**Report of the Portfolio Committee on Trade and Industry on the Department of Trade, Industry and Competition’s Second and Third Quarter Financial and Non-Financial Performance for the 2021/22 Financial Year, dated 16 March 2022**

The Portfolio Committee on Trade and Industry, having assessed the service delivery performance of the Department of Trade, Industry and Competition (DTIC), against its mandate and allocated resources, in particular the financial resources for the period 1 July to 31 December 2021, on 16 February 2022, reports as follows:

# Introduction

The second and third quarter of the 2021/22 financial year was marked by continued economic recovery albeit slow with the gross domestic product growing by 2,9 per cent since 2020. However, the July unrest in the Gauteng and KwaZulu-Natal provinces had a significant negative impact on the economy during the third quarter of 2021. As a result of the unrest, the DTIC had to reprioritise some of its work and resources to assist affected businesses. This, combined with the continued impact of the COVID-19 pandemic, negatively impacted the achievement of some of its targets during this period. As a result, it had only achieved 85 per cent of its targets in the second quarter and 77 per cent in the third quarter of the 2021/22 financial year.

## 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 DTIC’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 DTIC against its predetermined objectives and quarterly milestones as part of the Committee’s ongoing budgetary oversight. This report assesses the non-financial and financial performance for the second and third quarter of the 2021/22 financial year, namely from 1 July to 31 December 2021.

## Method

The Committee was briefed by the DTIC on their second and third quarter performance for the 2021/22 financial year on Wednesday, 16 February 2022.

## 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 DTIC’s strategic objectives, assesses its financial and non-financial performance against its APP for the 2021/22 financial year from 1 July to 31 December 2021 and Section 3 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 and the recommendation in Section 6.

# DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

##  Strategic Goals

The DTIC’s performance was in line with its strategic objectives, which guided its work and was aligned to its programmes. The strategic goals were as follows[[1]](#footnote-2):

* Promoting structural transformation, towards a dynamic industrial and globally competitive economy;
* Providing a predictable, competitive, equitable and socially responsible environment, conducive to investment, trade and enterprise development;
* Broadening participation in the economy to strengthen economic development;
* Continually improving the skills and capabilities of the department to effectively deliver on its mandate and respond to the needs of South Africa’s economic citizens;
* Coordinating the contributions of government departments, state entities and civil society to effect economic development; and
* Improving alignment between economic policies, plans of the state, its agencies, government’s political and economic objectives and mandate.

## Overview and assessment of the financial and non-financial performance[[2]](#footnote-3)

This section provides a comparison between the DTIC’s second and third quarter non-financial performance milestones as outlined in its APP against its second and third quarter performance reports for the 2021/22 financial year, and outlines its financial performance for the period under review.

### Non-Financial Performance

### Second Quarter Performance

The DTIC had 40 targets for this quarter, six of which had not been achieved. This represented an 85 per cent achievement of targets during the quarter. This is a decline from the 93,3 per cent achievement of targets in the first quarter where 28 of the 30 targets had been met.

The six targets that had not been achieved were:

* The target for the implementation of the Internal Capacity Building Plan had been 12 per cent completion by the end of the second quarter in terms of structure fit for purpose, culture change, coaching, upskilling and reskilling as well as recognition framework. However, the DTIC had only completed six per cent of the process in terms of structure fit for purpose, culture change, upskilling and reskilling as well as recognition framework. In relation to structure fit for purpose, the process change had been initiated by Executive Board decisions and the procurement process had not been initiated at that stage. In terms of the Culture Change Plan, this had been at an advanced stage due to early planning and commitment to the process.
* In terms of the review of the governance framework for entities and the identification of action areas, the review had not been completed due to a lack of resources.
* In terms of the target for three annual targets for revitalisation of industrial parks to be implemented, the DTIC had reported that seven Industrial Parks had been in the revitalization process. However, this was misaligned to the quarterly target.
* There had been a target to prepare and submit one detailed report of new products and/or amendments for designation under the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) to the Minister, as well as to review proposals for designation from the broader economic cluster. In this regard, research had been conducted, however, further interventions had been required before completion. The report had been expected to be submitted to the Minister in the third quarter.
* Participation in key stakeholder engagements, including at the National Economic Development and Labour Council, to ensure legislative support required for localisation in the Procurement Bill. The DTIC had not had any engagements nor submitted any inputs during this quarter, as it was awaiting the engagements with the National Treasury.
* In terms of the target to adjudicate applications for local productions of films and documentaries telling South African stories, a call had been published; however, no applications had been received in this regard.

