy Minister, Ms N Gina, was leading delegations to all Provincial Members of the Executive Council, where the draft policy was presented, and their support sought for further consultations within the province with a focus on municipalities, as recommended. Presentations have been made to the Free State political leadership, and the Northern Cape and North West provinces were next, to be followed by all other provinces. The focus of this round of consultations was to confirm the discussions of the first round, as well as to cover those additional, identified municipalities and areas within provinces. All consultations were done in close collaboration with the province, where the province provided the direction in terms of where and who to consult, while the national EDD

prepared the Draft Green Paper and facilitated discussions and input into the policy document.

1. **CONCLUSIONS**

Based on its deliberations, the Committee drew the following conclusions:

* 1. The continued contraction of the economy, specifically within the sectors that should drive the deepening of industrialisation, is a major concern for the Committee, as it would delay the impact of government’s initiatives to address poverty, inequality, and job creation.
	2. Noting that jobs had decreased by 108 000, while the labour force had increased by 487 000, resulting in the unemployment rate increasing from 27,1% to 29,1% in 2019, the Committee was of the view that the Department of Trade and Industry accelerates the implementation of economic initiatives that are more labour-intensive rather than capital- intensive.
	3. The Committee was specifically concerned that the sectors that are able to increase employment, namely, the agricultural, mining and manufacturing sectors have come under strain. The Committee requested that the Department of Trade and Industry works towards mitigating those factors that inhibit the growth of labour-intensive sectors that fall within its mandate.
	4. Widening the scope of beneficiation to leverage the comparative and competitive advantage South Africa has in relation to its natural resources.
	5. Challenges facing the steel and mining industry has contributed to uncertainty within the economy, and the potential job losses could contribute to a further contraction in the economy.
	6. The Committee welcomed the changes made to the Downstream Steel Industry Competitive Fund to address blockages companies were facing in accessing the Fund and addressing the high cost of steel products for these participating companies.
	7. Two of the Master Plans, namely for the poultry and the retail clothing, textile, leather and footwear industries, had been launched in the third quarter, which was welcomed by the Committee.
	8. However, the Committee encouraged the Department of Trade and Industry to fast-track the Masterplans for the Sugar industry, as well as the Steel and Metal Fabrication Sectors to stem the decline within these industries.
	9. The Committee welcomes the efforts to deepen rural and township development as it would contribute towards transformation of the economy. However, it is concerned about the unintended consequences of establishing malls within rural and township communities on local small, medium and micro enterprises.
	10. The Committee welcomed the announcement that the Social Economy Policy Framework for township and rural economies would be finalised in the next financial year.
	11. In light of the new African Continental Free Trade Agreement, the Committee was of the view that the Department of Trade and Industry should accelerate support for local manufacturing output as well as creating more beneficiary refining sites to maintain resource value chains within South Africa and additionally, reducing our reliance on supply chains from heavily affected and vulnerable countries.
	12. While the Committee acknowledged the narrowing of the trade deficit with the China, India and Russia countries, it remained concerned that this significant deficit was driven by manufactured imports. The Committee encouraged the Department of Trade and Industry to consider further measures to close the gap and to promote the export of South African goods in this regard.
	13. The Committee acknowledged the process of amalgamation between the Department of Trade and Industry and the Economic Development Department. The Committee appreciated that some of the programmes would be affected by this transition process. Therefore, the Committee would encourage the Minister to ensure a seamless transition that included a change management process.
	14. Notwithstanding the process of amalgamation and the rationale provided by the Economic Development Department for not achieving three of its targets, the Committee remained concerned that these targets were not met. It was of the view that the Department should ensure that the challenges encountered in implementing these key performance indicators were addressed urgently.
1. **APPRECIATION**

The Committee would like to thank the Director-General of the Department of Trade and Industry, Mr L October, and the Acting Director-General of the Economic Development Department, Dr M Tom, as well as their team, for their cooperation and transparency during this process. The Committee also wishes to thank its support staff, in particular the committee secretary, Mr A Hermans, the content advisor, Ms M Sheldon, the researcher, Ms Z Madalane, the committee assistant, Ms Y Manakaza, and the executive secretary, Ms T Macanda, for their professional support and conscientious commitment and dedication to their work. The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

1. **RECOMMENDATIONS**

Informed by its deliberations, the Committee recommends that the House requests that the Minister of Trade and Industry should consider:

* 1. Engaging the relevant departments that would ensure effective coordination of government policy critical for the implementation of the industrial strategy, especially around securing the supply of water and of electricity to industries, and providing an update on progress in this regard within three months of adoption of the report.
	2. Developing targeted incentives for companies operating in industrial parks.
	3. Submitting a status report on the processing of Section 12i tax incentives and Automotive Investment Scheme applications within one month after the adoption of the report.
	4. Fast-tracking the measures to address the illicit trade in scrap metal such as the introduction of an export tax.
	5. Finalising the Social Economy Policy Framework in order to facilitate effective coordination across all spheres of government to support economic development of township and rural areas.
	6. Developing and implementing measures, in consultation with the Minister of Small Business Development, to mitigate the negative impact of mall developments on local small businesses in rural and township areas.

Report to be considered.

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