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DEPARTMENT OF TRADE, INDUSTRY, AND COMPETITION: SECOND QUARTER PERFOMANCE FR THE 2020/21 FINANCIAL YEAR[1]

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1. INTRODUCTION

This paper provides a summary of the Department of Trade, Industry and Competition's (DTIC) expenditure second quarter financial and non-financial performance for the 2020/21 financial year. The Portfolio Committee on Trade and Industry (thereafter referred to as PCTIC or the Committee) in line with its mandate is required to oversee the performance of the DTIC against its set targets on a quarterly basis. Therefore, the DTIC will present its quarterly performance to the PCTIC in February 2021.

In its engagement with the DTIC on its first quarter performance, the Committee raised the following key issues:[2]

(a) The impact of the lockdown on new and existing businesses, particularly the regulatory burden that may have contributed to deepening the economic down turn. The DTIC highlighted some measures that existed to alleviate regulatory burden particularly on new businesses. These include the use of the Bizportal, the use of a mobile application for some CIPC services, and continued availability of walk-in centres.

    The Bizportal was critical during the lockdown as it allowed for company registration, registration for BEE certificate application, tax number creation, Unemployment Insurance Fund, Compensation Fund and applying for a bank account with six business banks in the country.

(b) The need for polices to address the economic crisis. The Economic Reconstruction and Recovery Plan is the key policy as it aims to address the structural challenges on the country including; electricity supply, the cost and efficiency of freight and logistics infrastructure, and high-speed broadband. Furthermore, improving public employment interventions to create jobs, localisation interventions in additional sectors of the economy, and expansion of large-scale infrastructure investment.

(c) The impact of the lockdown on the implementation of Master Plans. According to the DTIC there was no significant on the development and implementation of Masterplans. However, the lockdown worsened the challenges faced by the steel sector hence the need to factor in such impact in the development of the Steel Master Plan.

(d) Export capacity of the Special Economic Zones (SEZs) given the large investment that the government has made.

For the second quarter, it would be import for the Committee to follow-up on progress on these issues and well as assess the performance of the DTIC against its set targets. Therefore, this brief analyses the quarterly non-financial performance of the DTIC against the targets set in the 2020/21 Annual Performance Plan as well as the quarterly financial performance against the appropriated budget.

[2] Parliament (2020)

It should be noted that because the DTIC is in its first financial year of existence resulting from the merger of the Economic Development Department (EDD) and the Department of Trade and Industry (DTI), the quarterly performance will not be compared to that of the same period in the previous financial year.

2. NON-FINANCIAL PERFORMANCE[3]

A total of 32 targets were planned, 4 of which were not achieved. This represents 87 percent of targets that were achieved during the quarter. This is an improvement from the achievement of 64 percent in the first quarter where 16 of the 25 targets were achieved.

Detailed below is performance for each of the DTIC's programmes.

(a) Programme 1: Administration

Programme 1 had six targets for the quarter; five were fully achieved while one was not achieved. These are detailed in the table below.

The targets to have 3,5 percent of people with disabilities in the employ of the DTIC was achieved. The DTIC had achieved 3,7 percent in the quarter. This was the same as the previous quarter. Another target in relation to employment is the employment of women in senior management. This target was achieved, 53 of women were employed at the senior management level.

The payment of all eligible creditors within 30 days target was also achieved. In the quarter, of the 1 460 creditors that were paid, 58 were paid within 15 days while the rest were paid within 30 days.

The National Macro-Organising of Government (NMOG) process was initiated to ensure a smooth merger between the Department of Economic Development and Department of Trade and Industry to form DTIC. Phase 1, which focused on the ensuring the functions of the two departments are effectively incorporated into the structure of the new department, the DTIC was implemented in the previous financial year. Phase 2, which focused on aligning the new functions with the organisational structure and human resources in line with the strategic goals. The targets for the second quarter was to initiate phase 2 and establish governance structures for the project. This was achieved. Furthermore, phase 1 of the project was closed and Terms of Reference (ToR) were developed for the appointment the service provider. However, it is not clear what the role of the service provider will be.

In terms of COVID-19 compliance, the DTIC continued compliance and produced three reports as planned for the quarter.

[3] Information in this and the next section are taken from the DTIC's verified second quarter performance report unless indicated otherwise.