### Third Quarter Performance

The DTIC had 35 targets for this quarter, of which 27 had been achieved. This represents a 77 per cent achievement of its targets during the quarter under review.

The eight targets that had not been achieved were:

* The target for the implementation of the Internal Capacity Building Plan had been 13 per cent; however, only 6,5 per cent had been implemented by the end of the third quarter. In terms of structure fit for purpose, the process required an in-depth review and preparation after the Executive Board’s principle approval. In terms of the Culture Change Plan, there had been delays in the item being tabled at the Executive Board. As this was an Executive Board driven process, process buy-in and combination at top management level was key to the success of the intervention. Therefore, the approach would be that of an engagement process rather than project management.
* In terms of the governance framework for entities, the target planned for this indicator was to finalise the review of the framework and submit this to the Director-General and the Minister. At the end of the third quarter, the review was still underway. The target had not been achieved due to a shortage of resources.
* The quarterly target had been for two annual targets for the revitalisation of industrial parks to be implemented. However, it reported that five industrial parks had been under construction, namely Babelegi, Mogwaswa/Bodirelo, Vulindlela, Isithebe and Nkowankowa, while Dimbaza had been completed and two industrial parks had been nearing completion, namely Botshabelo and Komani. The DTIC indicated that there was a misalignment between the work that was currently being undertaken by the Spatial Industrial Development and Economic Transformation Branch in this regard and how the targets have been captured in the APP, these had been requested to be revised.
* The quarterly target had been that a draft Master plan should have been developed as per the Re-imagined Industrial Strategy; however, the draft Master plan had been presented and was still awaiting final approval.
* Only R9,7 billion of projected investments to be leveraged from projects/enterprises had been approved against a target of R13 billion. This was due to fewer applications with low investment values being received as a result of the economic downturn and the impact of the COVID-19 pandemic.
* In terms of the call for investments in local film and television (TV) production, the target for adjudication of applications for local productions of films and documentaries telling South African stories had not been achieved, as the DTIC had not received applications in relation to the telling of South African stories.
* The target for one statistical report on company registrations from the Companies and Intellectual Property Commission (CIPC) had not been achieved. The statistics provided by the CIPC had not addressed the requirement of company registration being finalised within one day, although this was evident from the BizPortal data. The BizPortal data had been extracted by the Inward Investment Attraction, Facilitation and After-care branch and attached as additional evidence for the third quarter. However, it had not been considered authentic, as it had not been included by the CIPC. The branch would subsequently request the CIPC to include this data in its report to address this anomaly going forward.
* A report on the impact of the DTIC and entities’ programmes on employment, economic growth, exports, imports and investment had not been published by the Economic Research and Coordination branch, as it required more time to monitor progress of these programmes and their impact.

### Financial Performance

### Second Quarter

Of the R6,3 billion projected budget up to the 30 September 2021, R6,1 billion had been actually spent by 30 September 2021. This resulted in an under-expenditure of R612,9 million (8,8 per cent of the projected year-to-date expenditure). The table below details second quarter expenditure by programme.

**Table 1: Second Quarter Expenditure by Programme as at 30 September 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Budget 2021/22 (R’000)** | **Available Budget (R’000)** | **Year-to-date** |
| **Projected Expenditure (R’000)** | **Actual Expenditure (R’000)** | **Variance (R’000)** | **% Variance**  |
| 1: Administration | 857 651 | 507 790 | 374 966 | 349 861 | 25 105 | 6,7% |
| 2: Trade Policy, Negotiations and Cooperation | 233 066 | 83 121 | 152 801 | 149 945 | 2 856 | 1,9% |
| 3: Spatial Industrial Development and Economic Transformation | 183 352 | 124 607 | 80 555 | 58 745 | 21 810 | 27,1% |
| 4: Industrial Competitive and Growth | 1 762 605 | 527 629 | 1 245 065 | 1 234 976 | 10 089 | 0,8% |
| 5: Consumer and Corporate Regulation  | 333 282 | 119 193 | 210 714 | 214 089 | -3 375 | -1,6% |
| 6: Industrial Financing | 4 871 050 | 1 403 750 | 3 879 222 | 3 467 300 | 411 922 | 10,6% |
| 7: Export Development, Promotion and Outward Investments | 440 285 | 150 218 | 313 880 | 290 067 | 23 813 | 7,6% |
| 8: Inward Investment Attraction, Facilitation and After-care | 70 161 | 46 053 | 21 508 | 24 108 | -2 600 | -12,1% |
| 9: Competition Policy and Economic Planning | 906 262 | 392 713 | 638 446 | 513 549 | 124 897 | 19,6% |
| 10: Economic Research and Coordination | 78 859 | 59 412 | 17 917 | 19 447 | -1 530 | -8,5% |
| **Total** | **9 736 573** | **3 414 486** | **6 935 074** | **6 322 087** | **612 987** | **8,8%** |

Source: DTIC (2021a and 2021b)

The main contributors to underspending had been the Industrial Financing programme with an under-expenditure of R411,9 million and the Competition Policy and Economic Planning programme with under-expenditure of R124,9 million. Other programmes that incurred significant underspending had been the Administration programme (under-expenditure of R25,1 million); the Export Development, Promotion and Outward Investments programme (under-expenditure of R23,8 million); and the Spatial Industrial Development and Economic Transformation programme (under-expenditure of R21,8 million).

Similarly, these programmes also incurred significant underspending in the first quarter due to the slowdown in economic activities as a result of the impact of the COVID-19 pandemic. Expenditure in the Industrial Financing programme had been expected to peak in the second quarter, however, that had not happened.

Similar to the first quarter, there had been significant underspending in transfers and subsidies. However, the underspending grew from R416,5 million in the first quarter to R533,7 million in the second quarter The under-expenditure on the procurement of goods and services grew from R75,9 million to R80,6 million from the first quarter to the second quarter. As alluded to previously, this was due to the impact of the COVID-19 pandemic which had caused a slowdown in economic activities. Depicted in the table below is the financial performance in terms of the economic classification.

**Table 2: Second Quarter Expenditure by Economic Classification as at 30 September 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Budget 2021/22 (R’000)** | **Available Budget (R’000)** | **Year-to-date** |
| **Projected Expenditure (R’000)** | **Actual Expenditure (R’000)** | **Variance (R’000)** | **% Variance**  |
| **Current payments** | **1 871 796** | **1 142 140** | **805 734** | **729 656** | **76 078** | **9,4%** |
| Compensation of employees | 1 046 619 | 545 759 | 496 336 | 500 860 | -4 524 | **-0,9%** |
| Goods and services | 825 177 | 596 381 | 309 398 | 228 796 | 80 602 | **26,1%** |
| **Transfers and subsidies** | **7 828 423** | **2 236 330** | **6 125 754** | **5 592 093** | **533 661** | **8,7%** |
| **Payments for capital assets** | **36 354** | **36 023** | **3 586** | **331** | **3 255** | **90,8%** |
| **Payments for financial assets** | **-** | **-7** | **-** | **7** | **-7** | **0,0%** |
| **Total** | **9 736 573** | **3 414 486** | **6 935 074** | **6 322 087** | **612 987** | **8,8%** |

Source: DTIC (2021a and 2021b)

### Third Quarter Performance

Expenditure recovered in the third quarter from the slow expenditure in the first two quarters. Projected expenditure was R8,8 million while actual expenditure was R8,5 million. This resulted in under-expenditure being reduced from R612,9 million in the second quarter expenditure to R296,7 million in the third quarter. The impact of COVID-19 on expenditure was reported to finally have subsided in the third quarter. Therefore, under-expenditure in the key programmes had been significantly reduced. The table below details third quarter expenditure by programme.

**Table 3:** **Third Quarter Expenditure by Programme as at 31 December 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Budget 2021/22 (R’000)** | **Available Budget (R’000)** | **Year-to-date** |
| **Projected Expenditure (R’000)** | **Actual Expenditure (R’000)** | **Variance (R’000)** | **% Variance**  |
| 1: Administration | 857 651 | 338 401 | 580 707 | 519 250 | 61 457 | 10,6% |
| 2: Trade Policy, Negotiations and Cooperation | 233 066 | 46 990 | 175 930 | 186 076 | -10 146 | -5,8% |
| 3:Spatial Industrial Development and Economic Transformation | 183 352 | 89 608 | 140 017 | 93 744 | 46 273 | 33,0% |
| 4: Industrial Competitive and Growth | 1 762 605 | 254 528 | 1 521 389 | 1 508 077 | 13 312 | 0,9% |
| 5: Consumer and Corporate Regulation Division | 333 282 | 37 170 | 302 152 | 296 112 | 6 040 | 2,0% |
| 6: Industrial Financing | 4 871 050 | 132 259 | 4 803 868 | 4 738 791 | 65 077 | 1,4% |
| 7: Export Development, Promotion and Outward Investments | 440 285 | 95 258 | 375 791 | 345 027 | 30 764 | 8,2% |
| 8: Inward Investment Attraction, Facilitation and After-care | 70 161 | 34 072 | 36 573 | 36 089 | 484 | 1,3% |
| 9: Competition Policy and Economic Planning | 906 262 | 100 431 | 889 043 | 805 831 | 83 212 | 9,4% |
| 10: Economic Research and Coordination | 78 859 | 50 834 | 28 245 | 28 025 | 220 | 0,8% |
| **Total** | **9 736 573** | **1 179 551** | **8 853 715** | **8 557 022** | **296 693** | **3,4%** |