(b) Programme 2: Trade Policy, Negotiations, and Cooperation

In Programme 2 there were four targets; all were fully achieved. The outputs were status reports on the following:

i. Engagement in the World Trade Organisation (WTO);
ii. Implementation of the Southern African Development Community (SADC) – European union (EU) Economic Partnership Agreement (EPA);
iii. Implementation of African Growth and Opportunity Act (AGOA); and
iv. Tariff and trade related matters under the African Continental Free Trade Area (AfCFTA)

In addition to the performance against set targets, highlights under programme 2 include:

i. South Africa appointed to chair the South African Customs Unions (SACU) meetings for a year from July 2020. Since taking this position, the focus has been on regional industrial cooperation, investment, and export promotion. South Africa's Minister of Trade, Industry, and Competition, also became the Chair of African Union (AU) Trade of Ministers' forum from September 2020.
ii. South Africa engaged the European Union (EU) through the SA-EU Strategic Dialogue on issues that are challenges to trade between the two partners and discussed solutions to those challenges. Consequently, South Africa made a proposal to the EU to resolve the Sanitary and Phytosanitary (SPS) measures to resolve some of the challenges.

(c) Programme 3: Spatial Industrial Development and Economic Transformation

Under this programme, there were three targets in the second quarter, all of which were achieved. The outputs were:

i. Implementation report on Special Economic Zones (SEZ) and the National SEZ Capacity Support;
ii. Implementation report on the economic transformation; and
iii. Implementation report on the Industrial Parks

The DTIC issued certificates of compliance for Equity Equivalent Investment Programme (EEIP) to Toyota and Mercedes Benz. The EEIP allows multinationals that are unable to contribute to the ownership element of the Broad-Based Black Economic Empowerment to contribute to contribute to other elements through: (a) enterprise creation and development; (b) foreign direct investment; (c) accelerated empowerment of black rural women and youth; (d) sustainable growth and development; (e) education and skills development; and (f) infrastructure investment[4].
The DTIC held webinar under on "key drivers of growth and development" and engaged on the impact of COVID-19 on Special Economic Zones (SEZs). In terms of new SEZs, the Tshwane Automotive SEZ began full construction having attracted 12 investors that invested

[4] Department of Trade and Industry (2007)

R2,8 billion. The Saldahna and Richards Bay SEZs attracted 7 new investors that invested R437 million which will create 153 jobs.

These relates to one of the issues raised in the engagement with the DTIC on its first quarter performance, where the Committee raised concerns about amount of investment that the government has made into SEZs in relation to the amount of investment attracted into SEZs.

(d) Programme 4: Industrial Competitiveness and Growth

In this Programme, there were four targets. All targets were achieved. The targets were:

- The development of the Furniture Master Plan, in the previous quarter the Sugar Master Plan was developed;
- The report on the implementation of Master Plans;
- The report on measures implemented to support industry to increase localisation of PPE and other products; and
- A designation request.

The Poultry Sector invested R800 million. However, this was less than the targeted investment for this sector which was R1,5 billion. This investment created 428 jobs.

The DTIC and Eskom also facilitated the localisation of High voltage composite insulators. Eskom contracted location manufacturing of steel-end fittings, and cotter pins to Vexila, the first African manufacturer of these.

Through the National Infrastructure Protection Plan (NIPP), there are two projects in the pipeline for the manufacturing on ventilators.

(e) Programme 5: Consumer and Corporate Regulation

Under this programme, one of the two targets was not achieved. The target and output was a progress reports on the development or review of the Companies, Liquor and National Gambling legislation. According to DTIC, the Companies Amendment Bill and Liquor Amendment Bill are still under consideration for tabling in Cabinet.

The DTIC organised a webinar on the impact of COVID-19 on consumer protection with some its entities, namely; the National Consumer Commission, National Credit Regulator, and Competition Commission.

The DTIC also engaged the credit market players, namely; Banking Association South Africa (BASA) and the National Clothing Retail Federation on the implementation of the National Credit Amendment Act, 2019.

(f) Programme 6: Industrial Financing

Under this programme, there were two targets, one of which was achieved. The target that was achieved was the development of the Economic Recovery Plan while the target that was not achieved is leveraged investment. DTIC had targeted R1,4 billion in investment for the quarter, however, achieved R1,1 billion due to fewer than expected applications due to the lockdown.

Furthermore, DTIC continued to implement Industrial Financing interventions in respect of COVID-19 through its entities, the National Empowerment Fund and the Industrial Development Corporation. The interventions were to support the manufacturing of essential products; therefore, more than R700 million in funding has been approved.

(g) Programme 7: Export Development, Promotion and Outward Investments

All of the three targets under this programme, were achieved. These include:
- processing 123 barriers by the Export Barriers Monitoring Mechanism since the beginning of the financial year, 76 related to COVID-19;
- Assisting 78 companies under Export Development and Support (EDS) including Women, Youth and People with Disabilities, against a target of 50.

(h) Programme 8: Inward Investment Attraction, Facilitation, and Aftercare

In this programme, all the three targets were achieved. In particular, approximately R16,6 billion was facilitated in pipeline investments against a target of R5 billion. The DTIC noted that this significant achievement in pipeline investment is attributed the Inward Investment Attraction, Facilitation and Aftercare (IIFA&A) increasing efforts with companies therefore creating investment leads into projects.