Source: DTIC (2022)

In terms of the economic classification, the recovery in expenditure was evident except in relation to the procurement of goods and services where there was still underspending of 33,8 per cent (or R175,8 million). There had also been over-expenditure of over R3,5 million in the compensation of employees.

**Table 4: Third Quarter Expenditure by Economic Classification as at 31 December 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Budget 2021/22 (R’000)** | **Available Budget (R’000)** | **Year-to-date**  |
| **Projected Expenditure (R’000)** | **Actual Expenditure (R’000)** | **Variance (R’000)** | **% Variance** |
| **Current payments** | **1 871 796** | **767 760** | **1 276 276** | **1 104 036** | **172 240** | **13,5%** |
| Compensation of employees | 1 046 619 | 286 678 | 756 362 | 759 941 | -3 579 | -0,5% |
| Goods and services | 824 847 | 480 743 | 519 914 | 344 104 | 175 810 | 33,8% |
| **Transfers and subsidies** | **7 824 831** | **373 070** | **7 571 953** | **7 451 761** | **120 192** | **1,6%** |
| **Payments for capital assets** | **36 354** | **35 156** | **5 486** | **1 198** | **4 288** | **78,2%** |
| **Payments for financial assets** | **-** | **26** | **-** | **26** | **-26** | **0,0%** |
| **Total** | **9 736 573** | **1 179 551** | **8 853 715** | **8 557 022** | **296 693** | **3,4%** |

Source: DTIC (2022)

# Issues raised during the deliberations

The following issues relating to the performance of the DTIC were raised during the Committee’s deliberations:

1. *The Industrial Financing programme’s target in relation to investment leveraged*: Under the Industrial Financing Programme, the DTIC had only leveraged R9,7 billion in investment against a target of R13 billion as at 31 December 2021. The Committee enquired what factors had contributed to this target not being met. The DTIC responded that the contraction in private sector investment remained a key concern for it given the immense downward pressure on company revenues and supply demand, brought about by the COVID-19 pandemic and the July 2021 unrest in the KwaZulu-Natal and Gauteng provinces. This had affected enterprise confidence and commitments to investments resulting in a snowball effect across the country. While the DTIC remained committed to discharging all of its funding obligations during the entire pandemic, it could only disburse funds when actual investment had been verified by approved private sector enterprises.

While the third quarter investment target had not been met, the cumulative target of R23 million in projected investments to be leveraged from enterprises/projects approved had been exceeded by 31 December 2021. In this regard, R27,7 billion had been leveraged over the first three quarters of the financial year.

1. *Lack of uptake of the Film and TV Incentive Programme:* In its presentation, the DTIC had reported that it had published a call for submission of film proposals with African local themes or stories, under the Film and TV Incentive Programme. However, there had been no uptake in this regard. The Committee enquired why there had been no responses, given that previous engagements the Committee had had with stakeholders highlighted the need for more local stories to be produced. The Committee was of the view that film-making in South Africa, especially in Cape Town, is dominated by international companies, and is not convinced that there is a dearth in stories with African literary appeal. The Cape Town film studios, being the first world-class Hollywood style film studio complex in Africa, should have been producing more films with African flair. It was important to educate both local screenwriters and producers to also pursue the African themes. According to the DTIC, after publication of the call, it had engaged with local filmmakers through a webinar on the matter. Unfortunately, and subsequently, no applications had been received from prospective filmmakers. It had also shared the information with all the Provincial Departments of Sports, Arts and Culture, as well as Film Commissions or Entities, to encourage filmmakers to take-on this opportunity. Furthermore, it was looking at placing the call on different advertorial platforms to create more awareness with a focus on the South African Broadcasting Corporation, as it has a broader reach and appeal in the rural areas and most other distributors are not attracted to this genre due to marginally lower revenues compared to other genres.
2. *Support to enterprises under the Workplace Challenge Programme*: Of the 47 enterprises supported through the Enterprise Support through Workplace Challenge Programme, the Committee requested a breakdown of how many were black-, women- and youth-owned. In addition, what had been the impact of this support offered on township development. Furthermore, the Committee enquired what measures were being implemented to ensure their financial sustainability and longevity. The DTIC informed the Committee that the Workplace Challenge Programme is offered as a non-financial support intervention with the objectives of enabling participating companies to become more sustainable, enhance their productivity, compete in the global market and provide employment security through growth. The DTIC noted that, in the second quarter, 44 of the 47 enterprises had been black-owned enterprises, while 23 and 12 had been women- and youth-owned enterprises respectively. There had also been a total of seven enterprises supported within townships, namely four in Limpopo; two in Gauteng; and one in Eastern Cape. In the third quarter, there had been 67 supported enterprises. Of these, 59 had been black-owned, 33 women-owned and 18 youth-owned enterprises. There had been a total of seven enterprises supported within Gauteng townships.
3. *Special Economic Zones (SEZs) as a vehicle for job creation:* Under the SEZ Programme, there are a number of investments, which are expected to create jobs. Given the high level of unemployment, it is critical that government creates a conducive environment for business to thrive and create more sustainable jobs. However, the Committee enquired how many actual jobs have been created. The DTIC informed the Committee that there were 167 operational investments located in SEZs. These investments had generated an estimated 18 996 direct, gainful jobs as at the end of December 2021.
4. *Infrastructure to enable well-functioning rural SEZs:* Many SEZs in rural areas are faced with infrastructure challenges, particularly in relation to water and energy supply. Where these challenges are persistent and pervasive, investors would be discouraged from establishing in these SEZs. The Committee enquired what measures the DTIC was implementing to address these challenges. Furthermore, what was the progress made in addressing these challenges and attracting investment into the Nkomazi and Bojanala SEZs to facilitate job creation in the surrounding areas. In the development of the SEZ Program, the DTIC informed the Committee that the responsible Policy Authorities were well aware of the structural deficiencies of the required infrastructure for building an industrial base that is characterised by globally competitive industrial clusters. To this effect, the DTIC had established, among other things, a dedicated SEZ Fund that has sought to serve as a catalyst for developing pro-industrialisation platforms such as bulk infrastructure as well as top structures. The foregoing initiative is currently being buttressed by the District Development Model, which essentially seeks to recalibrate government efforts so that the different spheres of government work toward a common vision, particularly where economic development is concerned.

Whilst government has made a concerted effort to ensure that the socio-economic impact of the SEZ Program is optimised, a few performance areas of concern have been identified. The main area of concern has been the lacklustre investment attraction performance displayed by some SEZs, including the Nkomazi SEZ. In an attempt to rectify the foregoing, a special technical task team (which includes Senior Managers of the DTIC) has been deployed to these SEZs. The work of the team is supported by that of the national Project Management Unit, which has been established for the purposes of *inter alia* bolstering the capacity of some of these SEZs as well as improving their investment attraction record.

Since the DTIC’s intervention in the Nkomazi SEZ, there has been significant progress recorded. Key achievements included the establishment of the entity to manage and develop the zone; and the appointment of the board. The current work package includes the planning and development of infrastructure.

The DTIC further noted that the proposed Bojanala SEZ, in the North West Province, had not been designated yet and was still undergoing an assessment process. The latest proposal had been that it should initially be phased in as an Industrial Park, while simultaneously enhancing its business case and related investment pipeline. Once this has been achieved, it would then be reconsidered for designation as an SEZ.

1. *Benefits of the African Continental Free Trade Area (AfCFTA) in relation to other trading partners*: The AfCFTA is intended to link the African countries into a single regional market worth about US$3,4 trillion with approximately 1,3 billion people[[3]](#footnote-4). However, there is a need to ensure industrialisation and regional economic integration for this to directly benefit intra-African trade. The Committee enquired what value the AfCFTA would create for South Africa in relation to economic development and growth in comparison to other existing trade agreements. The DTIC noted that several preferential and free trade agreements had been concluded since the late 1990s. These had been intended to increase South Africa’s trade with the respective partners, and also to shift the content of South African exports to include more value-added/manufactured products.

While South Africa/Southern African Customs Union’s (SACU) trade agreements with the European Union, United Kingdom and the European Free Trade Association are typical reciprocal free trade agreements (FTAs), the AfCFTA is embedded in a developmental integration framework. Under this approach, the AfCFTA constitutes the market integration component alongside other programmes to promote industrial and infrastructure development. This could foster potential benefits beyond market access, for example, opportunities for South African investment into manufacturing capacity and value chain integration on the continent; business opportunities in infrastructure development; and the availability of improved infrastructure that would make South African trade with the continent more cost-efficient.