Furthermore, the DTIC assisted 17 companies with regulatory matters and produced a report on company registration.

(i) Programme 9: Competition Policy and Economic Planning

In this programme, there were three targets all of which were achieved. The targets are as follows:
- A on the analysis reports on public interest matters;
- A report on coordinated actions in implementing Competition policy commitments, recommendations and orders; and
- A report on policy and statutory initiatives in support of Ministry.

Among the key activities under this programme for the quarter was the approval of four mergers under the conditions of no merger-related retrenchments, increasing local procurement, and offering employees permanent employment. The mergers are:

i. CapitalWorks/Peregrine
ii. Roos Foods/10 KFC Franchises

iii. Foshini/Jet; and
iv. Nimble Credit/Edcon

(j) Programme 10: Economic Research and Coordination

Two targets were set under this programme, none of which was achieved. The target to produce three analytical reports was not met, however, the DTIC produced one report on Employment Analysis based on the Quarterly Labour Force Survey. Furthermore, the target to produce two research reports was not achieved, one research report on efficacy and impact of industrial procurement and localisation policy instruments in South Africa was produced. This target was not achieved because the research was only commissioned in the second quarter therefore delaying the research.

3. BUDGET OVERVIEW

The DTIC's budget is R9,31 billion for the financial year under review. The DTIC's work and budget will be divided among its ten (10) programmes as depicted in table 1 below. The latest of the programmes is Industrial Financing, which is allocated more than half (52,2 percent) of the budget approximately R4,8 billion. This is followed by the Industrial Competitiveness and Growth programme which is allocated 17,6 percent of the budget.

Table 1: Budget Allocation for the DTIC (2020/21 Financial Year)

PROGRAMMES	TOTAL ALLOCATION PROPOSED (R' 000)	SHARE OF THE TOTAL BUDGET (%)
Administration	R857 590	9,21%
Trade Policy, Negotiations, and Cooperation	R128 449	1,38%
Spatial Industrial Development and Economic Transformation	R159 943	1,72%
Industrial Competitiveness and Growth	R1 653 246	17,76%
Consumer and Corporate Regulation	R312 766	3,36%
Industrial Financing	R4 860 006	52,20%
Export Development, Promotion and Outward Investments	R410 889	4,41%
Inward Investment Attraction, Facilitation, and Aftercare	R55 699	0,60%
Competition Policy and Economic Planning	R789 398	8,48%
Economic Research and Coordination	R82 724	0,89%
Total	**R9 310 710**	**100,00%**

Source: National Treasury, (2020)

3.1 Financial Performance

By the end of the second quarter, the DTIC had spent approximately R4,0 billion of its R9.3 billion annual budget. This accounts for 44 percent of the total annual budget. This expenditure is in line with the year to date targeted expenditure for the quarter. The DTIC had planned to have spent R4,1 billion by the end of the second quarter. Actual expenditure was approximately R4,0 billion which is 97,7 percent of the budget. Therefore under expenditure was R95,9 million or 2,3 percent of the budget.

The main contributors to under expenditure by programme were:

(a) *Programme 9 - Competition Policy and Economic Planning*: **R73,2 million underspending** which represents **11,5 percent** of this programme's year to date budget.
(b) *Programme 1 - Administration*: **R39,2 million underspending** which represents **9 percent** of this programme's year to date budget.
(c) *Programme 10 - Economic Research and Coordination*: **R28,8 million underspending** which represents **69,5 percent** of this programme's year to date budget.
(d) *Programme 7 - Export Development, Promotion and Outward Investments:* **R19,6 million underspending** which represents **7,4 percent** of this programme's year to date budget.

The only programme with overspending was Industrial Financing, programme 5. **Overspending of approximately R105,4 million** or **12,4 percent** of the programme's budget was incurred.

The table below provides a detail of the budget, expenditure, and the remaining budget for each of the programmes.

Table 2: Financial Performance by Programme

PROGRAMMES	TOTAL ALLOCATION (R' 000)	Q2 BUDGET (R' 000)	Q2 EXPENDITURE (R' 000)	VARIANCE (R' 000)	VARIANCE (%)	AVAILABLE BUDGET (R' 000)
Administration	R857 590	R435 322	R396 041	R39 281	9,02%	R461 549
Trade Policy, Negotiations, and Cooperation	R128 449	53041	R41 650	R11 391	21,48%	R86 799
Spatial Industrial Development and Economic Transformation	R159 943	R61 437	R49 225	R12 212	19,88%	R110 718
Industrial Competitiveness and Growth	R1 653 246	R1 484 537	R1 477 351	R7 186	0,48%	R175 895
Consumer and Corporate Regulation	R312 766	R261 366	R250 216	R11 150	4,27%	R62 550
Industrial Financing	R4 860 006	R848 359	R953 786	-R105 427	-12,43%	R3 906 220
Export Development, Promotion and Outward Investments	R410 889	R267 284	R247 619	R19 665	7,36%	R163 270
Inward Investment Attraction, Facilitation, and Aftercare	R55 699	R24 866	R23 386	R1 480	5,95%	R32 313
Competition Policy and Economic Planning	R789 398	R636 507	R563 260	R73 247	11,51%	R226 138
Economic Research and Coordination	R82 724	R37 104	R11 297	R25 807	69,55%	R71 427