In relation to Industrial Development, there has been much work at the SACU level to prepare to take advantage of the opportunities that will become available through the AfCFTA. There has been an emphasis around value chain mapping in the following areas: Leather and Leather Products, Fruits and Vegetables, Meat and Meat Products, Textiles and Clothing, and Pharmaceuticals and Chemicals. At the AfCFTA level, developing and concluding Rules of Origin that encourage greater levels of African production and African content in intra-African trade. This is an essential component of the negotiating process to reduce tariffs on 90 per cent of products, as it should encourage industrial development.

Furthermore, the DTIC has initiated work at the AfCFTA on an investment protocol. This would set a framework that should encourage greater investment into Africa in productive sectors, on products for export under the AfCFTA tariff preferences. The protocol will thus complement the market integration framework to support industrialisation in Africa. In conjunction with this, the AfCFTA Secretariat and African Export-Import Bank (Afreximbank) are establishing an AfCFTA Adjustment Fund to address near-term disruptions as tariff revenues are reduced and to provide funding for industrial development projects. In this regard, the Afreximbank has mobilised a facility of US$1 billion for the development of the automotive sector, to support industrialisation in Africa. Furthermore, the AfCFTA Council of Ministers is finalising a proposal to establish an AfCFTA Trade and Industrial Development Advisory Council. This Council will provide policy and practical guidance to further work on industrialisation in Africa.

Currently, 98 per cent of South Africa’s exports into the Rest of Africa is by road due to poor air, maritime and rail connectivity along with other inherent supply chain deficiencies. The International Monetary Fund and the United Nations Conference on Trade and Development claim that improving trade logistics, such as customs services, and addressing poor infrastructure could be up to four times more effective in boosting intra-African trade than tariff reductions. Therefore, the implementation of the Programme for Infrastructure Development in Africa (PIDA) and other related initiatives (such as the North-South Corridor) is crucial to improve trade infrastructure connectivity and enhance supply chain efficiencies between South Africa and other African countries and to capitalise on the opportunities that the AfCFTA presents. Failure to provide logistics capacity will stifle any planned trade expansions, including the implementation of the AfCFTA.

Africa’s response to the infrastructure deficit has been comprehensive and decisive. The continental effort is anchored by the PIDA and the various regional infrastructure master plans covering energy, Information and Communication Technology, transport (airports, ports, rail and roads) and transboundary water resources. PIDA Priority Action Plan (PAP) 1 was comprised of 51 programmes incorporating a total of 433 projects valued at US$68 billion for the period 2010-2020. As at the end of 2019, a total of 329 projects had been at different stages of implementation.

PIDA PAP 2 (2020-2030) was currently under development and would focus on catalysing investments into critical infrastructure along strategic corridors across Africa. The combined estimated value of PIDA PAP 1 and PIDA PAP 2 stands at approximately US$360 billion.

1. *Mergers and the risk of over-concentration*: The DTIC had reported that there had been 90 notifications of mergers submitted as at 31 December 2021. Mergers could result in more concentration in the economy and lead to higher prices impacting on consumers. The Committee enquired whether the DTIC was implementing any measures to avoid excessive concentration of sectors in the economy. The DTIC indicated that it was difficult to predict merger activity with certainty since merger activity was an outcome of market conditions and firm activity. However, merger control is a tool that can prevent excessive concentration and/or mitigate negative competition or public interest impacts. Therefore, each merger is assessed on a case by case basis and conditions are imposed where required to address competition and/or public interest concerns.

In this regard, the recent amendments to the Competition Act strengthened the Competition Commission’s enforcement capacity to reduce concentration and tackle abuse of dominance. Furthermore, the Competition Commission had recently conducted a study which sought to deepen an understanding of the patterns of concentration and participation in the South African economy. The study, and other previous studies, sought to provide the basis for more strategic enforcement and policy around concentration in the economy.

1. *Concentration within the farming sector versus access for smaller farmers*: According to the Competition Commission’s 2021 *Essential Food Pricing Monitoring* report, there had been a sharp decline in the number of commercial farms leading to a concentration in the market since January 2007. This highlighted the difficulties and barriers to trade experienced by smaller farmers, which may lead to increasing prices for essential food in the future and may threaten food security.[[4]](#footnote-5) The Committee enquired what remedial action has the DTIC taken to avoid continued concentration of the market and what measures have been implemented to support small-scale farmers to facilitate competition in the food market. The DTIC reported that the Commission continues to prioritise food markets for enforcement and merger control oversight. The recent amendments provide the basis to examine both price discrimination in inputs and buyer power on outputs that may be placing financial pressure on smaller farmers.

There have also been agreements reached with a number of merging companies that contain specific provisions to support emerging farmers and increase procurement from them. These agreements have since been made orders of the Competition Tribunal.

In addition, the Concentration Study had proposed that there should be greater coordination across government in order to consistently address concentration which the DTIC supports. In this regard, closer relations with the Department of Agriculture, Land Reform and Rural Development, under which agriculture falls, should be fostered.

1. *Competition in the retail pharmacy sector*: In relation to the retail pharmacy market, the market is currently concentrated between Dischem and Clicks, which has led to a lack of competition and an increase in prices for consumers. The Committee enquired what mitigating measures the DTIC were implementing to address any negative pricing implications that such concentration created in the sector. The DTIC indicated that the sector is made up of independent pharmacies and larger groups of pharmacies. To assess the impact of any acquisitions of independent pharmacies, the Competition Commission required that all acquisitions from Clicks and Dischem Groups be notified. The Commission was also undertaking further research into the retail pharmacy sector to better understand the impact and some of the driving forces behind consolidation to inform both merger analysis and whether additional or alternative interventions are required. The DTIC noted the Department of Health’s role in this regard, as pharmacies are licensed.

The Commission’s Concentration Study identified the retail pharmacy sector as one area in which there could be better coordination across Regulators and Government Departments to address growing concentration. The DTIC had supported a call for a regulators’ forum in the Cabinet meeting where the concentration study had been presented.

1. *Appropriateness of the DTIC’s key performance indicators and/or targets*: There was a perception expressed that the DTIC should be shifting its key performance targets to focus on increasing investment, the lowering of the unemployment rate, the cost-competitiveness of manufacturing, and the improvement of the ease of doing business. The Committee enquired what measures the DTIC was implementing to improve South Africa’s cost-competitiveness, such as improving the movement of containers through the Durban Port. The DTIC advised the Committee that it has a Directorate/team through InvestSA which engages Transnet National Ports Authority to fast-track and unblock container clearances through ports. Furthermore, InvestSA leads the Ease of Doing Business programme and has made progress on the following indicators: starting a business; dealing with construction permits; registering property; and paying taxes. Through technical working groups, processes have been streamlined and automated. In addition, there has been improved transparency on websites in terms of available information.
2. *Delays in finalising the review of the entities’ governance framework*: Under Programme 1, the review of the entities’ governance framework had not been finalised due to a shortage of resources. The Committee requested the DTIC to clarify what the “shortage of resources” was and what plans it had implemented to mitigate this to ensure that going forward interventions were sustainable and effective to meet the intended objectives. The DTIC acknowledged the importance of finalising the review to ensure that key areas of governance were adequately dealt with for the 18 agencies reporting to it to function effectively. The review was also necessary to ensure improved audit outcomes in a number of areas. While the DTIC conceded that it had not achieved the governance framework indicator; it attributed this to resource constraints in terms of key vacancies in the area. In this regard, the Chief Director post had been vacant since June 2019 and the Director post had been vacant since May 2019. However, the way forward with regard to the filling of these posts would be determined through the Structure Fit for Purpose processes. Given the importance of the review, in the interim, DTIC officials were working with the Executive team to endeavour to achieve the said performance indicator by the end of the financial.
3. *Challenges faced by the Broad-based Black Economic Empowerment (B-BBEE) Commission as a trading entity*: The B-BBEE Commission is currently a trading entity operating under the DTIC. In a previous meeting, it had asserted that its challenges in relation to limited financial and human resources was impeding its ability to effectively enforce B-BBEE legislation, in particular curbing the unscrupulous practices of fronting, to achieve effective economic transformation. The Committee enquired what remedial action was being taken to resolve these challenges.

The DTIC confirmed that the B-BBEE Commission is not a listed public entity under the Public Finance Management Act (Act No. 1 of 1999) and forms part of the DTIC’s structure under the Spatial Industrial Development and Economic Transformation programme. Thus the DTIC provides back office support to the B-BBEE Commission in the form of its corporate services, namely financial management, supply chain management, human resource management and facilities management. To further support the work of the Commission, a panel of researchers had been procured to provide deeper insights and analysis on compliance reports, major B-BBEE transactions, benchmarks and impact assessments. Other outsourced services included investigative capacity, stakeholder relations and communications, as well as Corporate Governance training in eight provinces.