Total	R9 310 710	R4 109 823	R4 013 831	R95 992	2,34%	R5 296 879

Source: Department of Trade, Industry, and Competition (2021)

In terms of economic classification, incentives which are the second largest expenditure item after transfers to entities were the only expenditure item that incurred over expenditure. The DTIC had budgeted to spend R743,8 million on incentives by the end of the second quarter, however, actual expenditure was 17,2 percent more that budgeted at R875,6 million. This is over expenditure of R131,8 million.

On other expenditure items there was significant under expenditure, particularly on:

(a) *Goods and services*: **R83,7 million under spending**, which is **24,7 percent** of the year to date goods and services budget.
(b) *Compensation of employees:* **R71,3 million under spending**, which is **12 percent** of the year to date compensation of employees budget.
(c) *Transfers to entities:* **R54,3 million under spending**, which is **3,3 percent** of the year to date transfers budget.

Other areas where there was underspending were the *payment of capital assets* and *other transfers* with **under spending of R11,9 million** and **R6,3 million** respectively.

Table 3: Financial Performance by Economic Classification

Economic Classification	TOTAL ALLOCATION (R' 000)	Q2 BUDGET (R' 000)	Q2 EXPENDITURE (R' 000)	VARIANCE (R' 000)	VARIANCE (%)	AVAILABLE BUDGET (R' 000)
Current payments	**R1 915 294**	**R902 471**	**R747 319**	**R155 152**	**17,19%**	**R1 167 975**
Compensation of employees	R1 171 420	R564 475	R493 078	**R71 397**	**12,65%**	**R678 342**
Goods and services	R743 874	R337 996	R254 241	**R83 755**	**24,78%**	**R489 633**
Transfers and Subsidies	**R7 361 295**	**R3 184 183**	**R3 225 299**	**-R71 116**	**-2,23%**	**R4 135 996**
Incentives	R4 660 894	R743 812	R875 641	**-R131 829**	**-17,72%**	**R3 785 253**
Departmental Agency Transfers	R1 646 943	R1 611 296	R1 556 904	**R54 392**	**3,38%**	**R90 039**
Other Transfers	R1 053 458	R829 075	R822 754	**R6 321**	**0,76%**	**R230 704**
Payment of Capital Assets	R34 121	R23 169	R11 213	**R11 956**	**51,60%**	**R22 908**
Total	**R9 310 710**	**R4 109 823**	**R3 983 831**	**R95 992**	**2,34%**	**R5 326 879**

Source: Department of Trade, Industry, and Competition (2020)

4. ISSUES FOR CONSIDERATION BY PARLIAMENT

(a) In terms of Industrial Financing as a COVID-19 Intervention, of the R700 million that has been approved, how much has been disbursed to companies?

(b) The DTIC should provide detail on the proposed SPS package to the EU. Furthermore, inform the Committee whether the proposal has been accepted and what has been done thus far to implement the measures.

(c) It is noted that the DTIC has amended among others the Patents Bills to deal with matters around access to vaccines for COVID-19. When is the proposed amendment Bill expected to be tabled in Parliament given the urgency of access to COVID-19 vaccines?

(d) How many companies have been approved to produce Personal Protective Equipment in South Africa? How many have been supported by the DTIC?

(e) In the quarter the DTIC prepared a designation request for approval by the Minister. Which products or sectors are in the request?

(f) The investment targets for the poultry sector were not met. R800 million was invested against a target of R1,5 billion. What were the challenges in the sector that contributed to this target not being achieved? What measure have been put in place to support the sector to achieve the investment targets?

(g) What are the key issues that were raised on consumer protection during the engagement with the entities?

(h) Can the DTIC explain the why the research on efficacy and impact of industrial procurement and localisation policy instruments in South Africa was only commissioned in the second quarter. Given this, will the research be finalised in the current financial year?

(i) Can the DTIC explain the over expenditure of approximately R105 million in the Industrial Financing programme?

(j) Can the DTIC explain the under expenditure of R83,7 million in goods and services; R71,3 million in the compensation of employees; and R54,3 million in transfers to entities?

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