1. *Impact of under-spending on transfers and subsidies on the economy*: The DTIC had an underspending of 8,7 per cent on its transfers and subsidies budget during the second quarter, particularly in relation to incentive payments (10,7 per cent) and external programmes (13,3 per cent). This later reduced to an underspending of 1,6 per cent at the end of the third quarter. The Committee enquired how underspending on transfers and subsidies has impacted businesses, especially in terms of the retention and creation of jobs and the impact on the broader economy. The DTIC reported that, in the area of incentive programmes, while R3,4 billion in financial support had been disbursed to date, slower incentive disbursements had been reported in certain areas as some of the investment milestones on approved projects were being deferred by the applicants.

# Conclusions

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

* 1. The Committee noted that although there had been an 85 per cent achievement in the second quarter, with six targets not met, and as a result such a decline in performance is significant. The Committee was of the view that all the directorates concerned should work on the respective mandates to achieve maximum success.
	2. Given the importance of industrialization to develop and grow the economy, the Committee urged the DTIC, in conjunction with relevant government departments and entities, to continue to address structural reforms needed to drive both foreign and local investment.
	3. The Committee was of the view that Special Economic Zones are important to stimulate the economy by creating economies of scale and jobs, particularly for the surrounding areas/communities. Therefore, the investment in infrastructure and top structures supporting these Special Economic Zones is imperative. Much support and focus should be targeted at Special Economic Zones in rural and under-developed provinces to assist them to attract investment through the implementation of the District Development Model. The Committee emphasised that a seamless, inter-governmental approach across the three spheres of government was critical to ensure the success of the Special Economic Zones Programme.
	4. The Committee urged the DTIC to accelerate the revitalisation of Industrial Parks and to ensure that this infrastructure investment is secured to ensure that they can facilitate entrepreneurial and employment opportunities in rural areas. In the view of the Committee, this should significantly contribute to industrialisation, beneficiation and localisation imperatives.
	5. Although the Committee welcomed that several Master Plans had been signed and agreed to, it was of the view that it would be equally important to focus on the implementation thereof and to raise awareness of their relevance in growing the economy and creating jobs.
	6. The Committee noted with concern the continued underspending in the Industrial Financing programme. It encouraged the DTIC to find mechanisms to reduce the time lag between the approval and disbursement of funds, such as providing non-financial support to beneficiaries to meet their disbursement requirements.
	7. The Committee is concerned about the lack of uptake of the Film and Television Incentive Programme in terms of the call and increased support for local content. It has observed that there is a need for funding for local content in the sector. It further noted that it is important to raise awareness among both local screenwriters and producers that funding for local content, in particular South African stories, is available and encouraged the DTIC to continue with its efforts in this regard.
	8. The Committee was concerned about the financial sustainability of black industrialists and implored the DTIC to ensure that non-financial support was provided to ensure the longevity of these companies. Similarly, as mentioned above, the Black Industrialist Scheme is notably not attracting a lot of rural-based black industrialists and there is a need to mitigate such a gap.
	9. The Committee noted the extensive work done by the DTIC and the Southern African Customs Union Member States’ counterparts in preparing for the finalisation and implementation of the African Continental Free Trade Area. It further noted the need for effective implementation of the industrialisation and regional economic integration programmes, which will directly benefit intra-African trade and regional development.
	10. The Committee emphasised that while mergers may not be prevented, there is a need for the DTIC and the Competition Commission to ensure that mergers are effectively regulated to prevent over-concentration in the market. Excessive concentration may negatively impact on consumers and create barriers to trade for smaller competitors or suppliers.
	11. While the Committee acknowledges the administrative and other support offered by the DTIC to the Broad-based Black Economic Empowerment Commission, it remains concerned that the Commission is a trading entity rather than an independent entity. It is of the view, that this classification inhibits the Commission’s powers and access to financial and human resources, hence its ability to execute its mandate.

# Appreciation

The Committee would like to thank the Acting Director-General of the Department of Trade, Industry, and Competition, Mr S Khan, 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 secretaries, Mr A Hermans and Mr T Madima; the researcher, Ms Z Madalane; the content advisor, Ms M Sheldon; 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 concluding remarks reflected in this report.

# Recommendations

Informed by its deliberations, the Committee recommends that the House requests that the Minister of Trade, Industry and Competition should consider developing an incentive to support the establishment of film studios in other provinces.

Report to be considered.

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1. DTIC (2021a) [↑](#footnote-ref-2)
2. DTIC (2021a) and (2021b) [↑](#footnote-ref-3)
3. The World Bank (2020) [↑](#footnote-ref-4)
4. Competition Commission (2021: 3) [↑](#footnote-ref-5)